



Consolidated Financial Statements of

**ORBITE ALUMINAE INC.**  
**(A development stage company)**

Years ended December 31, 2014 and 2013



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## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Orbite Aluminae Inc.

We have audited the accompanying consolidated financial statements of Orbite Aluminae Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



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*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Orbite Aluminae Inc. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

March 31, 2015

Montréal, Canada

**ORBITE ALUMINAE INC.**  
**Consolidated Financial Statements**

Years ended December 31, 2014 and 2013

**Independent Auditors' Report**

**Financial Statements**

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**ORBITE ALUMINAE INC.**  
**Consolidated Statements of Financial Positions**

	December 31, 2014	December 31, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 2,977,929	\$ 9,909,439
Short-term investments (note 4)	376,199	370,023
Sales taxes and other receivables	1,346,020	302,138
Current income and mining taxes recoverable	1,760,700	1,996,543
Investment tax credits and other governmental assistance receivable	5,197,822	1,393,408
Inventory	129,579	76,786
Prepaid expenses and others	845,187	619,853
Derivative financial instruments (note 15)	354,000	320,000
<b>Total current assets</b>	<b>12,987,436</b>	<b>14,988,190</b>
Non-current assets:		
Restricted cash (note 7)	16,354,020	-
Investment tax credits receivable	9,356,591	25,656,591
Property, plant and equipment (note 5)	78,392,193	64,886,054
Patents and others	1,409,146	853,062
Exploration and evaluation assets (note 6)	16,975,490	17,361,519
<b>Total non-current assets</b>	<b>122,487,440</b>	<b>108,757,226</b>
<b>Total assets</b>	<b>\$ 135,474,876</b>	<b>\$ 123,745,416</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,155,262	\$ 4,765,563
Long-term debt (note 8)	4,972	164,778
Provisions (note 9)	-	239,310
<b>Total current liabilities</b>	<b>5,160,234</b>	<b>5,169,651</b>
Non-current liabilities:		
Convertible debentures liability (note 7)	21,371,538	31,386,180
Long-term debt (note 8)	4,638,799	2,478,506
Deferred income and mining tax liabilities	2,372,460	2,433,260
Derivative financial instruments (note 15)	69,604	3,510
<b>Total non-current liabilities</b>	<b>28,452,401</b>	<b>36,301,456</b>
<b>Equity</b>		
Share capital and warrants (note 10)	169,152,760	138,150,913
Contributed surplus	14,981,211	13,876,689
Deficit	(82,271,730)	(69,753,293)
<b>Total equity attributable to equity holders of the Company</b>	<b>101,862,241</b>	<b>82,274,309</b>
<b>Commitment (note 18), Subsequent events (note 19), Going concern (note 2)</b>		
<b>Total liabilities and equity</b>	<b>\$ 135,474,876</b>	<b>\$ 123,745,416</b>

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board

(S) Claude Lamoureux Director

(S) Lionel Leveillé Director

**ORBITE ALUMINAE INC.**  
**Consolidated Statements of Comprehensive Loss**

	2014	2013
Expenses		
Research and development charges, net of investment tax credits and other governmental assistance of \$94,841 (2013-\$96,386)	\$ 1,794,035	\$ 1,470,124
General and administrative charges	6,681,879	8,372,414
HPA plant operations	3,591,208	2,782,819
Write-off for redesign (note 5)	1,782,505	-
Other expense	533,923	915,549
Loss before net finance income (expense) and income and mining taxes	(14,383,550)	(13,540,906)
Net finance income (expense) (note 11)	1,984,288	(1,431,486)
Loss before income and mining taxes	(12,399,262)	(14,972,392)
Income and mining taxes (note 12)		
Current	60,800	(107,600)
Deferred	(60,800)	173,200
	-	65,600
Net loss and comprehensive loss	\$ (12,399,262)	\$ (15,037,992)
Basic and diluted net loss per share	\$ (0.04)	\$ (0.08)
Weighted average number of shares outstanding	280,362,729	191,643,650

The accompanying notes are an integral part of these consolidated financial statements.

**ORBITE ALUMINAE INC.**  
**Consolidated Statements of Changes in Equity**

	Number of shares	Share capital and warrants	Contributed surplus	Deficit	Total
Balance at January 1, 2013	184,165,728	\$ 117,724,219	\$ 12,361,866	\$ (54,686,655)	\$ 75,399,430
Share-based payments (note 10)	-	-	1,188,038	-	1,188,038
Broker's warrants issued (note 10)	-	-	413,040	-	413,040
Exercise of share options (note 10)	350,000	186,255	(86,255)	-	100,000
Share issuance costs	-	-	-	(28,646)	(28,646)
Settlement of liabilities - shares to be issued	14,525,146	13,726,263	-	-	13,726,263
Convertible debentures conversion (note 7 and 10)	20,964,713	6,514,176	-	-	6,514,176
Comprehensive loss	-	-	-	(15,037,992)	(15,037,992)
Balance at December 31, 2013	220,005,587	\$ 138,150,913	\$ 13,876,689	\$ (69,753,293)	\$ 82,274,309

	Number of shares	Share capital and warrants	Contributed surplus	Deficit	Total
Balance at January 1, 2014	220,005,587	\$ 138,150,913	\$ 13,876,689	\$ (69,753,293)	\$ 82,274,309
Share-based payments (note 10)	-	-	1,686,357	-	1,686,357
Broker's warrants issued (note 7)	-	-	294,718	-	294,718
Exercise of share options (note 10)	3,700,000	1,896,553	(876,553)	-	1,020,000
Exercise of warrants (note 10)	833,250	399,960	-	-	399,960
Share issuance costs (note 10)	-	-	-	(119,175)	(119,175)
Units issued (note 10)	35,714,286	10,000,000	-	-	10,000,000
Shares issued for interest (note 10)	688,189	243,612	-	-	243,612
Issuance of subscription rights (note 10)	-	4	-	-	4
Convertible debentures conversion (note 7, 10 and 15)	59,854,239	18,461,718	-	-	18,461,718
Comprehensive loss	-	-	-	(12,399,262)	(12,399,262)
Balance at December 31, 2014	320,795,551	\$ 169,152,760	\$ 14,981,211	\$ (82,271,730)	\$ 101,862,241

The accompanying notes are an integral part of these consolidated financial statements.

**ORBITE ALUMINAE INC.**  
**Consolidated Statements of Cash Flows**

	2014	2013
Cash flows used in operating activities:		
Comprehensive loss	\$ (12,399,262)	\$ (15,037,992)
Non-cash items:		
Depreciation and write-off of property, plant and equipment	2,129,231	320,161
Depreciation of patents	12,466	10,379
Write-off exploration and evaluation	89,643	-
Share-based payments recognized in comprehensive loss (note 10)	1,599,936	990,207
Other expense	-	915,549
Net finance (income) expense	(2,033,065)	322,318
Deferred income taxes	(60,800)	173,200
Changes in non-cash working capital items:		
Sales taxes and other receivables	(1,043,882)	3,683,292
Current income taxes recoverable	235,843	(107,600)
Investment tax credits and other governmental assistance receivable	538,995	117,931
Prepaid expenses and others	(548,860)	(159,184)
Inventory	(52,793)	(1,500)
Accounts payable and accrued liabilities	(1,934,326)	(189,956)
Interest received	429,252	129,733
Interest paid	(2,000,705)	(2,000,921)
	(15,038,327)	(10,834,383)
Cash flows from financing activities:		
Net proceeds from convertible debentures	9,247,240	13,829,992
Proceeds from long-term debt	3,800,000	-
Repayment of long-term debt	(4,777)	(6,456)
Issuance of shares, warrants and exercise of options (note 10)	11,419,960	100,000
Share issuance costs	(119,175)	(28,646)
	24,343,248	13,894,890
Cash flows used in investing activities:		
Changes in restricted cash	(16,354,020)	-
Cash receipts from investment tax credits receivable	16,300,000	-
Additions to patents	(529,911)	(513,458)
Additions to property, plant and equipment	(15,857,328)	(29,313,841)
Changes to exploration and evaluation assets	211,004	(3,510,179)
Changes in short-term investments	(6,176)	(1,374)
	(16,236,431)	(33,338,852)
Net decrease in cash and cash equivalents	(6,931,510)	(30,278,345)
Cash and cash equivalents, beginning of year	9,909,439	40,187,784
Cash and cash equivalents, end of year	\$ 2,977,929	\$ 9,909,439

The accompanying notes are an integral part of these consolidated financial statements.



## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

For the Years ended December 31, 2014 and 2013

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#### **1. Nature of operations**

Orbite Aluminae Inc. (the "Company" or "Orbite"), incorporated under the Canada Business Corporations Act, is a development stage corporation involved in the extraction of different ores, namely alumina, using environmentally friendly extraction processes. The Company's activities are located in Quebec, Canada and its shares are listed on the Toronto Stock Exchange "TSX" under the stock symbol "ORT" and since September 10, 2012, on the OTCQX International under the symbol "EORBF." The Company's 2012 and 2013 convertible debentures are also listed on the TSX under the symbols "ORT.DB" and "ORT.DB.A" respectively.

The Company's headquarters are located at 6505 TransCanada Highway, Suite 610, Saint-Laurent, Quebec, Canada.

The Company owns the intellectual property rights to patented and patent-pending proprietary processes and technologies, which are expected to enable the environmentally sustainable and cost effective production of high value products such as high purity alumina, silica, hematite, magnesium oxide, titanium oxide, smelter grade alumina as well as rare earth oxides and rare metal oxides from a variety of potential feedstocks which could include red mud, fly ash, aluminous clay, mine tailings, bauxite and kaolin clay, without generating red mud waste or tailings. Orbite owns 100% of the mining rights of several properties in the province of Quebec and an option to acquire claims in the province of Nova Scotia. The majority of the claims are located in Grande-Vallée and between Rimouski and Cap-Chat, all in the Gaspé region. Most of the exploration and evaluation activities undertaken are in relation to its 133 km<sup>2</sup> Grande-Vallée property, the site of an aluminous clay deposit located 32 km northeast of Murdochville, Quebec. The Company has a 20-year renewable mining lease on its Grande-Vallée property, granted by Quebec's Ministry of Natural Resources and Wildlife, that would be sufficient to operate the future open pit operation to supply a smelter-grade alumina ("SGA") plant and the high-purity alumina ("HPA") plant operations.

In regards to its HPA project, Orbite has entered into the construction phase at the HPA plant in Cap-Chat, Quebec, which was the site of the Company's alumina extraction pilot plant until March 2012.

The Company published a revised preliminary economic assessment in regards to the SGA project in May 2012.

The potential for recovery of costs incurred on exploration and evaluation activities and the investment in the HPA plant depends on various factors including the existence of sufficient quantities of reserves, the ability to obtain all required permits, the ability to obtain appropriate financing to put mining properties into production, construct production facilities, and bring those into operation, the efficiency and commercial viability of its processes, and the ability to realize a profitable return for the Company.

