

PyroGenesis Canada Inc.

Condensed Consolidated Interim

Financial Statements

**As at September 30, 2022 and for the three and nine months ended September 30, 2022 and
2021**

(Unaudited)

September 30, 2022.

PyroGenesis Canada Inc.
Condensed Consolidated Interim Statements of Financial Position

(Unaudited)

| | Notes | September 30, 2022 | December 31, 2021 |
|--|-------|-----------------------|----------------------|
| | | \$ | \$ |
| Assets | | | |
| <i>Current assets</i> | | | |
| Cash and cash equivalents | 6 | 2,364,861 | 12,202,513 |
| Accounts receivable | 7 | 23,788,454 | 17,639,616 |
| Costs and profits in excess of billings on uncompleted contracts | 8 | 2,904,743 | 4,922,710 |
| Inventory | | 1,717,746 | 887,590 |
| Investment tax credits receivable | 9 | 315,988 | 256,513 |
| Income taxes receivable | | 46,425 | 117,029 |
| Current portion of deposits | 11 | 1,127,051 | 1,328,452 |
| Current portion of royalties receivable | | 339,762 | 311,111 |
| Contract assets | | 302,374 | 375,789 |
| Prepaid expenses | | 1,352,700 | 717,661 |
| Total current assets | | 34,260,104 | 38,758,984 |
| <i>Non-current assets</i> | | | |
| Deposits | 11 | 41,270 | 248,756 |
| Strategic investments | 10 | 6,698,835 | 14,901,659 |
| Property and equipment | | 3,505,033 | 3,712,937 |
| Right-of-use assets | | 4,975,106 | 5,765,993 |
| Royalties receivable | | 996,904 | 947,543 |
| Intangible assets | | 2,234,900 | 2,774,198 |
| Goodwill | 4 | 2,660,607 | 2,660,607 |
| Total assets | | 55,372,759 | 69,770,677 |
| Liabilities | | | |
| <i>Current liabilities</i> | | | |
| Bank indebtedness | | 713,046 | – |
| Accounts payable and accrued liabilities | 12 | 12,655,409 | 10,069,177 |
| Billings in excess of costs and profits on uncompleted contracts | 13 | 7,363,106 | 9,400,231 |
| Current portion of term loans | 14 | 77,063 | 83,004 |
| Current portion of lease liabilities | | 2,664,101 | 2,934,236 |
| Balance due on business combination | 4 | 2,915,708 | 2,242,503 |
| Income taxes payable | | 192,298 | 23,048 |
| Total current liabilities | | 26,580,731 | 24,752,199 |
| <i>Non-current liabilities</i> | | | |
| Lease liabilities | | 2,965,136 | 2,389,729 |
| Term loans | 14 | 313,224 | 107,901 |
| Balance due on business combination | 4 | 989,027 | 1,709,700 |
| Deferred income taxes | | – | 42,394 |
| Total liabilities | | 30,848,118 | 29,001,923 |
| Shareholders' equity | | | |
| Common shares and warrants | | 83,229,349 | 82,104,086 |
| Contributed surplus | | 23,672,034 | 19,879,055 |
| Accumulated other comprehensive income | | 73,066 | 3,444 |
| Deficit | | (82,449,808) | (61,217,831) |
| Total shareholders' equity | | 24,524,641 | 40,768,754 |
| Total liabilities and shareholders' equity | | 55,372,759 | 69,770,677 |
| Contingent liabilities, Note 22 | | | |

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

PyroGenesis Canada Inc.
Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(Unaudited)

| | Notes | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------|----------------------------------|-------------|---------------------------------|--------------|
| | | 2022 | 2021 | 2022 | 2021 |
| | | \$ | \$ | \$ | \$ |
| Revenues | 5 | 5,657,783 | 9,317,926 | 15,711,726 | 23,863,001 |
| Cost of sales and services | 17 | 1,544,607 | 5,265,395 | 8,047,554 | 12,733,979 |
| Gross profit | | 4,113,176 | 4,052,531 | 7,664,172 | 11,129,022 |
| Expenses | | | | | |
| Selling, general and administrative | 17 | 5,911,488 | 4,901,131 | 18,615,390 | 15,287,141 |
| Research and development, net | | 290,374 | 389,806 | 1,577,370 | 1,386,847 |
| | | 6,201,862 | 5,290,937 | 20,192,760 | 16,673,988 |
| Net loss from operations | | (2,088,686) | (1,238,406) | (12,528,588) | (5,544,964) |
| Changes in fair value of strategic investments | 10 | (1,802,477) | 1,868,862 | (8,103,587) | (10,380,709) |
| Finance costs, net | 18 | (183,694) | (6,792) | (523,707) | (99,965) |
| Net earnings (loss) before income taxes | | (4,074,857) | 623,664 | (21,155,882) | (16,025,638) |
| Income taxes | | – | – | 76,095 | – |
| Net earnings (loss) | | (4,074,857) | 623,664 | (21,231,977) | (16,025,638) |
| Other comprehensive income (loss) | | | | | |
| Items that will be reclassified subsequently to profit of loss | | | | | |
| Foreign currency translation gain on investments in foreign operations | | 21,151 | – | 69,622 | – |
| Comprehensive income (loss) | | (4,053,706) | 623,664 | (21,162,355) | (16,025,638) |
| Earnings (loss) per share | | | | | |
| Basic | 19 | (0.02) | 0.00 | (0.12) | (0.10) |
| Diluted | 19 | (0.02) | 0.00 | (0.12) | (0.10) |

