



Condensed Consolidated Interim Financial Statements of
(unaudited)

ORBITE TECHNOLOGIES INC.
(Formerly known as Orbite Aluminae Inc.)

(A development stage company)

For the quarter and the six months ended June 30, 2015

ORBITE TECHNOLOGIES INC.
Condensed Consolidated Interim Financial Statements
(unaudited)

For the quarter and the six months ended June 30, 2015

Financial Statements

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ORBITE TECHNOLOGIES INC.
Condensed Consolidated Interim Statements of Financial Position
(unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,704,547	\$ 2,977,929
Short-term investments	403,701	376,199
Sales taxes and other receivables	1,092,508	1,346,020
Current income and mining taxes recoverable	1,760,700	1,760,700
Investment tax credits and other governmental assistance receivable	7,500,419	5,197,822
Inventory	111,504	129,579
Prepaid expenses and others	719,051	845,187
Derivative financial instruments (note 13)	-	354,000
Total current assets	15,292,430	12,987,436
Non-current assets:		
Restricted cash (note 7)	22,473,726	16,354,020
Investment tax credits receivable	3,356,591	9,356,591
Property, plant and equipment (note 4)	85,331,190	78,392,193
Patents and others	1,729,216	1,409,146
Exploration and evaluation assets (note 5)	16,953,447	16,975,490
Total non-current assets	129,844,170	122,487,440
Total assets	\$ 145,136,600	\$ 135,474,876
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,122,658	\$ 5,155,262
Short-term loan (note 6)	3,025,000	-
Long-term debt (note 8)	5,072	4,972
Derivative financial instruments (note 13)	640,578	-
Total current liabilities	6,793,308	5,160,234
Non-current liabilities:		
Convertible debentures liability (note 7)	23,754,118	21,371,538
Long-term debt (note 8)	4,810,479	4,638,799
Deferred income and mining tax liabilities	2,372,460	2,372,460
Derivative financial instruments (note 13)	46,878	69,604
Total non-current liabilities	30,983,935	28,452,401
Equity		
Share capital and warrants (note 9)	179,089,847	169,152,760
Contributed surplus	16,967,552	14,981,211
Deficit	(88,698,042)	(82,271,730)
Total equity attributable to equity holders of the Company	107,359,357	101,862,241
Commitment (note 14), Subsequent events (note 15), Going concern (note 2)		
Total liabilities and equity	\$ 145,136,600	\$ 135,474,876

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

ORBITE TECHNOLOGIES INC.

Condensed Consolidated Interim Statements of Comprehensive Loss (unaudited)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Expenses				
Research and development charges, net of investment tax credits and other governmental assistance of:				
\$7,990 (2014-\$21,221) for three months ended June 30	\$ 532,457	\$ 471,655	\$ 915,636	\$ 875,829
\$29,476 (2014-\$44,675) for six months ended June 30				
General and administrative charges	1,815,083	1,879,208	3,021,514	4,023,810
HPA plant operations	1,131,434	972,345	1,985,825	1,837,688
Other expense	-	245,578	-	245,578
Loss before net finance expense and income and mining taxes	(3,478,974)	(3,568,786)	(5,922,975)	(6,982,905)
Net finance expense (note 10)	(261,215)	(716,669)	(503,337)	(1,713,717)
Loss before income and mining taxes	(3,740,189)	(4,285,455)	(6,426,312)	(8,696,622)
Income and mining taxes				
Current	-	60,800	-	60,800
Deferred	-	(60,800)	-	(60,800)
	-	-	-	-
Net loss and comprehensive loss	\$ (3,740,189)	\$ (4,285,455)	\$ (6,426,312)	\$ (8,696,622)
Basic and diluted net loss per share	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.03)
Weighted average number of shares outstanding	357,441,920	265,904,695	339,219,968	253,298,475

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ORBITE TECHNOLOGIES INC.
**Condensed Consolidated Interim Statements of Changes in Equity
(unaudited)**

	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 9)	-	-	1,183,642	-	1,183,642
Exercise of share options (note 9)	2,950,000	1,388,787	(638,787)	-	750,000
Share issuance costs	-	-	-	(112,399)	(112,399)
Units issued	35,714,286	10,000,000	-	-	10,000,000
Shares issued for interest	183,840	55,152	-	-	55,152
Issuance of subscription rights	-	4	-	-	4
Convertible debentures conversion	33,113,126	11,588,904	-	-	11,588,904
Comprehensive loss	-	-	-	(8,696,622)	(8,696,622)
Balance at June 30, 2014	291,966,839	\$ 161,183,760	\$ 14,421,544	\$ (78,562,314)	\$ 97,042,990