#### **2. Basis of presentation and measurement**

##### **Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2014, and authorized their publication on March 31, 2015.

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

For the Years ended December 31, 2014 and 2013

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#### **Basis of measurement**

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments and the Company's 2013 convertible debentures, measured at fair value through profit or loss.

#### **Going Concern**

The consolidated financial statements have been prepared on a going concern basis, meaning on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

The application of the going concern concept is dependent upon the Company's ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the construction of its HPA plant, the exploration and development of its mineral property interests, the attainment of profitable operations or the receipt of proceeds from the disposition of its mineral property interests. The Company is a development stage corporation and has not generated revenue or cash flows from its HPA plant which is currently under construction. The Company's sole source of funding to this point has been the issuance of equity securities, debt and government grants. There can be no assurance that the HPA plant will operate successfully or economically, that the estimated capital costs will be sufficient to achieve the design capacity or the product purities and characteristics, or that the plant will provide a return on investment or become profitable.

In order to finance the completion of the construction and commissioning of the HPA plant, the Company entered into an underwriting agreement (bought deal) on March 30, 2015 of \$8.5 million with a potential to increase to \$15 million (see subsequent event note) and the Series Y Subscription Rights (see note 7 and 15(c)). The ability of the Company to obtain funds under the Series Y Subscription Rights is subject to a number of factors, many of which are not within the control of the Company, including the approval of the TSX, the approval by the Company's shareholders for which a meeting expected to be held on April 2, postponed to April 27, 2015, the absence of a material adverse change affecting the Company between the time the Series Y Subscription Rights were first issued and the issuance date of the underlying debentures and warrants, and creditworthiness of the investor for this unsecured obligation. Further, the Company's ability to obtain additional tranches under the Series Y Subscription Rights beyond the initial tranche (see note 15(c)) is also subject to a number of factors including having sufficient trading volume, which could limit the amount to the financing. If the Company is not able to obtain funds under the Series Y Subscription Rights due to the above or other factors and the Company is not able to obtain financing from an alternative source, it would have an impact on the Company's ability to continue as a going concern, as the Company's current working capital without additional financing is insufficient to complete the construction and commissioning of the HPA plant. The Company is currently in the process of addressing the closing conditions to obtain funds under the Series Y Subscriptions Rights and is also working on alternative sources of financing. Whether or not the Company is able to obtain funds under the Series Y Subscription Rights may be determined in the near term.

If the going concern assumption were not appropriate for these consolidated financial statements, adjustments to the carrying value of assets and liabilities, reported expenses and consolidated statement of financial position classifications would be necessary. Such adjustments could be material.

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

For the Years ended December 31, 2014 and 2013

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#### **Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary company that was incorporated in 2012. The wholly-owned subsidiary is an entity over which the Company has control, where control is defined as the power to govern financial and operating policies.

The financial statements of the subsidiary are prepared for the same reporting period as the parent Company, using consistent accounting policies.

On consolidation, all significant inter-entity balances, transactions including unrealized gains and losses resulting from these transactions are eliminated.

#### **Functional and presentation currency**

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

### **3. Significant accounting policies**

#### **a) Adoption of new accounting standards, amendments and interpretations during the year**

These financial statements have been prepared in accordance with accounting policies which are consistent with those of the previous financial year. The Company has adopted the following amendments to accounting standards and interpretations, with a date of initial application of January 1, 2014.

Amendments to IAS 32, *Offsetting Financial Assets and Liabilities*, clarify that an entity currently has a legally enforceable right to offset if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. Adoption of amendments to IAS 32 did not have an impact on the Company's consolidated financial statements.

IFRIC *Interpretation 21- Levies* ('IFRIC 21') provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. A levy is an outflow or resources embodying economic benefits that are imposed by governments on entities in accordance with legislation, other than income taxes with the scope of IAS 12, Income Taxes and fines or other penalties imposed for breaches of the legislation. The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. IFRIC 21 adoption did not have an impact on the Company's consolidated financial statements.

#### **b) Use of estimates and judgments**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and trends, as well as assumptions regarding probable future outcome as the basis for determining estimates. Actual results may differ from these estimates.

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

For the Years ended December 31, 2014 and 2013

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Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Judgments, assumptions, and estimation uncertainties that are critical to the determination of the carrying value of assets and liabilities are as follows:

#### **Going concern**

Determining whether there exists material uncertainty that casts significant doubt about the Company's ability to continue as a going concern requires Management to exercise its judgement, in particular about its ability to obtain funds under the Series Y Subscription Rights. See note 2.

#### **Assessment of impairment of the HPA plant**

Management used its judgement to determine that a trigger event requiring an impairment test occurred in the fourth quarter of 2014. There is estimation uncertainty in establishing the recoverable amount of the HPA plant cash generating units for which the key assumptions include the timing of completion of construction, commissioning and start-up production activities of the HPA plant, estimated sales volumes, selling prices, input costs and the discount rates. See note 5.

#### **Assessment of refundable tax credits related to resources, credits on mining duties and investment tax credits**

The various government tax credits are estimated by Management based on quantitative and qualitative analysis and interpretation of various government programs, related restrictions, limitations, definitions, and eligibility conditions. Management involves its technical staff and external specialists in determining if the expenditures meet the requirements of the different tax credit claims. The unavailability of the tax credits in obtaining a refund of tax credits could have a significant effect on the anticipated net costs for its HPA Plant.

#### **Fair value estimates of financial assets and liabilities**

The determination of the fair value of the liability component of the convertible debt, and the convertible debentures holders' conversion option (an embedded derivative) requires management to make estimates regarding the fair value of the conversion option including a market participant's assessment of the volatility of the share price over the life of the conversion option, and the interest rate that the Company would have obtained for a similar secured loan without a conversion feature. Management takes into consideration the valuation of both components, historical data regarding issuances of warrants and the proceeds received upon issuance of the convertible debt to determine the inputs used in the valuation models and the resulting fair value for each instrument.

The determination of the fair value of the Series Y subscription rights derivative requires management to make estimates to determine the inputs to the discounted cash flow model, including the effect interest rate, the market interest rate and the probability weighted cash flows.

#### **Estimate of the fair value of share-based payments including the estimate of the life of the share options and the volatility of the shares**

The fair value of each option granted is estimated at the grant date using the Black-Scholes option pricing model. The estimated life of the share options at grant date is based on the legal life of the share options and the historical exercise pattern of option holders. The expected volatility used to calculate the grant date fair value estimated taking into account the historical volatility of the Corporation's share price over the expected term of the options granted. Historical volatility is revised whenever facts and circumstances

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

For the Years ended December 31, 2014 and 2013

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indicate that the historical volatility is no longer appropriate. Such facts and circumstances include but are not limited to the Company entering a new phase of mining activity, the development of new technologies, changes to the financial position of the Company, and when the spread between market participants volatility data, derived from the calculation of the fair value of financial instruments and equity instrument issued by the Company, is significant. If management estimates that historical volatility requires an adjustment, the Company also takes into consideration the historical volatility of comparable companies at similar stages of development as the Company as well as the volatility estimates derived from the fair value calculation of financial instruments and equity instruments in periods when this information is available.

#### **Capitalization of borrowing cost**

The Company must apply its judgment when determining if a constructed asset, such as a manufacturing plant, is considered a qualifying asset under IAS 23, Borrowing costs. Management must consider whether the Company has incurred significant borrowing costs that are attributable to the construction of the HPA Plant. Judgment is also required in determining which borrowing costs are eligible for capitalization. Based on its assessment, the Company determined that borrowing costs attributable to the HPA Plant should be capitalized commencing in the first quarter of 2013.

Management must also apply its judgment in determining on an ongoing basis if capitalization should continue, for example, if the Company reduces or suspends during an extended period, the activities necessary to prepare an asset for its intended use. This requires an evaluation of the level of substantial technical and administrative activities being carried out during a given period. Based on its assessment of the facts at each reporting period, borrowing costs will either be capitalized or expensed during a given period. The Company has continued to capitalize borrowing costs since the first quarter of 2013.

#### **Accounting for research and development activities relating to mining activities**

The Company must apply its judgment in determining which activities relating to extraction methods and treatment processes should be accounted for as research and development under IAS 38 *Intangible Assets* ("IAS 38") or as exploration and evaluation assets under IFRS 6 *Exploration for and Evaluation of Mineral Resources* ("IFRS 6"). Because there existed no economically feasible method for extracting alumina from aluminous clay, the mineral resource of the Grande-Vallée property, the Company conducts a combination of research activities to develop an extraction process. The Company decided that these activities as well as others described below are within the scope of IAS 38 as they involve a high level of risk and uncertainty in regards to the development of technology for extracting various ores.

The Company's research and development activities comprise amongst others:

- activities pursued with the prospect of gaining new scientific or technical knowledge and understanding;
- the search for new applications; and
- the development of prototypes including the operating of a pilot plant that is not of a scale economically feasible for commercial production.

The Company applies the criteria listed in IAS 38 to determine if research and development costs should be capitalized or expensed. Historically, the Company's research and development activities have been expensed.

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

For the Years ended December 31, 2014 and 2013

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When the level of risk and uncertainty in regards to a technology is reduced following technical advances and the technical feasibility has been demonstrated in a laboratory or a pilot plant environment, the activities relating to a particular extraction method or treatment process are considered as evaluation activities going forward. Evaluation activities involve determining the technical feasibility and commercial viability of extracting a mineral resource and are capitalized in accordance with IFRS 6. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. In such circumstances, the impairment loss is recognized as an expense in accordance with IFRS 6.

#### **c) Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined.

Foreign currency differences arising on translation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### **d) Financial instruments**

##### **Financial assets**

Financial assets in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss which do not include transaction costs.

The subsequent measurement of financial assets depends on their classification. The Company classifies its cash and cash equivalents, short-term investments, deposits and restricted cash as loans and receivables.

The restricted cash represents a portion of the refundable 2012 and 2013 investment tax credits, deposited in a segregated account which serves as security for the 2012 convertible debentures. These funds will be released to the Company according to the terms of the trust indenture agreement.

##### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest rate accretion is included in finance income in profit or loss. The losses arising from impairment are recognized in profit or loss in finance costs for loans and operating expenses for receivables.

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

For the Years ended December 31, 2014 and 2013

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#### **Financial liabilities**

Financial liabilities in the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. Transaction costs relating to derivatives and financial liabilities designated at fair value through profit and loss are expensed in the period the instrument is issued.

The measurement of financial liabilities depends on their classification. Derivatives are classified as fair value through profit and loss whereas the Company classifies its trade accounts payable and accrued liabilities and long-term debt as loans and borrowings.

#### **Loans and borrowings**

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the effective interest rate accretion process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate accretion is included as finance costs in profit or loss.