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

PyroGenesis Canada Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

Nine months ended September 30, 2022 and 2021

(Unaudited)

| | Notes | Number of common shares | Common shares and warrants \$ | Contributed Surplus \$ | Accumulated other comprehensive income \$ | Deficit \$ | Total \$ |
|--|-------|-------------------------------|--|------------------------------|---|---------------------|---------------------|
| Balance - December 31, 2021 | | 170,125,795 | 82,104,086 | 19,879,055 | 3,444 | (61,217,831) | 40,768,754 |
| Shares issued upon exercise of stock options | 15 | 1,200,000 | 1,125,263 | (429,263) | – | – | 696,000 |
| Share-based payments | 15 | – | – | 4,222,242 | – | – | 4,222,242 |
| Other comprehensive income for the period | | – | – | – | 69,622 | – | 69,622 |
| Net loss and comprehensive loss | | – | – | – | – | (21,231,977) | (21,231,977) |
| Balance – September 30, 2022 | | 171,325,795 | 83,229,349 | 23,672,034 | 73,066 | (82,449,808) | 24,524,641 |
| Balance - December 31, 2020 | | 159,145,993 | 67,950,069 | 10,480,310 | – | (19,007,273) | 59,423,106 |
| Shares issued upon exercise of stock options | 15 | 3,477,000 | 1,437,022 | (349,254) | – | – | 1,087,768 |
| Shares issued upon exercise of warrants and compensation options | 15 | 8,337,897 | 13,085,197 | – | – | – | 13,085,197 |
| Share-based payments | 15 | – | – | 4,884,219 | – | – | 4,884,219 |
| Shares purchased for cancellation | 15 | (166,684) | (347,019) | – | – | (863,440) | (1,210,459) |
| Net loss and comprehensive loss | | – | – | – | – | (16,025,636) | (16,025,636) |
| Balance – September 30, 2021 | | 170,794,206 | 82,125,269 | 15,015,275 | – | (35,896,349) | 61,244,195 |

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

PyroGenesis Canada Inc.
Condensed Consolidated Interim Statements of Cash Flows
Three and nine months ended September 30, 2022 and 2021
(Unaudited)

| | Notes | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------|----------------------------------|--------------------|---------------------------------|--------------------|
| | | 2022 | 2021 | 2022 | 2021 |
| | | \$ | \$ | \$ | \$ |
| Cash flows provided by (used in) | | | | | |
| Operating activities | | | | | |
| Net earnings (loss) | | (4,074,857) | 623,664 | (21,231,975) | (16,025,636) |
| Adjustments for: | | | | | |
| Share-based payments | 17 | 931,572 | 673,194 | 4,222,242 | 4,884,219 |
| Depreciation of property and equipment | 17 | 155,481 | 93,701 | 446,883 | 254,079 |
| Depreciation of right-of-use assets | 17 | 157,844 | 153,177 | 479,466 | 404,188 |
| Amortization and write-off of intangible assets | 17 | 218,760 | 91,333 | 656,278 | 104,892 |
| Amortization of contract assets | | 117,070 | 118,696 | 212,420 | 424,765 |
| Finance costs | 18 | 183,694 | 6,792 | 523,707 | 99,965 |
| Change in fair value of strategic investments | | 1,802,477 | (1,868,862) | 8,103,587 | 10,380,709 |
| Income taxes | | – | – | 76,095 | – |
| Unrealized foreign exchange | | 5,880 | – | 48,090 | – |
| | | (502,079) | (108,302) | (6,463,207) | 527,181 |
| Net change in balances related to operations | 16 | 1,089,162 | (2,324,191) | (3,439,454) | (16,877,125) |
| | | 587,083 | (2,432,493) | (9,902,661) | (16,349,944) |
| Investing activities | | | | | |
| Additions to property and equipment | | (46,753) | (223,412) | (238,979) | (1,408,300) |
| Additions to right-of-use assets | | – | – | – | (36,903) |
| Additions to intangible assets | | (54,012) | (100,964) | (116,980) | (208,116) |
| Purchase of strategic investments | 10 | – | (1,205,011) | (3,604,000) | (10,401,522) |
| Disposal of strategic investments | | 750,390 | – | 3,703,237 | 12,374,047 |
| Business combination, net of cash acquired | | – | 1,104,393 | – | 1,104,393 |
| | | 649,625 | (424,994) | (256,722) | 1,423,599 |
| Financing activities | | | | | |
| Bank indebtedness | | (228,134) | – | 713,046 | (189,207) |
| Interest paid | | (179,572) | (37,571) | (419,028) | – |
| Repayment of term loans | | (8,304) | (3,078) | (24,693) | (9,076) |
| Repayment of lease liabilities | | (464,138) | (80,198) | (656,713) | (161,249) |
| Repayment of balance due on business combination | | – | – | (217,778) | – |
| Proceeds from issuance of other term loans | | – | – | 203,857 | – |
| Proceeds from issuance of shares upon exercise of warrants | | – | – | – | 13,085,197 |
| Proceeds from issuance of shares upon exercise of stock options | | 696,000 | 683,323 | 696,000 | 1,087,768 |
| Shares purchased for cancellation | | – | – | – | (1,210,459) |
| | | (184,148) | 562,476 | 294,691 | 12,602,974 |
| Effect of exchange rate changes on cash denominated in foreign currencies | | 20,793 | – | 27,040 | – |
| Net increase (decrease) in cash and cash equivalents | | 1,073,353 | (2,295,011) | (9,837,652) | (2,323,371) |
| Cash and cash equivalents - beginning of period | | 1,291,508 | 18,076,539 | 12,202,513 | 18,104,899 |
| Cash and cash equivalents - end of period | | 2,364,861 | 15,781,528 | 2,364,861 | 15,781,528 |
| Supplemental cash flow disclosure | | | | | |
| Non-cash transactions: | | | | | |
| Purchase of intangible assets included in accounts payable | | – | 74,911 | – | 19,372 |
| Purchase of property and equipment included in accounts payable | | – | 72,565 | – | 113,657 |
| Addition of right-of-use assets and lease liabilities | | – | – | – | 2,120,894 |
| Accretion of balance due on business combination | | 43,222 | – | 170,310 | – |
| Accretion interest on royalties receivable | | 39,099 | – | 78,012 | – |
| Accretion on term loan | | 7,816 | – | 20,197 | – |

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

PyroGenesis Canada Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2022 and 2021

(Unaudited)

1. Nature of operations

PyroGenesis Canada Inc. and its subsidiaries (collectively, 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 sustainable solutions to reduce greenhouse gases. 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" on NASDAQ in the USA under the symbol "PYR" and on the Frankfurt Stock Exchange (FSX) under the symbol "8PY".