	Number of shares	Share capital and warrants	Contributed surplus	Deficit	Total
Balance at January 1, 2015	320,795,551	\$ 169,152,760	\$ 14,981,211	\$ (82,271,730)	\$ 101,862,241
Share-based payments (note 9)	-	-	527,212	-	527,212
Warrants issued (note 7 and 9)	-	-	1,459,129	-	1,459,129
Shares issued for interest (note 9)	54,761	13,391	-	-	13,391
Convertible debentures conversion (note 7,9 and 13)	47,146,542	9,923,696	-	-	9,923,696
Comprehensive loss	-	-	-	(6,426,312)	(6,426,312)
Balance at June 30, 2015	367,996,854	\$ 179,089,847	\$ 16,967,552	\$ (88,698,042)	\$ 107,359,357

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

ORBITE TECHNOLOGIES INC.
Condensed Consolidated Interim Statements of Cash Flows
(unaudited)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	2015	2014	2015	2014
Cash flows used in operating activities:				
Comprehensive loss	\$ (3,740,189)	\$ (4,285,455)	\$ (6,426,312)	\$ (8,696,622)
Non-cash items:				
Depreciation of property, plant and equipment	68,736	105,514	144,938	179,666
Depreciation of patents	3,446	2,570	6,781	5,105
Share-based payments recognized in comprehensive loss (note 9)	343,642	342,371	518,351	1,128,285
Net finance expense	177,291	632,807	361,503	1,534,506
Deferred income taxes	-	(60,800)	-	(60,800)
Changes in non-cash working capital items:				
Sales taxes and other receivables	(431,635)	(205,968)	253,511	(487,990)
Current income taxes recoverable	-	60,800	-	60,800
Investment tax credits and other governmental assistance receivable	(2,267,184)	38,407	(2,302,597)	14,953
Prepaid expenses and others	57,554	95,577	(156,799)	226,647
Inventory	10,093	13,350	18,075	(15,682)
Accounts payable and accrued liabilities	(308,440)	(1,815,687)	105,304	(2,039,984)
Interest received	113,986	13,105	265,785	36,678
Interest paid	(548,024)	(500,183)	(1,080,799)	(1,000,377)
	(6,520,724)	(5,563,592)	(8,292,259)	(9,114,815)
Cash flows from financing activities:				
Net proceeds from convertible debentures (note 7)	13,421,525	-	13,421,525	-
Proceeds from short-term debt (note 6)	-	-	3,025,000	-
Proceeds from long-term debt	-	-	-	3,800,000
Repayment of long-term debt	(1,103)	(1,187)	(2,181)	(2,364)
Issuance of shares, warrants, rights and exercise of options (note 9)	13,391	10,685,152	13,391	10,805,156
Share issuance costs	-	(112,399)	-	(112,399)
	13,433,813	10,571,566	16,457,735	14,490,393
Cash flows used in investing activities:				
Changes in restricted cash	(2,044,774)	-	(6,096,640)	-
Cash receipts from investment tax credits receivable	2,000,000	-	6,000,000	-
Additions to patents	(201,469)	(136,564)	(308,959)	(248,703)
Additions to property, plant and equipment	(4,785,220)	(1,565,790)	(6,992,599)	(6,679,416)
Changes to exploration and evaluation assets	(7,766)	422,466	(13,158)	308,596
Changes in short-term investments	(1,506)	(2,116)	(27,502)	(3,889)
	(5,040,735)	(1,282,004)	(7,438,858)	(6,623,412)
Net increase (decrease) in cash and cash equivalents	1,872,354	3,725,970	726,618	(1,247,834)
Cash and cash equivalents, beginning of period	1,832,193	4,935,635	2,977,929	9,909,439
Cash and cash equivalents, end of period	\$ 3,704,547	\$ 8,661,605	\$ 3,704,547	\$ 8,661,605

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

ORBITE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements

For the quarter and the six months ended June 30, 2015
(unaudited)

1. Nature of operations

Orbite Technologies Inc. (the "Company" or "Orbite") was incorporated on June 17, 1983 under the Canada Business Corporations Act. On June 12, 2015, the Company amended its articles to change its name to "Orbite Technologies Inc." (formerly known as Orbite Aluminae Inc.). Its share capital is comprised of one Class of common shares, i.e. the Class A shares (the "Common Shares" or the "Class A Shares"), which are the only shares that are currently issued and outstanding. On June 17, 2015, the Company's securities began trading under the "Industrial-Technology" listing category of the Toronto Stock Exchange instead of the "Mining" category. Orbite 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 Québec, 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, 2013 and 2015 convertible debentures are also listed on the TSX under the symbols "ORT.DB", "ORT.DB.A" and "ORT.DB.B" respectively.