#### **Convertible debentures**

##### *2012 and Series X Convertible Debentures*

Convertible debts are hybrid instruments composed of a non-derivative host contract and a conversion option. Depending on the terms of the agreements, the conversion option will be presented either as an equity component or a derivative financial instrument. In addition the hybrid instrument may comprise other features such as embedded derivatives in the form of early payment options or change in control premiums, and performance obligation that may require distinct accounting treatments. The non-derivative host contract and bifurcated embedded derivatives are initially recognized at fair value. The value of the equity component of the convertible debentures is obtained using the residual method.

The 2012 convertible debentures are hybrid instruments composed of a debt component and embedded derivatives in the form of the convertible debentures holders' conversion option, the Company's early repayment option and a change of control premium. The 2012 convertible debentures are measured at their amortized cost using the effective interest rate method.

The Series X convertible debentures are hybrid instruments composed of a debt component and embedded derivatives in the form of the convertible debentures holders' conversion option. Upon conversion, the holder is also entitled to shares equal to the additional interest such holder would have received if it had held the debenture until maturity (Make-Whole Amount). The conversion option including the Make-Whole-Amount is recorded as a derivative financial liability at fair value with all subsequent changes in fair value recorded in net finance income (expense), and the debt portion is accounted for at amortized cost using the effective interest rate method.

##### *2013 Convertible Debentures*

The 2013 convertible debentures, designated as financial liabilities at fair value through profit or loss, are subsequently measured at fair value with changes recognized in net income (expense). The Company has elected to use Fair Value Option to account for the 2013 convertible debentures. The convertible debt,

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

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including the conversion option, is measured at market value using the listed price of the debentures on the Toronto Stock Exchange ('TSX') at each reporting period. On the date of conversion by the holder, the fair value of the debenture is transferred to share capital and warrants.

#### **e) Exploration and evaluation assets**

All pre-exploration costs, i.e. costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on an area of interest, are expensed as incurred.

Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized with respect to each identifiable area of interest until the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Expenses related to exploration and evaluation include topographical, geological, geochemical, and geophysical studies, exploration drilling, trenching, sampling, engineering studies and other costs including appropriate technical and administrative overhead related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. Exploration and evaluation assets also comprise the costs to acquired interests in mining exploration permits/claims which include the rights to explore for, mine, extract, and sell all minerals from such claims and options to acquire such claims.

The various costs are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting a mineral resource. Once reaching development phase, they are recognized as intangible assets and are carried at cost less any accumulated impairment losses. No depreciation expense is recognized for these assets during the exploration and evaluation phase.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable for an area of interest, the Company stops capitalizing exploration and evaluation costs for that area, tests recognized exploration and evaluation assets for impairment and reclassifies any unimpaired exploration and evaluation assets either as tangible or intangible mine development assets according to the nature of the assets.

#### **f) Property, plant and equipment**

##### **Initial recognition**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs that are directly attributable to the acquisition of the asset and to bringing the asset into operation and the initial estimate of the rehabilitation obligation. For constructed assets and equipment, acquisition and construction costs including external and internal engineering, commissioning expenses, and borrowing cost, if appropriate, are capitalized until the asset is ready for its intended use. Borrowing costs capitalized to property, plant and equipment represents the interest expense calculated under the effective interest method and does not include any mark-to-market adjustment relating to change in fair value of its derivative financial instruments. Government grants or investment tax credits related to the purchase or construction of property, plant and equipment are recorded in reduction of the cost. The costs of the day-to-day servicing of equipment are recognized in profit or loss as incurred.



## ORBITE ALUMINAE INC.

### Notes to Consolidated Financial Statements

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#### Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Property, plant and equipment are amortized on a straight-line basis over their estimated useful life as follows:

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Buildings	25 years
Computer equipment	3 years
Leasehold improvements	Over the terms of the leases
Machinery and equipment including vehicles	2 to 25 years
Furniture and fixtures	5 to 10 years

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An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

Depreciation methods, useful lives, and residual values are reviewed annually and adjusted prospectively, if appropriate.

#### g) Patents

Patents are intangible assets carried at historical cost less accumulated depreciation and any impairment losses recognized, if any. Cost generally consists of patent application costs.

Depreciation, calculated using the straight-line method, is based on the estimated useful life of a patent which does not exceed twenty years from its date of issuance. The amortization period and the amortization method are reviewed annually and adjusted prospectively, if appropriate.

#### h) Impairment

##### Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

##### Non-financial assets

The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment.

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

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The carrying amounts of exploration and evaluation assets are assessed for impairment only when indicators of impairment exist, typically when one of the following circumstances apply:

- Exploration rights have or will expire in the near future;
- No future substantive exploration expenditures are budgeted;
- No commercially viable quantities are discovered and exploration and evaluation activities will be discontinued;
- Exploration and evaluation assets are unlikely to be fully recovered from successful development or sale.

If any such indication exists, then the asset's recoverable amount is estimated.

Exploration and evaluation assets are also assessed for impairment upon the transfer of exploration and evaluation assets to development assets regardless of whether facts and circumstances indicate that the carrying amount of the exploration and evaluation assets is in excess of their recoverable amount. The level identified for the purposes of testing exploration and evaluation assets for impairment corresponds to each mining property.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized with respect to CGUs are allocated to the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

#### **i) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### **j) Share capital and warrants**

##### **Common shares and warrants**

Common shares and warrants are classified as equity instruments of the Company. Warrants are derivatives over the Company's own equity that will be settled only by the Company exchanging a fixed amount of cash for a fixed number of the Company's own equity instruments.

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

For the Years ended December 31, 2014 and 2013

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#### **Flow-through shares**

Canadian tax legislation permits an entity to issue securities to investors whereby the deductions for tax purposes relating to exploration expenditures may be claimed by the investors and not by the entity. These securities are referred to as flow-through shares. The Company finances a portion of its exploration programs with flow-through share issuances.

At the time of the share issuance, the Company allocates the proceeds between share capital and an obligation to deliver the tax deductions, which is recorded as a flow-through shares premium liability. The Company estimates the fair value of the obligation using the residual method, i.e. by comparing the price of the flow-through share to the quoted price of common share at the date of the financing announcement.

An entity may renounce the deductions for tax purposes under either what is referred to as the “general” method or the “look-back” method.

When tax deductions are renounced under the general method, and the Company has the expectation of renouncing and has capitalized the expenditures during the current year, then the entity records a deferred tax liability with the corresponding charge to deferred income tax expense. The obligation is reduced to zero, with a corresponding income recorded.

When tax deductions are renounced under the look-back method, the Company records a deferred tax liability with a corresponding charge to deferred income tax expense when expenditures are made and capitalized. At that time, the flow through shares premium liability would be reduced to zero, with a corresponding income recorded.

#### **k) Share-based payments**

The grant date fair value of share-based payment awards granted to employees and directors is recognized as an employee expense, with a corresponding increase in contributed surplus, over the period during which the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

The cost of share-based payment awards granted to service providers is based on the fair value of the services received. The accounting treatment is dependent on the services received and the offsetting credit will be recognized in contributed surplus.

Grant of equity instruments which are cancelled during a vesting period are accounted for as an acceleration of vesting. The amount that would otherwise have been recognized for services received over the remainder of the vesting period is therefore recognized immediately.

#### **l) Leases**

Leases in which a significant portion of the risks and rewards of ownership are not assumed by the Company are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Leases of property, plant and equipment where the Company has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

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The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

All leases are classified as operating leases and as such the leased assets are not recognized in the Company's consolidated statement of financial position.

m) Finance income and finance expense

Interests received and interests paid are classified under operating activities in the consolidated statement of cash flows.

n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable with respect to previous years.

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred taxes are recognized as income or expense in profit or loss, except to the extent that tax arises from business combinations and transactions recognized in equity. Therefore, when deferred taxes relate to equity items, a backward tracing is necessary to determine the adjustment to taxes (e.g. change in tax rates and change in recognized deferred tax assets) that should be recorded in equity. For this purpose, the accounting policy of the Company is to allocate changes in the recognition of deferred tax assets based on their expected maturity date.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

o) Refundable credit on mining duties and refundable tax credit related to resources

The Company is eligible for a refundable credit on mining duties under the Quebec *Mining Duties Act*. This refundable credit on mining duties is equal to 8% of exploration expenses and 16% of development expenses incurred for mining activities in Quebec. The accounting treatment for refundable credit on mining

## ORBITE ALUMINAE INC.

### Notes to Consolidated Financial Statements

For the Years ended December 31, 2014 and 2013

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duties depends on management's intention to go into production in the future, or rather to sell its mining properties to another mining producer once the technical feasibility and the economic viability of the properties have been demonstrated. This assessment is made at the level of each mining property. In the first case, the credit on mining duties is recorded as an income tax recovery under IAS 12, *Income Taxes*, which generates at the same time a deferred tax liability and deferred tax expense since the exploration and evaluation assets have no tax basis following the Company's election to claim the refundable credit. In the second case, it is expected that no mining duties will be paid in the future and, accordingly, the credit on mining duties is recorded as a government grant under IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, which is recorded against exploration and evaluation assets. The Company records the credit as an income tax recovery since it intends to go into mining production.

The Company is also eligible for a refundable tax credit related to resources for mining industry companies in relation to eligible expenses incurred ("resources tax credit"). The resource tax credit represents up to 35% of the amount of eligible expenses incurred and is recorded as a government grant against exploration and evaluation assets and will be recognized in profit or loss on a systematic basis over the useful life of the related assets.

Credits related to resources and credits for mining duties are recorded at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the credits.

#### p) Investment tax credits

The Company acquires property used primarily in the course of manufacturing and processing including ore smelting, refining or hydrometallurgy activities extracted from a mineral resource located in Canada, and as such qualifies for the investment tax credit ("ITC") available on the cost of purchase of new equipment. The applicable ITC for a corporate taxpayer may be up to 40% of the purchase cost (the basic rate is 5%). Whether the ITC is refundable or not for a given taxation year is determined on the basis of the paid-up capital of the Company calculated on an associated group basis and the cumulative cap of \$75 million in eligible expenses.

Investment tax credits are accrued when qualifying capital expenditures are incurred and there is reasonable assurance that the credits will be realized.

Investment tax credits associated with capital expenditures are reflected as reductions in the carrying amounts of property plant and equipment.

#### q) Research and development and related tax credits

Research and development charges are expensed as they are incurred. Research and development tax credits are accounted for as a reduction of the research and development charges during the year in which the costs are incurred, provided that the Company is reasonably assured that the credits will be received.

#### r) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

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shares, which comprise warrants, share options, and convertible debentures. For the years ending on December 31, 2014 and 2013, all warrants, share options, and convertible debentures were anti-dilutive since the Company reported net losses.

s) **Segment reporting**

The Company determined that it had only one operating segment, i.e. the HPA plant.

t) **New standards and interpretations not yet adopted**

Certain new standards, interpretations, and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2013. The Company has not early adopted these standards. Those which are considered to be relevant to the Company's operations are as follows:

**IFRS 9 Financial Instruments ('IFRS 9')**

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9(2014) in its consolidated financial statements for the annual period beginning January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

**4. Cash, cash equivalents and short-term investments**

Cash and cash equivalents consist of bank deposits and highly liquid investments including term deposits with an initial maturity of less than three months from the date of acquisition. Short-term investments consist of term deposits and investment certificates with an initial maturity over three months. Cash and cash equivalents and short term investments are invested with Canadian chartered banks, are cashable any time without penalty, bear interest varying from 1.15% to 1.65% and mature at various dates up to July 2019.