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Statements, as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated 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 financial statements for the year ended December 31, 2021.

These financial statements were approved and authorized for issuance by the Board of Directors on November 10, 2022.

(b) Functional and presentation currency

These consolidated 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 the 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.

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.

These consolidated financial statements include the accounts of the Company and its subsidiaries, Drosrite International LLC and Pyro Green-Gas Inc. and its subsidiaries. Drosrite International LLC is owned by a member of the Company's key management personnel and close member of the Chief Executive Officer ("CEO") and controlling shareholder's family and is deemed to be controlled by the Company. Pyro Green-Gas Inc. (formerly AirScience Technologies Inc. until the renaming on September 14, 2021) was acquired by the Company on August 11, 2021 (see note 4). All transactions and balances between the Company and its subsidiaries have been eliminated upon consolidation.

(e) Significant accounting policies

These financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent annual financial statements for the year ended December 31, 2021.

PyroGenesis Canada Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2022 and 2021

(Unaudited)

3. Significant accounting judgments, estimates and assumptions

The significant judgments, estimates and assumptions applied by the Company's in these condensed consolidated 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, 2021.

4. Business combination in fiscal 2021

On August 11, 2021, the Company completed the acquisition of Pyro Green-Gas Inc. and its subsidiaries (formerly AirScience Technologies Inc. prior to its renaming on September 14, 2021), a Montreal-based company which offers technologies, equipment, and expertise in the area of biogas upgrading, as well as air pollution controls, for a maximum purchase price consideration of \$4.4 million in cash, subject to customary post-closing adjustments. In addition, the Company settled a pre-existing loan receivable from Pyro Green-Gas Inc. of approximately \$1.7 million. The transaction was executed essentially through a purchase of the entirety of the common class "A" shares of Pyro Green-Gas Inc. This acquisition enables the Company to springboard into the renewable natural gas market and provides an advantage compared to building its own operations. In addition, the Company will now have a presence in Italy and India, and the acquisition will provide potential synergies with the Company's land-based waste destruction offerings. The purchase price will be paid upon the achievement of various contract and business-related milestones by Pyro Green-Gas Inc. The Company's assessment is that these milestones will be realized at various moments during the next 30 months. The contingent consideration was estimated using a discount rate of 8%.

The acquisition was accounted for using the purchase method and the final allocation of the purchase price is as follows:

| | \$ |
|--|-------------------|
| Total consideration | |
| Consideration paid at closing | 1 |
| Contingent consideration | 3,841,999 |
| Consideration paid at closing and contingent consideration | 3,842,000 |
| Settlement of pre-existing loan receivable from Pyro Green-Gas | 1,744,400 |
| | 5,586,400 |
| | December 31, 2021 |
| | Final |
| | \$ |
| Net assets acquired | |
| Current assets ¹ | 5,186,086 |
| Right of use asset | 477,608 |
| Property and equipment | 42,552 |
| Intangible assets and Goodwill ² | 4,780,607 |
| Deferred income tax asset | 79,360 |
| Current liabilities | (4,507,907) |
| Non-current liabilities | (471,906) |
| | 5,586,400 |

¹ Includes \$807,946 of cash and trade receivables with a net fair value of \$3.3 million, including an allowance for doubtful accounts of \$0.5 million.

² The goodwill of \$2.7 million recorded on the transaction is mainly attributable to the expected growth in biogas upgrading market and the expertise of the workforce, and it is not expected to be deductible for tax purposes.

The maximum purchase price consideration of \$4,355,600 was discounted to \$3,842,000, at August 11, 2021 and an accretion expense of \$170,310 was recognized in Net finance costs in the Consolidated Statement of Comprehensive Loss for the nine month period ended September 30, 2022.

PyroGenesis Canada Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2022 and 2021

(Unaudited)

5. Revenues

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|------------------|---------------------------------|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| | \$ | \$ | \$ | \$ |
| Revenue from contracts with customers by product line: | | | | |
| PUREVAP™ | 4,243,138 | 999,875 | 5,617,942 | 5,524,642 |
| DROSRITE™ | 71,431 | 1,983,524 | 1,408,048 | 6,373,130 |
| Development and support related to systems supplied to the U.S. Navy | 420,809 | 1,957,981 | 1,757,168 | 6,677,188 |
| Torch related sales | 684,997 | 645,894 | 3,307,150 | 1,398,729 |
| Biogas upgrading and pollution controls | 89,698 | 3,712,000 | 3,260,850 | 3,712,000 |
| Other sales and services | 147,710 | 18,652 | 360,568 | 177,312 |
| | 5,657,783 | 9,317,926 | 15,711,726 | 23,863,001 |

The following is a summary of the Company's revenues by revenue recognition method:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|------------------|---------------------------------|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| | \$ | \$ | \$ | \$ |
| Revenue from contracts with customers: | | | | |
| Sales of goods under long-term contracts recognized over time | 1,997,474 | 8,405,565 | 11,406,066 | 19,122,840 |
| Sales of goods at a point of time | 60,309 | 912,361 | 705,660 | 1,440,161 |
| Other revenue: | | | | |
| Sale of intellectual properties | 3,600,000 | – | 3,600,000 | 3,300,000 |
| | 5,657,783 | 9,317,926 | 15,711,726 | 23,863,001 |

See note 24 for sales by geographic area.