The Company's headquarters are located at 6505 TransCanada Highway, Suite 610, Saint-Laurent, Québec, 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 Québec 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 41 km² Grande-Vallée property, the site of an aluminous clay deposit located 32 km northeast of Murdochville, Québec. The Company has a 20-year renewable mining lease on its Grande-Vallée property, granted by Québec'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, Québec, 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.

ORBITE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements

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2. Basis of presentation and measurement

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim financial reporting using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and notes thereto prepared for the year ended December 31, 2014.

The Board of Directors approved the consolidated interim financial statements for the quarter and the six months ended June 30, 2015 and authorized their publication on July 30, 2015.

Basis of measurement and Going Concern

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

Going Concern

The consolidated interim 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 ongoing construction and subsequent commissioning of its HPA plant, the Company closed a \$10 million bought deal on April 6, 2015 and an additional \$5 million on May 6, 2015 (see note 7). The Company has no other committed sources of future financing as of the date of these consolidated financial statements other than the one mentioned above. The Company is currently working on securing alternative sources of financing. If the Company is not able to obtain funds from alternative sources, 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.

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.

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Principles of consolidation

The consolidated interim 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. The subsidiary has not commenced any operating activities.

Functional and presentation currency

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

3. Significant accounting policies

Adoption of new accounting standards

These consolidated interim financial statements have been prepared in accordance with accounting policies which are consistent with those of the previous financial year.

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, 2016. 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

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.

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

ORBITE TECHNOLOGIES INC.

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Use of estimates and judgments

The preparation of the consolidated interim 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.

In preparing these interim consolidated financial statements, the significant management's judgments as well as the relevant uncertainty sources were the same as those applied to the consolidated annual financial statements for the year ended December 31 2014. 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.

4. Property, plant and equipment

	Land and improvements	Buildings and improvements	Machinery, equipment, furniture and fixtures	Assets under construction	Total
Cost					
Balance at January 1, 2015	\$ 263,830	\$ 8,937,790	\$ 1,938,537	\$ 68,162,969	\$ 79,303,126
Additions	-	32,126	86,895	9,224,572	9,343,593
Investment tax credits	-	-	-	(2,259,657)	(2,259,657)
Balance at June 30, 2015	\$ 263,830	\$ 8,969,916	\$ 2,025,432	\$ 75,127,884	\$ 86,387,062
Accumulated depreciation					
Balance at January 1, 2015	\$ -	\$ 184,755	\$ 726,178	\$ -	\$ 910,933
Depreciation	-	25,755	119,184	-	144,939
Balance at June 30, 2015	\$ -	\$ 210,510	\$ 845,362	\$ -	\$ 1,055,872
Carrying amounts					
As at June 30, 2015	\$ 263,830	\$ 8,759,406	\$ 1,180,070	\$ 75,127,884	\$ 85,331,190
As at December 31, 2014	\$ 263,830	\$ 8,753,035	\$ 1,212,359	\$ 68,162,969	\$ 78,392,193

Most of the equipment being purchased and constructed in relation to the HPA commercial plant is eligible for an 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). During the six month period ended June 30, 2015, \$1,920,139 (June 30, 2014 – \$1,615,000) in borrowing costs were capitalized in assets under construction.

ORBITE TECHNOLOGIES INC.**Notes to Condensed Consolidated Interim Financial Statements**

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(unaudited)

5. Exploration and evaluation assets

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

	January 1, 2015	Additions / Deductions	June 30, 2015
Grande-Vallée	\$ 15,726,245	\$ (24,579)	\$ 15,701,666
Chaswood	759,743	2,536	762,279
Rimouski – Cap-Chat	197,433	-	197,433
Le Tac	223,031	-	223,031
Others	69,038	-	69,038
	\$ 16,975,490	\$ (22,043)	\$ 16,953,447

During the six-month period ended June 30, 2015, the Company obtained a discount from a supplier of \$31,258 on work performed on previously reported period.