## ORBITE ALUMINAE INC.

### Notes to Consolidated Financial Statements

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#### 5. Property, plant and equipment

	Land and improvements	Buildings and improvements	Machinery, equipment, furniture and fixtures	Assets under construction	Total
<b>Cost</b>					
Balance at January 1, 2014	\$ 263,830	\$ 8,922,548	\$ 1,324,928	\$ 54,938,955	\$ 65,450,261
Additions	-	15,242	613,609	21,451,536	22,080,387
Reclassifications	-	-	30,800	(34,766)	(3,966)
Investment tax credits	-	-	-	(4,343,409)	(4,343,409)
Government grants	-	-	-	(2,066,842)	(2,066,842)
Write-off for redesign	-	-	-	(1,782,505)	(1,782,505)
Disposals	-	-	(30,800)	-	(30,800)
Balance at December 31, 2014	\$ 263,830	\$ 8,937,790	\$ 1,938,537	\$ 68,162,969	\$ 79,303,126
<b>Accumulated depreciation</b>					
Balance at January 1, 2014	\$ -	\$ 130,160	\$ 434,047	\$ -	\$ 564,207
Depreciation	-	54,595	292,131	-	346,726
Balance at December 31, 2014	\$ -	\$ 184,755	\$ 726,178	\$ -	\$ 910,933

  

	Land and improvements	Buildings and improvements	Machinery, equipment, furniture and fixtures	Assets under construction	Total
<b>Cost</b>					
Balance at January 1, 2013	\$ 245,250	\$ 7,442,048	\$ 1,092,121	\$ 39,507,174	\$ 48,286,593
Additions	18,580	1,480,500	207,290	21,181,614	22,887,984
Government grants	-	-	-	(5,724,316)	(5,724,316)
Reclassifications	-	-	25,517	(25,517)	-
Balance at December 31, 2013	\$ 263,830	\$ 8,922,548	\$ 1,324,928	\$ 54,938,955	\$ 65,450,261
<b>Accumulated depreciation</b>					
Balance at January 1, 2013	\$ -	\$ 75,025	\$ 169,021	\$ -	\$ 244,046
Depreciation	-	55,135	265,026	-	320,161
Balance at December 31, 2013	\$ -	\$ 130,160	\$ 434,047	\$ -	\$ 564,207
<b>Carrying amounts</b>					
As at December 31, 2014	\$ 263,830	\$ 8,753,035	\$ 1,212,359	\$ 68,162,969	\$ 78,392,193
As at December 31, 2013	\$ 263,830	\$ 8,792,388	\$ 890,881	\$ 54,938,955	\$ 64,886,054

An engineering review, conducted throughout 2014, has shown that the original design of the 2012 HPA plant was inadequate to deliver at three tonnes per day capacity. Consequently, the facility was redesigned, and certain installed equipment and piping will be replaced to meet capacity and longevity specifications. As a result, Orbite wrote-off an amount of \$1,782,505 to earnings during the fourth quarter of 2014 to avoid duplication of capital costs related to engineering and equipment. The write-off has been included under HPA plant operations in the consolidated statement of comprehensive loss.

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

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A Company that acquires a property used primarily in the course of manufacturing and processing including ore smelting, refining or hydrometallurgy activities extracted from a mineral resource located in Canada, may qualify for the investment tax credit ("ITC"), available on the cost of purchase of new equipment. The applicable ITC for a corporate taxpayer may be up to 40% of the purchase cost (the basic rate is 5%). Whether the ITC is refundable or not for a given taxation year is determined on the basis of the paid-up capital of the Company calculated on an associated group basis and the cumulative cap of \$75 million in eligible expenses.

Orbite is currently under audit by the Québec Revenue Agency. Orbite is not aware of any actual or threatened contest by the tax authorities with regard to its contemplated investment tax credit claims, however there can be no assurance that these tax credits will be available and, if available, that the amount will be refunded by the Government of Québec in a timely manner. In the event of a cost not being eligible for ITC purposes, the Company would reclassify the amount from ITC receivable to property, plant and equipment.

Most of the equipment purchased and constructed in relation to the HPA commercial plant is eligible for a 40% (before June 4, 2014), and 32% (after June 4, 2014) investment tax credit. The tax credit receivable is recorded in the same period as the eligible addition and is credited against property, plant and equipment (refer to note 8 for the government grant). During the period ended December 31, 2014, \$3,652,572 (December 31, 2013 – \$3,064,501) in borrowing costs were capitalized in assets under construction.

#### **Impairment of the HPA Plant**

As described in Note 3 (h), the carrying amount of the HPA plant is assessed at each reporting period to determine whether there is any indication of impairment. During the fourth quarter of 2014, the Company determined that a trigger was present and an impairment test was performed. The Company determined the estimated recoverable amount of the HPA plant, which exceeded the carrying value of the property, plant and equipment as at December 31, 2014. As a result, there was no impairment identified.

The Company determined the recoverable amount of the HPA plant based on a value in use calculation. The value in use calculation was assessed using cash flow projections, which takes into account financial budgets and forecasts approved by senior management covering a five-year period with a terminal value calculated by discounting the final year in perpetuity. The key assumptions for the value in use calculation include the timing of the completion of construction, commissioning and start-up production activities of the HPA plant, estimated sales volumes, selling prices and input costs, as well as discount rates which are based on estimates of the risks associated with the projected cash flows based on the best information available as of the date of the impairment test.



**ORBITE ALUMINAE INC.****Notes to Consolidated Financial Statements**

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**6. Exploration and evaluation assets**

Changes in exploration and evaluation assets by property are as follows:

	January 1, 2014		Additions / (Deductions)		Ressources tax credit		Write-off		December 31, 2014
Grande-Vallée	\$ 16,043,160	\$	(306,241)	\$	(10,674)		-	\$	15,726,245
Chaswood	741,909		17,834		-		-		759,743
Rimouski – Cap-Chat	284,381		2,695		-		(89,643)		197,433
Le Tac	223,031		-		-		-		223,031
Others	69,038		-		-		-		69,038
	\$ 17,361,519	\$	(285,712)	\$	(10,674)	\$	(89,643)	\$	16,975,490

  

	January 1, 2013		Additions / (Deductions)		Ressources tax credit		Write-off		December 31, 2013
Grande-Vallée	\$ 15,124,413	\$	918,747	\$	-		-	\$	16,043,160
Chaswood	205,230		536,679		-		-		741,909
Rimouski – Cap-Chat	47,632		236,749		-		-		284,381
Le Tac	78,096		144,935		-		-		223,031
Others	9,483		59,555		-		-		69,038
	\$ 15,464,854	\$	1,896,665	\$	-	\$	-	\$	17,361,519

During the year, the Company has carried out limited activities on its various properties as it focused on the construction activities of its HPA plant. The HPA plant is a path forward for its smelter-grade alumina projects as the HPA plant, once converted to the chloride technology, will serve as a commercial scale demonstration of the same process used to process the aluminous clay and other feedstock from its different properties.

During 2014, the Company received a refund in the amount of \$380,000 from a consultant in connection with the Grande-Vallée property, which was recorded as a deduction to the cost of that property.

IFRS 6 requires that the exploration and evaluation assets be assessed for impairment when indicators of impairment exist. If any such indication exists, then the asset's recoverable amount is estimated. During the year ended December 31 2014, the Company has not identified any indicators of impairment on the exploration and evaluation assets that would require an impairment test to be performed.

Right and obligations under contractual agreements*Chaswood property*

In November 2012, the Company entered into an agreement with a private company pursuant to which the Company was granted an exclusive option for a period of three years to acquire a 100% undivided interest in the mineral claims and exploration rights of the Chaswood kaolin clay and sand property located in Halifax County, Nova Scotia, Canada. The property consists of 163 claims encompassing 2,608 hectares (approximately 26.1 km<sup>2</sup>) in central Nova Scotia.

In order to acquire a 100% undivided interest in the property, the Company is required to: (1) incur aggregate exploration expenditures on the property of \$1,000,000 by December 31, 2013 including costs

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

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related to an NI 43-101 technical report, (2) deliver an NI 43-101 technical report by December 31, 2014, and if the Company decides to exercise the Option, (3) issue 2,400,000 class A shares by January 1, 2016, vesting in tranches of 10% every six months following the date of issuance. Additionally, the Company made an initial payment of \$150,000 upon the conclusion of the agreement. If the interest in the property is acquired, the Company will pay a royalty of \$0.25 per metric tonne of clay and silica extracted from the property and delivered to the Company facility.

As of December 31, 2014, the Company has not incurred the entirety of the exploration expenditures on the property as provided under (1) and (2) above and therefore has not fulfilled two of the conditions required by the option agreement. The Company has initiated negotiations to resolve this and no significant issues are expected by management at this time.

#### *Grande-Vallée property*

The Grande-Vallée property is located 32 km north-east of Murdochville in Gaspésie Peninsula in Quebec. It comprises 115 claims. The Company has agreed to pay a royalty of 3% of NPI (net profits before amortization and income taxes) resulting from production. One-hundred percent of the royalty can be bought back for an amount of \$500,000 after a five-year production period.

#### *Other properties*

Certain of the Company's other properties are subject to royalties varying from 1.5% to 2% of any production sold from these claims.

#### Flow-through shares

The Company issued in December 2012 flow-through shares and subsequently renounced the deductions for tax purposes. As the Company incurs the qualifying exploration expenditures, the portion of the proceeds recorded as a flow-through shares premium liability upon issuance is reduced and recognized in other income. A deferred tax liability is also recognized regarding the expenditures which no longer have a tax basis for the Company.

As at December 31, 2013, the Company did not incur the required \$2,830,000 in qualifying Canadian mineral exploration expenses as originally contemplated in 2012 flow-through private placement. As a result the Company recorded an expense of \$1,667,000 during the year ended December 31, 2013 to reflect the indemnification penalty that the Company will incur to compensate adverse tax consequences incurred by purchasers of such flow-through securities. In addition, the Company reversed the remaining flow-through shares premium liability of \$566,138 (December 31, 2012 - \$751,400). The net amount was recorded in other expense. During the year ended December 31 2014, the Company recorded an additional expense of \$261,426 to reflect adjustments to the indemnification penalty.

## **7. Convertible debentures**

#### 2012 Convertible debentures

On December 13, 2012 the Company completed a private placement of convertible debentures in the aggregate principal amount of \$25,000,000.