Transaction price allocated to remaining performance obligations

As at September 30, 2022, revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially satisfied) at the reporting date is \$25,965,367 (2021 - \$43,458,148). 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.

6. Cash and cash equivalents

As at September 30, 2022 and December 31, 2021, cash and cash equivalents include the following components:

| | September 30, 2022 | December 31, 2021 |
|------------------------------------|--------------------|-------------------|
| | \$ | \$ |
| Cash | 1,678,906 | 3,568,561 |
| Guaranteed investment certificates | 685,955 | 8,633,952 |
| Cash and cash equivalents | 2,364,861 | 12,202,513 |

PyroGenesis Canada Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2022 and 2021

(Unaudited)

7. Accounts receivable

The following table provides details on accounts receivable outstanding:

| | September 30, 2022 | December 31, 2021 |
|---------------------------------|--------------------|-------------------|
| | \$ | \$ |
| 1 – 30 days | 7,229,866 | 2,260,428 |
| 31 – 60 days | 273,550 | 44,838 |
| 61 – 90 days | 30,957 | 6,855,822 |
| Greater than 90 days | 14,461,080 | 7,357,825 |
| Total trade accounts receivable | 21,995,453 | 16,518,913 |
| Other receivables | 202,690 | 270,536 |
| Sales tax receivable | 1,590,311 | 850,167 |
| | 23,788,454 | 17,639,616 |

As at September 30, 2022 the allowance for expected credit loss is \$551,845 (\$520,000 at December 31, 2021), which was included through the business combination, other than from the foreign exchange conversion throughout the nine-month period of fiscal 2022.

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

As at September 30, 2022, the Company had twenty contracts with total billings of \$25,613,149 which were less than total costs incurred and had recognized cumulative revenue of \$28,517,892 since those projects began. This compares with fourteen contracts with total billings of \$16,676,700 which were less than total costs incurred and had recognized cumulative revenue of \$21,599,410 as at December 31, 2021.

Changes in costs and profits in excess of billings on uncompleted contracts during the nine-month period are explained by \$2,080,367 (2021 - \$983,891) recognized at the beginning of the period being transferred to accounts receivable, and \$62,400 (2021 - \$4,832,968) resulting from changes in the measure of progress.

9. Investment tax credits

An amount recognized in 2022 included \$115,856 (2021 - \$202,472) of investment tax credits earned in the period, as well as \$Nil (2021 - \$706,000) of investment tax credits earned in prior years that no longer met the criteria for recognition in 2021. \$46,818 (2021 - \$148,695) of the investment tax credits recognized in the period was recorded against cost of sales and services, \$46,538 (2021 - (\$684,709)) against research and development expenses and \$22,500 (2021 - \$32,486) against selling general and administrative expenses.

10. Strategic investments

| | September 30, 2022 | December 31, 2021 |
|---|--------------------|-------------------|
| | \$ | \$ |
| Beauce Gold Fields ("BGF") shares – level 1 | 41,032 | 123,095 |
| HPQ Silicon Resources Inc. ("HPQ") shares - level 1 | 5,846,665 | 12,306,196 |
| HPQ warrants – level 3 | 811,138 | 2,472,368 |
| | 6,698,835 | 14,901,659 |

PyroGenesis Canada Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine month periods ended September 30, 2022 and 2021

(Unaudited)

The change in the strategic investments is summarized as follows:

| | ("BGF") shares – level 1 | | ("HPQ") shares - level 1 | | HPQ warrants – level 3 | |
|------------------------------------|--------------------------|-----------------|--------------------------|--------------------|------------------------|--------------------|
| | Quantity | \$ | Quantity | \$ | Quantity | \$ |
| Balance, December 31, 2020 | 1,025,794 | 123,095 | 14,990,200 | 16,489,220 | 25,844,600 | 23,379,435 |
| Additions | – | – | 8,268,000 | 8,070,109 | – | – |
| Exercised | – | – | 16,250,000 | 11,700,000 | (16,250,000) | (9,181,250) |
| Disposed | – | – | (12,755,600) | (14,252,732) | – | – |
| Change in the fair value | – | – | – | (9,700,401) | – | (11,725,817) |
| Balance, December 31, 2021 | 1,025,794 | 123,095 | 26,752,600 | 12,306,196 | 9,594,600 | 2,472,368 |
| Additions¹ | – | – | 6,800,000 | 3,196,000 | 6,800,000 | 408,000 |
| Disposed | – | – | (10,624,500) | (3,703,237) | – | – |
| Change in the fair value | – | (82,063) | – | (5,952,294) | – | (2,069,230) |
| Balance, September 30, 2022 | 1,025,794 | 41,032 | 22,928,100 | 5,846,665 | 16,394,600 | 811,138 |

¹On April 20, 2022 the Company participated in an HPQ non-brokered private placement by acquiring 6,800,000 units at a price of \$0.53 per unit for a total investment of \$3,604,000. Each unit consists of one common share of HPQ and one common share purchase warrant. Each of these warrants entitles the Company to purchase one common share at a price of \$0.60 for a period of 24 months from the closing date of the private placement.