The 2012 convertible debentures bear interest at a rate of 8% per annum to be paid quarterly in arrears, and have a maturity date of December 13, 2017. Furthermore, the convertible debentures are convertible, in whole at the option of the holders at any time prior to the maturity date, into Class A shares of the

## ORBITE ALUMINAE INC.

### Notes to Consolidated Financial Statements

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Company at a conversion price of \$3.50 per Class A share. After 24 months following the date of issuance of the debentures, the Company has the option to pre-pay all or any portion of the outstanding convertible debentures in the amount of the principal amount thereof plus accrued and unpaid interest. In such event, the holders of outstanding convertible debentures being prepaid shall be issued approximately 286 common share purchase warrants exercisable at \$3.50 until the maturity date for each \$1,000 of prepaid principal amount of the convertible debentures. The convertible debentures are secured against the HPA plant buildings having a carrying value of \$ 8,846,796 at December 31, 2014 (\$8,755,000 at December 31, 2013) as well as the Company's 2012 and 2013 refundable investment tax credits resulting from the purchase of manufacturing equipment related to the Company's HPA facility having a carrying value of \$9,356,591 as of December 31, 2014 (\$25,656,591 as of December 31, 2013) and restricted cash of \$16,354,020 as at December 31, 2014 (nil as at December 31, 2013).

During the year ended December 31, 2014 the Company received installments totaling \$16.3 million from the tax authorities in consideration of investment tax credits on the equipment purchased for manufacturing and processing in the Gaspé region. The payments, which relate to the 2012 fiscal year were deposited in a segregated account and were recorded as restricted cash.

The issuance of the 2012 convertible debenture was recorded at inception as follows:

Debt component, net of transaction costs of \$1,252,000) <sup>(1)</sup>	\$	18,614,595
Derivative financial liability		5,133,388
Transaction costs recognized comprehensive loss		(323,512)
Net proceeds	\$	23,424,471

<sup>(1)</sup> The effective interest rate that will be used to accrete the liability component of the convertible debentures up to the principal amount at maturity is 16.3%.

#### 2013 Convertible debentures

On December 10, 2013 the Company completed a public offering of convertible debentures in the aggregate principal amount of \$16,000,000.

The 2013 convertible debentures consist of 16,000 units at \$1,000 principal amount. The convertible debentures bear interest at a rate of 7.5% per annum to be paid semi-annually in arrears on May 31 and November 30 of each year. Each unit consists of (i) unsecured unsubordinated debentures convertible at the option of the holders at any time prior to the close of business on the tenth business day immediately preceding the maturity date, into Class A shares of the Company at a price of \$0.40 per share and (ii) 875 share warrants, each exercisable into one Class A share of the Company at a price of \$0.48 for a period of 36 months following issuance. Holders who convert their debentures will receive accrued and unpaid interest to the date of conversion in addition to a make-whole interest payment equal to the interest amount that such holder would have received if such holder had held the debentures until the maturity date (the "Make-Whole Amount"). Such Make-Whole Amount shall be reduced by 1% for each 1% that the five (5) day Volume Weighted Average Price ("VWAP") of the Common Shares on the Toronto Stock Exchange at time of conversion exceeds the conversion price. The interest may be paid, at the sole option of the Company, in cash or in Common Shares whereas the Make-Whole interest (if any) will be paid in Common Shares.

## **ORBITE ALUMINAE INC.**

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The broker agent of the Offering received a commission of 6% of gross proceeds raised in addition to 2,400,000 broker warrants; each such warrant is convertible into one Class A share of the Company at a price of \$0.48 for a period of 36 months following issuance. The fair value of the warrants were valued using the Black and Scholes option pricing model and classified as transaction cost under net finance (expense). The assumptions used to in the pricing model included a risk-free rate of 1.4%, an expected volatility of 75% and no expected dividend.

The 2013 convertible debentures holders' conversion option meets the definition of a derivative financial liability. As a result, at the date of issuance, the Company has elected to use the Fair Value Option (FVO) for the convertible debentures with future changes in fair value recognized in net finance (expense). As a result of electing the FVO, the transaction costs are included in the net finance (expense).

The issuance of the 2013 convertible debentures was initially recorded at \$16,320,000 based on its quoted price on the TSX and the subscription commitment derivative asset was recorded at \$320,000 based on level 3 measurement model. See note 15 for level 3 inputs to determine the fair value of the Subscription Commitment derivative.

#### Subscription rights

In connection with the issuance of the 2013 convertible debentures, on December 10, 2013, the Company also secured a binding commitment by a U.S.-based institutional investor providing for the future subscription of \$40 million in additional units by way of private placement ("the Subscription Commitment") having identical terms to those of the Units issued pursuant to the above, with the exception that the conversion price shall be based on the 5-day volume weighted average price ("VWAP") of the Company's shares on the last trading day prior to the date on which the subscription rights in respect of which the units are issued first become exercisable, and the Warrants granted shall be equivalent to 45% of the number of Common Shares into which the Debentures are convertible, exercisable at a 20% premium over such conversion price.

Under the terms of the Subscription Commitment, the investor undertook to subscribe on the date that is three months from the Closing Date to two series of subscription rights (the "Series X Subscription Rights" and the "Series Y Subscription Rights" and collectively the "Subscription Rights"). The Subscription Rights can be exercisable by the investor and by the Company. Upon exercise, the Subscription Rights will require the investor to purchase Additional Units in the total subscription amount of up to \$40 million, as follows:

- The subscription rights were issued on March 10, 2014 and the Series X subscription rights were exercised on July 11, 2014 and,
- Series Y Subscription Rights, requiring the investor upon exercise to purchase Additional Units in the amount of up to \$30 million based on aggregate trading value benchmarks on the Common Shares, exercisable beginning ten months following December 10, 2013 and which expire on December 10, 2015 if unexercised.

The Subscription Rights are subject to the Company's compliance with the formalities, covenants and certain conditions including obtaining certain regulatory approvals, including TSX approval, and shareholder approval if certain dilution thresholds are exceeded, and the absence of a material adverse effect affecting the Company between the time the Series Y Subscription Rights were first issued and the issuance date of the underlying debentures and warrants, and creditworthiness of the investor for this unsecured obligation.

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

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The above Subscription Commitment met the definition of a derivative from the date of issuance and is recorded as a "Subscription Commitment derivative". The fair value of the derivative was not significant at inception and as at December 31, 2013. The Company allocated the proceeds of the issuance to the convertible debenture liability and Subscription Commitment derivative. The Company did not allocate any of the proceeds of the issuance to the equity classified warrants since the proceeds exceeded the initial fair value of the convertible debentures per the TSX listing and the Subscription commitment fair value and thus, all proceeds were allocated to the convertible debentures and the subscription commitment derivative.

#### Series Y Subscription Rights

On November 10, 2014, the Company announced amendments to the terms of its Series Y Subscription Rights issued on March 10, 2014 to Crede.

The Company and Crede mutually agreed to amend the terms of the Series Y Subscription Rights to postpone to any time between January 15 and January 30, 2015 Orbite's option to require exercise of the Rights, and to extend the deadline for the Company's undertaking to convene a shareholders meeting for the approval of the Rights to January 30, 2015. The Company exercised the Series Y subscription rights and called a shareholder meeting for their approval (see Note 19 (c)).

#### Series X Convertible debentures

On July 11, 2014, the Company completed an offering of \$10,000,000 in the form of unsecured convertible debentures and warrants, pursuant to the exercise of the Series X Subscription Rights as issued on March 11, 2014.

The Series X convertible debentures consist of 10,000 units at \$1000 principal amount and 13,000,000 warrants of the Company. The Debentures will mature five years from issuance, namely July 11, 2019 and will bear interest at a rate of 7.5% per annum. Each Debenture is convertible, at the option of the holder, at any time prior to the maturity date, into class A shares of the Company at a conversion price of \$0.50 per Share, representing the 5 day VWAP at time of the conditional exercise of the Series X subscription rights. Upon conversion, the holder shall also be entitled to Shares equal to the additional interest such holder would have received if it had held the Debenture until maturity (Make-Whole Amount) divided by the market price of the Shares prior to the date of conversion, the maximum number of Shares issuable upon conversion of the Debentures on account of the principal amount and the Make-Whole Amount not exceed the principal amount of the Debentures converted, divided by the Conversion Price less 25%, in addition to accrued and unpaid Interest, in cash or in Shares at the Company's discretion. Each Warrant shall entitle the holder to purchase one Share for a period of three years from its issuance at a price of \$0.60 per share (equivalent to the Conversion Price plus a 20% premium).

The convertible debentures holders' conversion option, which includes the Make Whole Amount, is recorded as a derivative financial liability at fair value with all subsequent changes in fair value to be recorded in net finance income (expense), and the debt portion is accounted for using the effective interest rate method. The accounting policy for the Series X convertible debentures is consistent with the accounting policy used for the 2012 convertible debentures.

In connection with the placement, the Company paid a fee of 6% of the amount of the investment and issued a total of 1,200,000 finder warrants. Each finder warrant entitles the holder to purchase one Share

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for a price of \$0.60 per share for a period of three years and is non-transferable. The fair value of the warrants were valued using the Black and Scholes option pricing model and classified on a pro-rata basis between transaction cost under net finance (expense) and the liability component. The assumptions used in the pricing model included a risk-free rate of 1.16%, an expected volatility of 75%, a two-year expected life and no expected dividend.

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

Debt component net of transaction cost of \$479,914	\$	4,422,407
Recognition of the conversion option derivative financial liability on issuance of convertible debentures		5,797,680
Series X subscription right derivative value at time of exercise		(700,000)
Non-cash transaction costs related to broker's warrants recognized as contributed surplus		294,718
Transaction costs recognized as finance expenses		(567,565)
Net proceeds	\$	9,247,240

Transactions affecting the convertible debenture liability were as follows:

**2012 Convertible debentures**

	December 31, 2014	December 31, 2013
Balance - beginning of year	\$ 19,586,770	\$ 18,657,774
Effective interest accretion	3,080,743	2,928,996
Interest payments	(2,000,000)	(2,000,000)
Balance - end of year	\$ 20,667,513	\$ 19,586,770

**2013 Convertible debentures**

	December 31, 2014	December 31, 2013
Balance - beginning of year	\$ 11,799,410	\$ -
Issuances	-	16,320,000
Conversion into common shares	(11,619,104)	(6,514,176)
Net fair value change	523,719	1,993,586
Balance - end of year	\$ 704,025	\$ 11,799,410

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**Series X Convertible debentures**

	December 31, 2014	December 31, 2013
Balance at January 1, 2014	\$ -	\$ -
Issuances	4,422,407	-
Effective interest accretion	299,721	-
Interest paid in shares upon conversion	(168,904)	-
Conversion into common shares	(4,553,224)	-
Balance - end of year	\$ -	\$ -
Carrying amount at end of year	\$ 21,371,538	\$ 31,386,180

**8. Long-term debt**

	December 31, 2014	December 31, 2013
Government loans	\$ 4,628,696	\$ 2,623,431
Secured loans	15,075	19,853
Total	4,643,771	2,643,284
Presented as:		
Current	4,972	164,778
Non-current	4,638,799	2,478,506

The government loans were used to finance the pilot plant and its related equipment. The fair value of the loans was recorded using a weighted average effective annual interest rate of 8% for loans obtained in prior periods and 14.5% for a loan obtained in 2014. The difference between the fair value of the loan and the proceeds received was recorded as a government grant in reduction of property, plant and equipment. The debt balance is comprised of:

- Non-interest bearing loan of \$2,628,896 from the government of Canada, repayable in 10 equal semi-annual instalments beginning on April 1, 2017.
- Non-interest bearing loan of \$2,000,000 from the government of Quebec. The provincial loan is repayable based on future cash flows with any remaining balance due on May 2018.
- Term loan, bearing interest at 4%, repayable in equal monthly instalments of capital and interest of \$456, secured by a vehicle having a net carrying value of \$15,075 as of December 31, 2014.

Transactions affecting the long-term debt were as follows:

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	December 31, 2014	December 31, 2013
Balance at January 1, 2014	\$ 2,643,284	\$ 2,471,799
Net proceeds	3,800,000	-
Government grant allocated to property, plant and equipment	(2,066,842)	-
Effective interest accretion	272,812	178,861
Repayments	(5,483)	(7,376)
Balance at end of year	\$ 4,643,771	\$ 2,643,284

On February 3, 2014, the Company signed an agreement with Canada Economic Development for Quebec Regions ("CED") for a financial contribution comprised of a non-interest bearing secured loan in the amount of \$4,000,000 (the Loan) pursuant to CED's Quebec economic development program. Based on the agreement, in March 2014, the Company received \$3,800,000 and the remaining \$200,000 is expected to be received during 2015. The contribution is interest free, repayable in 10 consecutive equal semi-annual installments starting 24 months following completion of the HPA Facility. The loan was discounted at a rate of 14.5% and was initially recorded at \$1,811,070, reflecting its fair value given its non-interest bearing nature. The difference between the proceeds received and the initial carrying amount of \$1,988,930 is considered a grant and credited to property, plant and equipment. The loan is being accreted from its initial carrying amount to \$3,800,000 over its life.

In 2010 and 2011, the Company received unsecured loans totalling \$800,000 (Former Loan) from CED, whose maturity has been deferred until April 1, 2017. The loan is secured by a first ranking movable hypothec (the Security), against the Company's movable assets located on the premises of the Company's high purity alumina production facility in Cap-Chat, Quebec, until such time as the calcination equipment is installed and functional, at which time the Former Loan will be secured exclusively by such calcination equipment.

**9. Provisions**

As a result of the ongoing review of the HPA project costs, the Corporation identified subsequent to December 31, 2012 certain works that did not meet Orbite's requirements or invoices that appeared to be in excess of contracted terms and conditions. The Company initiated a billing review, including an independent audit, regarding certain of its suppliers. The review resulted in certain invoices remaining unpaid beyond their commercial terms. As a result of the non-payment and pending resolution of the disputed invoices, some suppliers had elected to register a legal hypothec on the construction site. The Company and two suppliers including the general contractor concluded a settlement agreement during the second quarter of 2013, whereby a portion of the amount disputed has been settled in cash and the remainder has been settled by the issuance of shares. The provision for these two suppliers has been eliminated and the amount to be settled by the issuance of shares in full settlement of the respective claims, was recorded in share capital during the second quarter of 2013 (see note 10 for further details). During 2014, the Company resolved the outstanding billing disputes it had with one supplier.

The change in the provisions balance during the year is as follows:



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	December 31, 2014	December 31, 2013
Balance - beginning of year	\$ 239,310	\$ -
Provisions made during the year	-	14,793,705
Provisions settled in shares or cash during the year	(239,310)	(14,554,395)
Balance - end of year	\$ -	\$ 239,310

**10. Share capital, warrants, and share-based payments**Share capital

The Company is authorized to issue an unlimited number of Class A shares, without par value, voting, participating, entitled to dividends as declared by the Board of Directors.

- a) On July 29, 2013 the Company issued an aggregate of 14,525,146 Class A shares at a price of \$0.945 per share to two of its suppliers, in full settlement of their respective outstanding claims.
- b) During the month of December 2013, 20,964,713 common shares were issued as a result of the exercise of the conversion option by some of the 2013 debenture holders. As of December 31, 2013, 6001.5 units of debentures were converted at a weighted average price of \$0.29 per common share. The common shares issued included the accrued and unpaid interest to the date of conversion in addition to the Make-Whole-Amount. Consequently an amount of \$6,514,176 representing the fair value of the converted units was transferred from Convertible debenture liability to share capital. The conversion is a non-cash transaction and thus excluded from the cash flow statement.
- c) On May 27, 2014, the Company completed a private placement with Ressources Quebec (RQ), a subsidiary of Investissement Quebec, which resulted in the issuance of 35,714,286 units at a price of \$0.28 per unit for gross proceeds of \$10,000,000. Each unit is comprised of one Class A share and one half (1/2) of one Class A share purchase warrant. Each full warrant entitles RQ to purchase one Class A share of the Company at a price of \$0.33 for 36 months from the date of closing. An amount of \$119,175 was recorded as share issuance cost.
- d) During the year ended December 31, 2014 the Company issued an aggregate 688,189 Class A shares at an average price of \$0.354 in settlement of the interest due on the 2013 Convertible debentures and the Series X Convertible debentures, representing a total amount of \$243,612. The settlement is a non-cash transaction and is excluded from the cash flow statement.
- e) During the year ended December 31, 2014, 33,187,572 common shares were issued as a result of the exercise of the conversion option by the 2013 debenture holders. During the year, 9,477 units of debentures were converted at a weighted average price of \$0.29 per common share. The common shares issued included the accrued and unpaid interest to the date of conversion as well as the Make-Whole-Amount. Consequently, an amount of \$11,619,104 representing the fair value of the converted units immediately before conversion was transferred from Convertible debenture liability to share capital. The conversion is a non-cash transaction and thus excluded from the cash flow statement.
- f) During the year ended December 31, 2014, 26,666,667 common shares were issued as a result of the exercise of the conversion option by the Series X holder. During the period, 10,000 units of debentures

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were converted at a weighted average price of \$0.375 per common share. The common shares issued included the accrued and unpaid interest to the date of conversion. Consequently, an amount of \$6,842,614 (excluding the accrued interest paid in shares of \$168,904) was transferred to share capital representing the fair value of the derivative financial liability and the carrying amount of the debt of the converted units immediately before conversion as well as the accrued and unpaid interest to the date of conversion. The conversion is a non-cash transaction and thus excluded from the cash flow statement.

Subscription Rights

In accordance with the subscription agreement dated November 7, 2013 and amended on December 6, 2013, on March 11, 2014 the Company issued 10,000 Series X Subscription Rights and 30,000 Series Y Subscription Rights for a cash consideration of \$1 and \$3 respectively. The 10,000 Series X subscription rights were exercised on July 11, 2014 (see note 7).

Warrants

Changes in the number of warrants issued and outstanding entitling their holders to purchase Class A shares during the year were as follows:

	December 31, 2014		December 31, 2013	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance - beginning of year	16,449,020	\$ 0.49	10,111,520	\$ 4.35
Issued	32,057,143	0.45	16,400,000	0.48
Exercised	(833,250)	0.48	-	-
Expired	(49,020)	2.60	(10,062,500)	4.36
Balance - end of year	47,623,893	\$ 0.46	16,449,020	\$ 0.49

The numbers of warrants issued and outstanding at December 31, 2014 by exercise price are as follows:

Exercise price	Expiry date	Number of warrants
\$ 0.33	May 2017	17,857,143
\$ 0.48	December 2016	15,566,750
\$ 0.60	July 2017	14,200,000
		47,623,893

As part of the debentures issued in December 2013 (see note 7), the Company issued 14,000,000 warrants to the debenture holders at a weighted average exercise price of \$0.48 per share for a period of 36 months. These equity classified warrants were not allocated any proceeds. In addition, as part of the offering, the Company issued 2,400,000 warrants to the brokers at an exercise price of \$0.48 per share for a period of

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36 months. The fair value of these broker warrants were recorded as transaction cost and included in net finance expense.

During the year ended December 31, 2014, 833,250 warrants were exercised resulting in cash proceeds of \$399,960. During the year ended December 31, 2013, no warrants were exercised.

As part of the Series X convertible debentures issued in July 2014 (see note 7), the Company issued 13,000,000 warrants to the debenture holders at a weighted average exercise price of \$0.60 per share for a period of 36 months. These equity classified warrants were not allocated any proceeds. In addition, as part of the offering, the Company issued 1,200,000 warrants to the brokers at an exercise price of \$0.60 per share for a period of 36 months. The fair value of the warrants were valued using the Black and Scholes option pricing model and classified on a pro-rata basis between transaction costs under net finance expense and the liability component.

#### Share options

The Company maintains a share option plan (the "Plan"), whereby the Board of Directors may from time to time grant to employees, officers, directors, and consultants, options to acquire Class A shares with terms and quantities determined by the Board of Directors.

The Plan provides that the maximum number of Class A shares that can be issued is equal to 10% of Class A shares (32,079,555 in 2014; 22,000,558 in 2013) issued and that the maximum number of Class A shares, which may be reserved for issuance to any individual, may not exceed 5% of the Class A shares outstanding at the time of grant. These options may be exercised over a period of 5 to 10 years after the date of grant. The vesting period of the share options vary from immediate vesting to vesting over a period not exceeding 3 years. The vesting conditions and the option exercise price, which may not be lower than the market price of the Class A shares at the time of the grant, are established by the Board of Directors on the grant date.

Changes in the Company's Class A share purchase options issued and outstanding are as follows:

	December 31, 2014		December 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance - beginning of year	15,083,489	\$ 1.25	14,454,951	\$ 1.44
Granted	6,527,500	0.40	2,805,000	0.92
Exercised	(3,700,000)	0.28	(350,000)	0.29
Expired	(1,594,996)	2.71	(1,826,462)	2.42
Cancelled	(523,493)	2.56	-	-
Balance - end of year	15,792,500	\$ 0.94	15,083,489	\$ 1.25
Options exercisable - end of year	10,571,664	\$ 1.12	12,145,644	\$ 1.19

On March 24, 2014, the Company cancelled 523,493 stock options that had been granted to certain employees in prior years and were significantly out-of-the-money. The exercise price of those grants ranged

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from \$1.70 to \$2.98 per share. This transaction was treated as a cancellation, and accordingly the share-based payment expense that would have been recorded over the remaining vesting period of those options was expensed in 2014, in the amount of \$156,518.

During the year ended December 31, 2013, 350,000 share options were exercised resulting in cash proceeds of \$100,000 and a transfer from contributed surplus to share capital of \$86,255.