At September 30, 2022 and December 31, 2021, the fair value of the HPQ warrants was measured using the Black-Scholes option pricing model using the following assumptions:

| | September 30, 2022 | | | | December 31, 2021 | | |
|---|--------------------|-----------|-----------|-----------|-------------------|-----------|-----------|
| | 1,200,000 | 4,394,600 | 4,000,000 | 6,800,000 | 1,200,000 | 4,394,600 | 4,000,000 |
| Number of warrants | 1,200,000 | 4,394,600 | 4,000,000 | 6,800,000 | 1,200,000 | 4,394,600 | 4,000,000 |
| Date of issuance | 29-Apr-20 | 2-Jun-20 | 3-Sep-20 | 20-Apr-22 | 29-Apr-20 | 2-Jun-20 | 3-Sep-20 |
| Exercise price (\$) | 0.10 | 0.10 | 0.61 | 0.60 | 0.10 | 0.10 | 0.61 |
| Assumptions under the Back Scholes model: | | | | | | | |
| Fair value of the shares (\$) | 0.26 | 0.26 | 0.26 | 0.26 | 0.46 | 0.46 | 0.46 |
| Risk free interest rate (%) | 3.72 | 3.72 | 3.72 | 3.72 | 1.22 | 1.22 | 1.22 |
| Expected volatility (%) | 84.25 | 83.67 | 74.25 | 75.15 | 89.88 | 94.01 | 110.47 |
| Expected dividend yield | – | – | – | – | – | – | – |
| Contractual remaining life (in months) | 7 | 8 | 11 | 19 | 16 | 17 | 20 |

As at September 30, 2022, a gain from initial recognition of the warrants of \$398,857 (\$510,573 at December 31, 2021) has been deferred off balance sheet until realized.

11. Deposits

| | September 30, 2022 | December 31, 2021 |
|-------------------------------------|--------------------|-------------------|
| | \$ | \$ |
| Current portion: | | |
| Suppliers | 1,086,810 | 1,236,211 |
| Security deposit on leased premises | 40,241 | 92,241 |
| Total current | 1,127,051 | 1,328,452 |
| Non-current portion: | | |
| Suppliers | 2,467 | 1,952 |
| Security deposit on leased premises | 38,803 | 246,804 |
| Total non-current | 41,270 | 248,756 |
| Total Deposits | 1,168,321 | 1,577,208 |

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12. Accounts payable and accrued liabilities

| | September 30, 2022 | December 31, 2021 |
|---|--------------------|-------------------|
| | \$ | \$ |
| Accounts payable | 5,356,095 | 5,457,259 |
| Accrued liabilities | 6,011,610 | 3,730,048 |
| Sale commissions payable ¹ | 876,369 | 737,364 |
| Accounts payable to the controlling shareholder and CEO | 136,335 | 144,506 |
| Accrued liabilities - trust beneficially owned by a shareholder | 275,000 | – |
| | 12,655,409 | 10,069,177 |

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

13. 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 \$18,149,003 (2021 - \$21,834,137).

Payments to date received were \$25,512,109 on contracts in progress (2021 - \$31,234,368).

Changes in billings in excess of costs and profits on uncompleted contracts during the nine-month period are explained by \$3,430,725 (2021 - \$6,268,910) recognized as revenue at the beginning of the period, and an increase of \$1,393,599 (2021 - \$9,076,169) resulting from cash received excluding amounts recognized as revenue.

14. Term loans

| | Economic Development Agency of Canada Loan ¹ | Other Term Loans ² | Other Term Loans ³ | Canada Emergency Business Account Loan ⁴ | Total |
|------------------------------------|---|----------------------------------|----------------------------------|---|----------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2021 | 87,985 | 24,700 | 28,220 | 50,000 | 190,905 |
| Addition | 292,942 | – | – | – | 292,942 |
| Financing costs | (89,085) | – | – | – | (89,085) |
| Accretion | 20,197 | – | – | – | 20,197 |
| Payments | – | (9,733) | (14,939) | – | (24,672) |
| Balance, September 30, 2022 | 312,039 | 14,967 | 13,281 | 50,000 | 390,287 |
| Less current portion | – | (13,782) | (13,281) | (50,000) | (77,063) |
| Balance, September 30, 2022 | 312,039 | 1,185 | – | – | 313,224 |

¹ Maturing in 2029, non-interest bearing, payable in 60 equal instalments from April 2024 to March 2029. In January 2022 and April 2022, the Company received additional contributions of \$155,735 and \$137,207, respectively, which were discounted using the effective interest method using a rate of 8%.

² Maturing October 23, 2023 bearing interest at a rate of 6.95% per annum, payable in monthly instalments of \$1,200 (including interest in capital) secured by automobile (carrying amount of \$14,033 at September 30, 2022).

³ Maturing in May 2023, payable in monthly instalments of \$1,660, bearing interest at 7.45%.

⁴ Loan bearing no interest and no minimum repayment, if repaid by December 2023.

15. Shareholders' equity

Common shares and warrants

Authorized:

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

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The following table sets out the activity in stock options:

| | Number of options | Weighted average exercise price \$ |
|-----------------------------|----------------------|---|
| Balance – December 31, 2020 | 9,040,000 | 1.57 |
| Granted | 2,970,000 | 4.55 |
| Exercised | (3,482,000) | 0.32 |
| Forfeited | (125,000) | 4.41 |
| Balance, December 31, 2021 | 8,403,000 | 3.10 |
| Granted | 2,475,000 | 3.55 |
| Exercised ¹ | (1,200,000) | 0.58 |
| Forfeited | (240,000) | 4.07 |
| Balance, September 30, 2022 | 9,438,000 | 3.52 |

⁽¹⁾ The weighted fair market value of the share price for options exercised in Q3, 2022 was \$1.77.

As at September 30, 2022, 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:

| Issuance date | Number of stock options | | | Forfeitures | Number of stock options | | Exercise price per option \$ | Expiry date |
|---------------|-------------------------------|------------------|--------------------|------------------|-------------------------------|--|---------------------------------------|-------------|
| | 31-Dec-21 | Granted | Exercised | | 30-Sep-22 | Number of stock options vested ¹ | | |
| 3-Nov-17 | 2,400,000 | – | (1,200,000) | – | 1,200,000 | 1,200,000 | 0.58 | 3-Nov-22 |
| 3-Jul-18 | 300,000 | – | – | – | 300,000 | 300,000 | 0.51 | 3-Jul-23 |
| 29-Oct-18 | 40,000 | – | – | – | 40,000 | 40,000 | 0.52 | 29-Oct-23 |
| 29-Sep-19 | 100,000 | – | – | – | 100,000 | 100,000 | 0.51 | 29-Sep-24 |
| 2-Jan-20 | 100,000 | – | – | – | 100,000 | 100,000 | 0.45 | 2-Jan-25 |
| 16-Jul-20 | 2,243,000 | – | – | (40,000) | 2,203,000 | 1,778,000 | 4.41 | 16-Jul-25 |
| 26-Oct-20 | 250,000 | – | – | (200,000) | 50,000 | 25,000 | 4.00 | 26-Oct-25 |
| 6-Apr-21 | 550,000 | – | – | – | 550,000 | 410,000 | 8.47 | 6-Apr-26 |
| 1-Jun-21 | 200,000 | – | – | – | 200,000 | 100,000 | 6.59 | 1-Jun-26 |
| 14-Jun-21 | 100,000 | – | – | – | 100,000 | 50,000 | 6.70 | 14-Jun-26 |
| 14-Oct-21 | 100,000 | – | – | – | 100,000 | 10,000 | 5.04 | 14-Oct-26 |
| 17-Dec-21 | 1,920,000 | – | – | – | 1,920,000 | 1,920,000 | 3.13 | 17-Dec-26 |
| 30-Dec-21 | 100,000 | – | – | – | 100,000 | 100,000 | 3.61 | 30-Dec-26 |
| 3-Jan-22 | – | 450,000 | – | – | 450,000 | 450,000 | 3.36 | 3-Jan-27 |
| 5-Apr-22 | – | 400,000 | – | – | 400,000 | 40,000 | 2.96 | 5-Apr-27 |
| 2-Jun-22 | – | 1,500,000 | – | – | 1,500,000 | 375,000 | 3.88 | 2-Jun-27 |
| 13-Jul-22 | – | 125,000 | – | – | 125,000 | 12,500 | 2.14 | 13-Jul-27 |
| | 8,403,000 | 2,475,000 | (1,200,000) | (240,000) | 9,438,000 | 7,010,500 | 3.52 | |

⁽¹⁾ At September 30, 2022, the weighted average exercise price for options outstanding which are exercisable was \$3.26.

The fair value of the stock options was estimated by applying the Black Sholes options pricing model using the following assumptions:

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| Grant Date | January 3, 2022 | April 5, 2022 | June 2, 2022 | July 13, 2022 |
|--|-----------------|---------------|--------------|---------------|
| Number of options granted | 450,000 | 400,000 | 1,500,000 | 125,000 |
| Exercise price (\$) | 3.36 | 2.96 | 3.88 | 2.14 |
| Fair value of each option under the Black Scholes pricing model (\$) | 2.17 | 1.98 | 2.61 | 1.44 |
| Assumptions under the Back Scholes model: | | | | |
| Market share (\$) | 3.33 | 2.96 | 3.88 | 2.14 |
| Risk free interest rate (%) | 1.25 | 2.50 | 2.87 | 3.11 |
| Expected volatility (%) | 82.45 | 83.36 | 83.31 | 83.31 |
| Expected dividend yield | – | – | – | – |
| Expected life (number of months) | 60 | 60 | 60 | 60 |
| Forfeiture rate (%) | – | – | – | – |

For the three-month and nine-month periods ended September 30, 2022, a stock-based compensation expense of \$931,572 and \$4,222,242, respectively, was recorded in Selling, general and administrative expenses in the Condensed Consolidated Statements of Comprehensive income (loss), (\$673,194 and \$4,884,219 for the three-month and nine-month periods ended September 30, 2021).

At September 30, 2022, an amount of \$4,047,885 (\$2,719,354 at December 31, 2021) remains to be amortized until June 2027 related to the grant of stock options.

16. Supplemental disclosure of cash flow information

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|-------------|---------------------------------|--------------|
| | 2022 | 2021 | 2022 | 2021 |
| | \$ | \$ | \$ | \$ |
| Accounts receivable | (4,582,692) | (3,827,068) | (6,148,838) | (13,292,138) |
| Costs and profits in excess of billings on uncompleted contracts | 1,290,731 | (2,010,805) | 2,017,967 | (2,220,085) |
| Inventory | (168,708) | (192,192) | (830,156) | (548,647) |
| Investment tax credits receivable | (44,424) | (102,727) | (59,475) | 255,368 |
| Income taxes receivable | (1,327) | – | 115,868 | – |
| Deposits | (189,942) | 511,182 | 1,587,574 | (305,204) |
| Contract assets & other assets | (139,005) | – | (139,005) | – |
| Prepaid expenses | 748,120 | 1,452,235 | (635,039) | (593,106) |
| Accounts payable and accrued liabilities | 3,353,412 | 1,673,971 | 2,688,775 | 1,177,390 |
| Billings in excess of costs and profits on uncompleted contracts | 822,997 | 171,213 | (2,037,125) | (1,350,703) |
| | 1,089,162 | (2,324,191) | (3,439,454) | (16,877,125) |

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17. Supplemental disclosure on statements of comprehensive income