During the year ended December 31, 2014, 3,700,000 share options were exercised resulting in cash proceeds of \$1,020,000 and a transfer from contributed surplus to share capital of \$876,553. The weighted average share price at the date of exercise for share options exercised in the year ended December 31, 2014 was \$0.43 (December 31, 2013- \$0.67). During the year of 2014, the Company issued 6,527,500 (December 31, 2013 - 2,805,000) share options to employees at a weighted average exercise price of \$0.40 (December 31, 2013 - \$0.92) and having a weighted average grant date fair value of \$0.24 (December 31, 2013 - \$0.36) per option.

The weighted average assumptions used to determine the fair value of the options issued and the share-based payment expense are as follows:

	December 31, 2014	December 31, 2013
Exercise price	\$ 0.40	\$ 0.92
Risk-free interest rate	1.72%	1.40%
Expected volatility	75%	40%
Expected life in years	5.69	5.70
Expected dividend	Nil	Nil
Expected forfeiture rate	8.64%	10.00%

Share options issued and outstanding by range of exercise price are as follows:

	December 31, 2014	
Exercise price	Number	Weighted average remaining contractual life (years)
\$0.00 - 0.40	8,757,500	6.9
\$0.41 - 0.67	1,020,000	0.9
\$0.68 - 1.69	2,355,000	8.4
\$1.70 - 2.53	1,685,000	3.7
\$2.54 - 2.97	1,875,000	6.7
\$2.98 - 3.47	50,000	1.6
\$3.48 - 4.47	50,000	1.3
	15,792,500	6.4

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The share-based payment expense was recognized as follows:

	2014	2013
Research and development	\$ 133,682	\$ 171,600
General and administration	1,444,265	835,047
HPA plant operations	21,989	(16,440)
Recognized in comprehensive loss	1,599,936	990,207
Capitalized in patents and others	7,500	-
Capitalized in property, plant and equipment	78,921	197,831
	\$ 1,686,357	\$ 1,188,038

**11. Net finance income (expense)**

Net finance income (expense) is composed as follows:

	2014	2013
<b>Finance income</b>		
Interest income	\$ 409,499	\$ 135,200
<b>Finance expense</b>		
Interest on convertible debentures	(3,380,464)	(2,928,996)
Interest on long-term debt	(272,107)	(178,861)
Transaction costs and other	(552,593)	(3,401,492)
	(4,205,164)	(6,509,349)
<b>Other financial gains (losses)</b>		
Effect of changes in fair value of derivative financial instruments	2,177,768	2,168,885
Effect of changes in foreign exchange rates	(50,387)	(290,723)
	2,127,381	1,878,162
Capitalized interest on qualifying assets	3,652,572	3,064,501
Net finance income (expense)	\$ 1,984,288	\$ (1,431,486)

**12. Income and mining taxes**

The Company's effective income tax rate differs from the combined federal and provincial income tax rate in Canada. The difference results from the following:

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	2014	2013
Loss before income and mining taxes	\$ (12,399,262)	\$ (14,972,392)
Income taxes at combined federal and provincial income tax rate of 26.9%	(3,335,402)	(4,027,574)
Non-deductible share-based payments	430,383	266,366
Mining tax expenses	-	65,600
Deductible deferred mining tax liability	16,355	(46,607)
Non-deductible expenses and other	320,370	705,521
Change in unrecognized tax assets	2,568,294	3,102,294
Income and mining taxes	\$ -	\$ 65,600

The income and mining tax expense is made up of the following components:

	2014	2013
Current tax expense:		
Current tax (recovery) expense	\$ 60,800	\$ (107,600)
Adjustment for prior years	-	-
	60,800	(107,600)
Deferred tax expense:		
Origination and reversal of temporary differences	(60,800)	173,200
Income and mining taxes	\$ -	\$ 65,600

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Deferred income and mining tax assets and liabilities recognized are attributable to the following:

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Deferred tax assets (liabilities)						
Property, plant and equipment	\$ -	\$ -	\$ (1,763,000)	\$ (1,690,000)	\$ (1,763,000)	\$ (1,690,000)
Non-capital losses	647,000	-	-	-	647,000	-
Research and development expenses	2,974,000	2,652,000	-	-	2,974,000	2,652,000
Exploration and evaluation assets	-	4,000	-	-	-	4,000
Deferred mining taxes	-	-	(2,372,460)	(2,433,260)	(2,372,460)	(2,433,260)
Convertible debentures	-	-	(1,328,000)	(919,000)	(1,328,000)	(919,000)
Other	-	-	(530,000)	(47,000)	(530,000)	(47,000)
Deferred tax assets (liabilities)	3,621,000	2,656,000	(5,993,460)	(5,089,260)	(2,372,460)	(2,433,260)
Set off of tax	(3,621,000)	(2,656,000)	3,621,000	2,656,000	-	-
<b>Net deferred liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,372,460)</b>	<b>\$ (2,433,260)</b>	<b>\$ (2,372,460)</b>	<b>\$ (2,433,260)</b>

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The movement in deferred tax balances are as follows:

	January 1, 2014	Recognized in profit or loss	Recognized directly in equity	Balance December 31, 2014
Property, plant and equipment	\$ (1,690,000)	\$ (73,000)	\$ -	\$ (1,763,000)
Non-capital losses	-	647,000	-	647,000
Research and development expenses	2,652,000	322,000	-	2,974,000
Exploration and evaluation assets	4,000	(4,000)	-	-
Deferred mining taxes	(2,433,260)	60,800	-	(2,372,460)
Convertible debentures	(919,000)	(409,000)	-	(1,328,000)
Other	(47,000)	(483,000)	-	(530,000)
	\$ (2,433,260)	\$ 60,800	\$ -	\$ (2,372,460)

	January 1, 2013	Recognized in profit or loss	Recognized directly in equity	Balance December 31, 2013
Property, plant and equipment	\$ (802,000)	\$ (888,000)	\$ -	\$ (1,690,000)
Research and development expenses	1,532,000	1,120,000	-	2,652,000
Exploration and evaluation assets	-	4,000	-	4,000
Deferred mining taxes	(2,260,060)	(173,200)	-	(2,433,260)
Convertible debentures	(585,000)	(334,000)	-	(919,000)
Other	(145,000)	98,000	-	(47,000)
	\$ (2,260,060)	\$ (173,200)	\$ -	\$ (2,433,260)

The unrecognized deferred tax assets are as follows:

	2014	2013
Non-capital losses carryforwards	\$ 12,926,000	\$ 9,611,000
Exploration and evaluation assets	90,000	644,000
Financing cost	813,000	998,000
	\$ 13,829,000	\$ 11,253,000

Deferred tax assets have not been recognized in respect to the net operating losses and other deferred tax assets as significant uncertainty exists surrounding the recoverability of these deferred tax assets. The Company has undeducted research and development expenses that can be carried forward indefinitely. The deductions for share and convertible debt issuance costs expire between 2033 and 2036.



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As at December 31, 2014, the Company has non-capital losses carried forward that expire as follows:

	Federal	Provincial
2014	\$ 40,640	\$ 36,965
2015	93,348	83,400
2016	250,084	214,035
2027	475,678	473,935
2028	637,111	635,458
2029	628,214	626,466
2030	1,377,008	1,231,849
2031	4,478,879	3,997,791
2032	11,632,963	11,598,272
2033	16,427,672	16,401,938
	<b>\$ 36,041,597</b>	<b>\$ 35,300,109</b>

The benefit of these losses has not been recognized in the financial statements.

### 13. Related party transactions

The Company has no ultimate parent.

The compensation paid to the Company's Key Management Personnel in exchange of services rendered to the Company is as follows:

	2014	2013
Short-term employee salaries and directors compensation	\$ 2,018,196	\$ 2,017,685
Share-based payment costs	1,333,497	480,481
	<b>\$ 3,351,693</b>	<b>\$ 2,498,166</b>

### Other related party transactions

During the year ended December 31, 2014, the Company incurred \$273,043 (December 31, 2013 - \$1,136,000) from a legal firm in which a director of the Company is an equity partner. These transactions took place in the normal course of operations and were measured at the exchange amount, which is the amount established and accepted by the parties.

### 14. Earnings per share

For the year ended December 31, 2014 and 2013, all outstanding warrants, share options and convertible debentures were anti-dilutive since the Company reported net losses.

### 15. Financial instruments

- a) Financial risk management objectives and policies

## ORBITE ALUMINAE INC.

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The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management manages financial risks.

The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

#### b) Financial risks

The Company's main financial risk exposure and its financial risk management policies are as follows:

##### *Interest rate risk*

Convertible debentures bear interest at a fixed rate and the Corporation is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations. An increase of 25 basis point (0.25%) would not have a significant impact on the Company's results.

##### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Generally, the maximum credit risk is equivalent to the carrying value of financial assets exposed to credit risk, less any impairment. The Company is subject to credit risk primarily through cash, cash equivalents, short-term investments and restricted cash. The Company reduces its credit risk by maintaining its cash, its restricted cash and its investments in financial instruments guaranteed by and held by a Canadian chartered bank having a good credit rating but the Company is subject to concentration of credit risk. In addition, the Series Y Subscription Rights are subject to the investor's creditworthiness.

##### *Currency Risk*

The corporation is exposed to currency risk to the extent that there is a mismatch between the currencies in which certain assets and purchases are denominated and the respective functional currency of the Company, the Canadian Dollar. The currencies in which these transactions are primarily denominated at the U.S dollar and the Euro. An increase or decrease of 10 percent of the US dollar or the Euro at the balance sheet date would not have a significant impact on the Company's results.

##### *Liquidity risk*

The Management's objective is to maintain sufficient cash to ensure that the Company has at its disposal sufficient sources of financing. The Company also establishes budgets and liquidity forecasts designed to ensure that it has at its disposal sufficient funds to meet its financial obligations, as they become due. Refer to note 2 Going concern.

The following table presents the contractual maturities of the financial liabilities and operating leases as of December 31, 2014:

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	Carrying Amount	Contractual Cash flows	Payable within 1 year	Payable during		Payable After year 5
				Years 2 and 3	Years 4 and 5	
Accounts payable and accrued liabilities	\$ 5,155,262	\$ 5,155,262	\$ 5,155,262	\$ -	\$ -	\$ -
Convertible debentures 2012*	20,667,513	30,902,000	2,000,000	28,902,000	-	-
Derivative financial instrument**	(284,396)	-	-	-	-	-
Convertible debentures 2013***	704,025	677,951	39,113	78,225	560,613	-
Long-term debt	4,643,771	4,615,994	5,484	1,090,510	920,000	2,600,000
Operating leases	-	868,157	498,298	369,859	-	-
	\$ 30,886,175	\$ 42,219,364	\$ 7,698,157	\$ 30,440,594	\$ 1,480,613	\$ 2,600,000

\*Includes interest outflows at 8%. Secured by \$9,356,591 Investment tax credits receivable as of December 31, 2014. Funds representing an amount of \$16,354,020 received were deposited in a segregated account.