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|-----------|---------------------------------|-----------|
| | 2022 | 2021 | 2022 | 2021 |
| | \$ | \$ | \$ | \$ |
| Inventories recognized in cost of sales | 212,830 | – | 626,972 | – |
| Amortization of intangible assets | 218,760 | 91,333 | 656,278 | 104,892 |
| Depreciation of property and equipment | 155,481 | 93,701 | 446,883 | 254,079 |
| Depreciation of right of use assets | 157,844 | 153,177 | 479,466 | 404,188 |
| Employee benefits | 3,200,123 | 2,467,185 | 8,902,215 | 6,488,260 |
| Share-based expenses | 931,572 | 673,194 | 4,222,242 | 4,884,219 |
| Awarded Government grants | 43,012 | 30,949 | 137,523 | 177,693 |

18. Net finance costs

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|--------------|---------------------------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | \$ | \$ | \$ | \$ |
| Financial expenses | | | | |
| Interest on term loans | 1,435 | 3,100 | 3,038 | 12,538 |
| Interest on lease liabilities | 94,732 | 84,586 | 284,190 | 221,514 |
| Interest accretion on balance due on business combination | 43,222 | – | 170,310 | – |
| Penalties and other interest expenses | 83,404 | 3,868 | 144,181 | 15,004 |
| | 222,793 | 91,554 | 601,719 | 249,056 |
| Financial income | | | | |
| Accretion interest on royalties receivable | (39,099) | (84,762) | (78,012) | (149,091) |
| Net finance costs | 183,694 | 6,792 | 523,707 | 99,965 |

19. Earnings (loss) per share

The following table provides a reconciliation between the number of basic and fully diluted shares outstanding for the three-month and nine-month period ended September 30:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|-------------|---------------------------------|-------------|
| | 2022 | 2021 | 2022 | 2021 |
| | \$ | \$ | \$ | \$ |
| Weighted daily average of Common shares | 170,621,448 | 168,517,657 | 170,292,829 | 165,369,555 |
| Dilutive effect of stock options | – | – | – | – |
| Dilutive effect of warrants | – | – | – | – |
| Weighted average number of diluted shares | 170,621,448 | 174,385,624 | 170,292,829 | 165,369,555 |

Number of anti-dilutive stock options and warrants

excluded from fully diluted earnings per share calculation

| | | | | |
|--|-----------|-----------|-----------|-----------|
| | 9,438,000 | 3,545,000 | 9,438,000 | 6,288,000 |
|--|-----------|-----------|-----------|-----------|

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20. Related party transactions

During the three and nine-month periods ended September 30, 2022, the Company concluded the following transactions with related parties:

In January 2020, the Company entered into a lease agreement for the rental of a property with a trust whose beneficiary is the controlling shareholder and CEO of the Company. At September 30, 2022 the carrying amount of the ROU asset and lease liabilities are \$849,034 and \$929,488 (\$1,107,131 and \$Nil, respectively, at December 31, 2021).

Rent and property taxes charged by a trust whose beneficiary is the controlling shareholder and CEO of the Company, for the three and nine-month periods ended September 30, 2022 amount to \$69,054 and \$208,334, respectively (\$68,825 and \$206,310 for the three and nine-month periods ended September 30, 2021, respectively).

A balance due to the controlling shareholder and CEO of the Company amounted to \$136,335 (\$144,506 at December 31, 2021) and is included in accounts payable and accrued liabilities.

The Key Management Personnel of the Company, in accordance with IAS 24, are the members of the Board of Directors and certain officers. Total compensation to key management consisted of the following:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|---------|---------------------------------|-----------|
| | 2022 | 2021 | 2022 | 2021 |
| | \$ | \$ | \$ | \$ |
| Salaries – key management | 270,532 | 253,805 | 844,374 | 714,019 |
| Pension contributions | 4,961 | 4,634 | 15,641 | 13,042 |
| Fees – Board of Directors | 45,700 | 72,400 | 134,700 | 147,400 |
| Share-based compensation – officers | 958,519 | 264,736 | 1,771,433 | 2,057,061 |
| Share-based compensation – Board of Directors | 221,197 | 251,467 | 1,979,410 | 1,963,317 |
| Other benefits – key management | 7,897 | 122,867 | 21,935 | 176,219 |
| Total compensation | 1,508,806 | 969,909 | 4,767,493 | 5,071,058 |

21. 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, 2022 and December 31, 2021 the Company's exposure to foreign exchange risk for amounts denominated in US dollars is as follows:

| | September 30, 2022 | December 31, 2021 |
|--|--------------------|-------------------|
| | \$ | \$ |
| Cash | 451,897 | 1,714,670 |
| Accounts receivable | 14,769,360 | 14,465,011 |
| Accounts payable and accrued liabilities | (989,503) | (1,023,999) |
| Total | 14,231,754 | 15,155,682 |

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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, 2022, 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 and equity for the period ended September 30, 2022 would have been \$1,423,175.

Credit risk and credit concentration

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, 2022 represents the carrying amount of cash and cash equivalents, accounts receivable (except sales tax receivable), deposits and royalties receivable. Cash and cash equivalents, which only comprise guaranteed investment certificates redeemable on relatively short notice by the Company, are held with major reputable financial institutions. The Company manages its credit risk by performing credit assessments of its customers. The Company does not generally require collateral or other security from customers on accounts receivable. The Company believes that there is no unusual exposure associated with the collection of these receivables. Two customers accounted for 79% (one customer for 73% at December 31, 2021) of trade accounts receivable with amounts owing to the Company of \$16,202,736 (\$12,063,636 at December 31, 2021), representing the Company's major credit risk exposure.

The following table summarizes the Company's concentration of credit risk as a percentage of revenue during the three-month and nine-month periods ended September 30, 2022.

| | Three months ended September 30, 2022 | | Nine months ended September 30, 2022 | |
|------------|--|------------------------|---|------------------------|
| | Revenues | % of total revenues | Revenues | % of total revenues |
| | \$ | % | \$ | % |
| Customer 1 | 3,943,430 | 70 | 4,887,541 | 31 |
| Customer 2 | — | — | 2,291,445 | 15 |
| Customer 3 | — | — | 1,757,168 | 11 |
| Total | 3,943,430 | 70 | 8,936,154 | 57 |

Credit concentration is determined based on customers representing 10% or more of total revenues and/or total accounts receivable.

The royalties receivables are due from a company in which the Company has a strategic investments. The Company does not have collateral or other security associated with the collection of this receivable.

Fair value of financial instruments

The fair value represents the amount that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value estimates are calculated at a specific date taking into consideration assumptions regarding the amounts, the timing of estimated future cash flows and discount rates. Accordingly, due to its approximate and subjective nature, the fair value must not be interpreted as being realizable in an immediate settlement of the financial instruments.

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).

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Level 3 — inputs for the asset or liability that are not based on observable market data. The fair values of cash and cash equivalents, trade accounts receivable, deposits, accounts payable and accrued liabilities and bank indebtedness approximate their carrying amounts due to their short-term maturities.

Royalties receivable are discounted according to their corresponding agreements and are classified as Level 2.

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

The fair value of the term loans and the balance due on business combination as at September 30, 2022 is determined using the discounted future cash flows method and management's estimates for market interest rates for similar issuances. Given their recent issuance, their fair market values correspond to their carrying amount.

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 cash equivalents, and term loans 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 and warrants of public companies quoted on the TSXV Exchange. If equity prices had increased or decreased by 25% as at September 30, 2022, with all other variables held constant, the Company's investments would have increased or decreased respectively, by approximately \$1,978,000 (\$4,042,000 at December 31, 2021).

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 manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities.

The following table summarizes the contractual amounts payable and maturities of financial liabilities and other liabilities at September 30, 2022:

| | Carrying value | Total contractual amount | Less than one year | 2-3 years | 4-5 years | Over 5 years |
|--|-------------------|--------------------------|--------------------|------------------|------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Bank indebtedness | 713,046 | 713,046 | 713,046 | — | — | — |
| Accounts payable and accrued liabilities | 12,655,409 | 12,655,409 | 12,655,409 | — | — | — |
| Term loans | 390,287 | 529,237 | 35,893 | 194,116 | 180,000 | 119,228 |
| Balance due on business combination | 3,904,735 | 4,137,820 | 3,048,920 | 1,088,900 | — | — |
| Lease liabilities | 5,629,237 | 10,600,618 | 3,342,450 | 1,831,758 | 3,477,088 | 1,949,322 |
| | 23,292,714 | 28,636,130 | 19,795,718 | 3,114,774 | 3,657,088 | 2,068,550 |

The Company's Canadian subsidiary benefits from a line of credit of \$500,000, and the Italian subsidiary benefits from a 400,000 Euro (\$539,020) line of credit, and security against these credit lines is provided only by the subsidiaries, and not PyroGenesis Canada Inc. At September 30, 2022, \$437,121 was drawn on the Canadian facility and 206,176 Euro (\$275,925) was drawn on the Italian facility.

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22. Contingent liabilities

The Company is currently a party to various legal proceedings. If management believes that a loss arising from these proceedings 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 proceedings is assessed and the estimates are revised, if necessary. Based on currently available information, management believes that the ultimate outcome of these proceedings, 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.

23. 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 Company 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. On September 30, 2022, the Company's working capital was \$7,679,373 (\$14,006,785 at December 31, 2021)

The management of capital includes shareholders' equity for a total amount of \$24,524,621 and term loans of \$390,287 (\$40,768,754 and \$190,905 respectively at December 31, 2021), as well as cash and cash equivalents amounting to \$2,364,861 (\$12,202,513 at December 31, 2021).

There were no significant changes in the Company's approach during the current nine-month period and 2021 fiscal year, however, in order to maintain or adjust the capital structure, the Company may issue new shares, sell portions of its strategic investment and periodically purchase its own shares on the open market.

24. 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 operations of the Company are located in three geographic areas: Canada, Italy and India.

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The following is a summary of the Company's revenue from external customers, by geography:

| | <u>Three months ended September 30,</u> | | <u>Nine months ended September 30,</u> | |
|---------------|---|-------------|--|-------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| | \$ | \$ | \$ | \$ |
| Canada | 4,908,188 | 1,352,895 | 8,877,823 | 6,089,789 |
| United States | 474,436 | 1,957,777 | 1,821,310 | 6,683,583 |
| Europe | 60,770 | 558,430 | 1,339,912 | 620,673 |
| Mexico | 58,380 | — | 317,772 | 137,856 |
| Asia | 65,003 | 2,112,481 | 1,727,495 | 6,364,235 |
| South America | 17,133 | 523,254 | 179,839 | 1,153,284 |
| India | 73,873 | 2,813,089 | 1,447,575 | 2,813,581 |
| | 5,657,783 | 9,317,926 | 15,711,726 | 23,863,001 |

Revenue by product line and revenues recognized by revenue recognition method are presented in note 5.

25. Subsequent Events

On October 19, 2022, the Company announced that it had completed a non-brokered Private Placement consisting of the issuance and sale of 1,014,600 units of the Company (the "Units") at a price of \$1.30 per Unit, for gross proceeds of \$1,318,980 to the Company. 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 \$1.75 until October 19, 2024. The Common Shares and Warrants issued in connection with the Private Placement, and the Common Shares underlying the Warrants, are subject to a statutory hold period of four months and one day from the date of the closing, in accordance with applicable securities legislation.