\*\*The embedded derivative has no outflows since it is included in the 2012 convertible debentures and the derivative for the Series Y Subscription Rights was not exercised as at December 31, 2014.

\*\*\*Includes interest outflows at 7.5%. The Company may force conversion beginning on one-year anniversary and interest can be paid in cash or common shares at the Company's option. In addition, the Company has a binding commitment for the future subscription of \$30 million in additional units ("the Subscription Commitment") - refer to note 7 for details.

c) Fair value of financial instruments

The fair values of financial assets and liabilities, together with the carrying amounts included in the balance sheet, are as follows:

	December 31, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 2,977,929	\$ 2,977,929	\$ 9,909,439	\$ 9,909,439
Short-term investment	376,199	376,199	370,023	370,023
Derivative financial instrument (current assets)	354,000	354,000	320,000	320,000
Restricted cash	16,354,020	16,354,020	-	-
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	5,155,262	5,155,262	4,765,563	4,765,563
Provisions	-	-	239,310	239,310
Derivative financial instrument (non-current liabilities)	69,604	69,604	3,510	3,510
Convertible debentures 2012 liability	20,667,513	23,500,000	19,586,770	20,500,000
Convertible debentures 2013 liability	704,025	704,025	11,799,410	11,799,410
Long-term debt (including current portion)	4,643,771	3,755,766	2,643,284	1,649,934

Fair value hierarchy

The Company defines the fair value hierarchy for financial instruments carried at fair value as follows:

- Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

## ORBITE ALUMINAE INC.

### Notes to Consolidated Financial Statements

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- Level 2 fair value measurements includes inputs other than quoted prices included in level 1 that are observable for the assets or liability, either directly or indirectly.
- Level 3 valuations use unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instrument for which the determination of fair value requires significant judgment or estimation.

If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair valued measurement of the instrument.

#### *2012 Convertible debentures*

The embedded early payment option has been classified as a level 2 fair value measurement whereas the control premium and the convertible debentures holders' conversion option are classified as level 3 measurements. The variation in its fair value during the period is recorded under net finance income (expense) (note 11).

The effect of a change in the volatility assumption as of December 31, 2014, which is the significant unobservable input in the fair value estimate, of 5% would have the following impact on the derivative financial liability:

- An increase of 5% would increase the value of the derivative financial liability by \$30,772
- A decrease of 5% would decrease the value of the derivative financial liability by \$24,418

Since there are no future cash disbursements associated with the derivative financial liability, it is presented in the non-current section of the consolidated statements of financial position.

The reconciliation of changes in level 3 fair value measurements of financial liabilities for the year ending December 31, 2014 is presented in the following table:

	December 31, 2014	December 31, 2013
Balance - beginning of year	\$ 3,510	\$ 4,165,981
Loss (gain) recognized in net finance expense (income)	66,094	(4,162,471)
Closing balance	\$ 69,604	\$ 3,510

#### *2013 Convertible debentures*

The 2013 convertible debentures including the conversion option was classified as level 1 fair value measurements since the debenture is listed on TSX exchange. The changes in fair value at the issuance date as well as subsequently are recognized in net finance income (expense). At the issuance date, the transaction costs were included also in the net finance income (expense).

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#### *Subscription rights*

The Subscription rights were classified as a level 3 fair value measurement instrument due to the unobservable inputs used in determining the fair value. The Company used a discounted cash flow model to determine the fair value of the derivative. The significant inputs in the model include the effective interest rate, the market interest rate as well as the probability weighted percentage of exercising the Subscription rights. The fair value of the Series Y subscription rights derivative was \$354,000 in an asset position at December 31, 2014. From the date of issuance of the Series Y Subscription Rights until December 31 2014, the only changes in the account relate to the fair value remeasurements.

#### *Series X Convertible debentures*

The convertible debentures holders' conversion option has been classified as a level 3 measurement. The variation in its fair value during the year is recorded under net finance income (expense) (note 11).

The reconciliation of changes in level 3 fair value measurements of the current financial liabilities for the year ending December 31, 2014 is presented in the following table:

	December 31, 2014
Balance - beginning of year	\$ -
Recognition of the conversion option derivative financial liability on issuance of convertible debentures	5,797,680
Conversion into common shares	(2,289,391)
Loss (gain) recognized in net finance expense (income)	(3,508,289)
Closing balance	\$ -

#### *Basis for determining fair values*

The fair value of cash and cash equivalents, short-term investments, restricted cash, accounts payables, and accrued liabilities approximates its carrying value given their short-term maturity date.

The fair value of the long-term debt at December 31, 2014 was determined based on discounted cash flows at a weighted average discount rate of 14.5% (December 31, 2013 – 14.5%), a rate for a similar loan at the balance sheet date.

The fair value of the convertible debentures holders' conversion option of the 2012 convertible debentures was determined using a Black Scholes option pricing model and the following assumptions at December 31, 2014 and December 31, 2013: a 75% expected volatility rate, a 0% expected dividend rate and a risk-free rate of 1.06% (December 31, 2013 - 1.4%) for the remaining contractual life of the conversion option.

The fair value of the 2012 convertible debentures, comprising the convertible debenture liability and the derivative financial liability components, was \$23,500,000 at December 31, 2014 (December 31, 2013 - \$ 20,500,000) and was determined based on its quoted price on the TSX.

The fair values of the 2013 convertible debenture liability including the embedded conversion option was \$704,025 at December 31, 2014 and \$11,799,410 at December 31, 2013 and was determined based on its quoted price on TSX.

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**16. Capital management**

Capital is defined as shareholders' equity, convertible debentures, and long-term debt. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern and to maximize shareholder value.

The Company's activities have been funded so far through equity financing, convertible debentures and long-term debt.

The Company seeks financing typically through the issuance of shares, warrants, convertible debentures and by way of government grants and loans. In addition, the Company has secured a binding commitment by a U.S. based institutional investor providing for the future subscription of \$30 million in additional units by way of private placement (see note 7 and note 2 Going concern).

The Company manages its capital structure and determines its capital requirements in light of the changing economic conditions and the risk characteristics of its assets. To reach its objectives, the Company may have to maintain or adjust its capital structure by issuing new share capital or new debt.

At this stage of its development, the Company's policy is to preserve cash to fund its operations and not to pay dividends. The Company is not subject to any externally imposed capital requirements.

The following summarizes the Company's capital structure:

	2014	2013
Long-term debt (including current portion)	\$ 4,643,771	\$ 2,643,284
Convertible debentures liability	21,371,538	31,386,180
Shareholder's equity	101,862,241	82,274,309
Capital	\$ 127,877,550	\$ 116,303,773

**17. Supplemental information**

The following charges have been recognized in comprehensive loss:

	2014	2013
Employee salaries	\$ 5,182,576	\$ 6,308,407
Operating lease expenses	868,157	1,408,040

**18. Commitment**

As at December 31, 2014, the total purchase commitment for capital expenditures at the HPA project relating to equipment amounts to approximately \$4,611,585.

## **ORBITE ALUMINAE INC.**

### **Notes to Consolidated Financial Statements**

For the Years ended December 31, 2014 and 2013

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#### **19. Subsequent events**

- a) On January 29, 2015, Orbite received a \$3,025,000 bridge loan from Investissement Quebec collateralized against the Company's investment tax credits receivable for the year 2014, estimated at \$4,000,000. The loan, repayable by June 30, 2016, carries an interest rate of 3.5% over the prevailing prime lending rate, which currently stands at 3%. Interest is payable monthly and the loan is subject to other customary terms and conditions.
- b) On February 16, 2015, Orbite was selected to receive up to \$4.5M in non-dilutive funding from Sustainable Development Technology Canada (SDTC) to be applied towards Orbite's technology development, demonstration and commercialization related to the processing of red mud.
- c) On January 30, 2015, the Company sent an exercise notice to Crede confirming the exercise of the first exercisable tranche of the Series Y Subscription Rights. The amount to be subscribed according to the formula contained in the Series Y Subscription Rights (and which is based on the dollar value of the shares of the Company traded over a fixed period of time) is \$5.457 million, but may be increased to \$10 million by Crede. The completion of this exercise is subject to satisfaction of the prescribed closing conditions, including regulatory approval from the TSX and shareholder approval for which a meeting expected to be held on April 2, postponed to April 27, 2015, the absence of a material adverse effect affecting the Company between the time the Series Y Subscription Rights were first issued and the issuance date of the underlying debentures and warrants, and creditworthiness of the investor for this unsecured obligation.
- d) On March 30, 2015, the Company received a payment of \$4 million from tax authorities in consideration of investment tax credits on the equipment purchased for manufacturing and processing in the Gaspé region. The payment relates to the 2012 financial year and the Company expects subsequent payments to follow. At the date of publication of the consolidated financial statements the total amount of \$20.3 million received in connection with the refundable investment tax credits resulting from the purchase of manufacturing equipment related to the Company's HPA facility was deposited in a segregated account and serves as security for the convertible debentures issued in December 2012 and maturing in December 2017.
- e) On March 30, 2015, the Company entered into an underwriting agreement with Euro Pacific Canada Inc. (the "Underwriter") under which the Underwriter agreed to buy on a firm underwriting (bought deal) basis by way of prospectus supplement, 8,500 units of the Company (each, a "Unit") at a price of \$1,000 per Unit for gross proceeds of \$8,500,000 (the "Offering"). In addition, the Company also granted the Underwriter an upsizing option to purchase up to an additional of 6,500 Units for additional gross proceeds of up to \$6,500,000 (resulting in aggregate of gross proceeds of up to \$15,000,000). Each Unit consists of \$1,000 principal amount of convertible unsecured unsubordinated debentures (the "Debentures") and 1,077 share purchase warrants, each such warrant exercisable into one share for a period of 36 months at a price of \$0.39 per share. The Debentures will mature 5 years from their issue date (the "Maturity Date") and will bear interest at a rate of 5% per annum. Each Debenture will be convertible at any time prior to the Maturity Date, into the number of shares computed on the basis of (i) the principal amount of the Debentures divided by the conversion price of \$0.325 per share (the "Conversion Price"), and (ii) an amount equal to the additional interest amount that such holder would have received if it had held the Debenture until the Maturity Date (the "Make-Whole Amount") divided by

**ORBITE ALUMINAE INC.****Notes to Consolidated Financial Statements**For the Years ended December 31, 2014 and 2013

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the then 5 day volume weighted average trading price of the Common Shares on the TSX (the "Current Market Price"). The Make-Whole Amount shall be reduced by 1% for each 1% that the Current Market Price at time of conversion exceeds the Conversion Price. The aggregate number of shares to be issued upon conversion of the Debentures and for any payment of the Make-Whole Amount in Common Shares shall not exceed the number of Common Shares equal to the principal amount of the Debentures divided by \$0.325 less the 25% maximum discount allowable in accordance with the rules of the Toronto Stock Exchange.