6. Short term loan

On January 13, 2015 and June 19, 2015 Orbite entered into a loan agreement for up to \$3,025,000 and \$5,000,000 respectively, from Investissement Québec. These loans are repayable when the Company receives the funds from the present and future receivables secured against this loan as described below, or at the latest by June 30, 2016 and June 30, 2017 respectively. They carry an interest rate of 3.5% over the prevailing prime lending rate, which at June 30, 2015 was standing at 2.85%. Interest is payable monthly and during the six-month period ended June 30, 2015 the interest expense amounted to \$80,519. The loans are subject to certain reporting and financial customary terms and conditions including maintaining a minimum working capital ratio until repayment of the loan. As of June 30, 2015, \$3,025,000 was withdrawn from the available aggregate of \$8,025,000.

The loans are secured by a 1st ranking movable hypothec on the universality of the Company's present and future receivables in the amount of \$9,390,000, excluding manufacturing investment tax credits related to the HPA plant for the fiscal years ending December 31, 2012 and December 31, 2013.

ORBITE TECHNOLOGIES INC.**Notes to Condensed Consolidated Interim Financial Statements**

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(unaudited)

7. Convertible debentures

Transactions affecting the convertible debenture liability were as follows:

2012 Convertible debentures

		June 30, 2015	December 31, 2014
Balance - beginning of period	\$	20,667,513	\$ 19,586,770
Effective interest accretion		1,604,871	3,080,743
Interest payments		(1,000,000)	(2,000,000)
Balance - end of period	\$	21,272,384	\$ 20,667,513

2013 Convertible debentures

		June 30, 2015	December 31, 2014
Balance - beginning of period	\$	704,025	\$ 11,799,410
Conversion into common shares		(202,500)	(11,619,104)
Net fair value change		-	523,719
Balance - end of period	\$	501,525	\$ 704,025

2015 Convertible debentures

		June 30, 2015	December 31, 2014
Balance - beginning of period	\$	-	\$ -
Issuances		8,613,642	-
Effective interest accretion		76,822	-
Interest paid in shares upon conversion		(34,109)	-
Conversion into common shares		(6,676,146)	-
Balance - end of period	\$	1,980,209	\$ -
Carrying amount at end of period	\$	23,754,118	\$ 21,371,538

On April 6, 2015, Orbite completed the first portion of the public offering of units in the amount of \$10,000,000 under the short form base shelf prospectus and prospectus supplement dated March 18 and March 30, 2015 respectively (the "Offering").

ORBITE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements

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On May 6, 2015 Orbite concluded the issuance of 5,000 additional units for gross proceeds of \$5,000,000 as a result of the exercise by Euro Pacific Canada Inc., the underwriter under the public offering, of its financing option, bringing the aggregate gross proceeds for the public offering to \$15,000,000.

Each unit consists of \$1,000 principal amount of 5% convertible unsecured unsubordinated debentures (the "Debentures") and 1,077 share purchase warrants (each a "Warrant") of the Company. The Debentures will mature on April 6, 2020 (the "Maturity Date") and will bear interest at a rate of 5% per annum payable semi-annually.

Each Debenture is convertible, at the option of the holder 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 the then 5 day volume weighted average trading price of the 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. Each Warrant will be exercisable into one share for a period of 36 months from their issue date at a price of \$0.39 per share.

For its services, Euro Pacific Canada Inc. received a cash commission of \$900,000 (equal to 6% of the gross proceeds raised) and 2,769,230 non-transferable broker warrants (equal to 6% of the shares into which the principal of the Debentures sold are convertible). Each broker warrant is exercisable into one share for a period of 36 months at a price of \$0.39 per share.

The aggregate number of shares to be issued upon conversion of the Debentures and for any payment of the Make-Whole Amount shall not exceed the number of shares equal to the principal amount of the Debentures divided by \$0.325 less the 25% maximum discount allowable by the Toronto Stock Exchange.

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), the debt portion is initially recorded at its fair value and subsequently accounted for using the effective interest rate method, and the warrants are equity classified with no future remeasurement and represent the residual value of the proceeds from the issuance. The accounting policy for 2015 convertible debentures is consistent with the accounting policy used for the Series X convertible debentures and the 2012 convertible debentures.

At the issuance date the 2015 convertible debentures were recorded as follows:

Debt component net of transaction cost of \$1,315,729	\$ 8,613,642
Recognition of the conversion option derivative financial liability on issuance of convertible debentures	3,785,402
Warrants issued net of transaction cost of \$128,868	1,156,360
Non-cash transaction costs related to broker's warrants recognized as contributed surplus	302,769
Transaction costs recognized as finance expenses	(436,648)
Net proceeds	\$ 13,421,525

ORBITE TECHNOLOGIES INC.

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2015 Convertible debentures

During the quarter ended June 30, 2015, 46,592,601 common shares were issued as a result of the exercise of the conversion option by the 2015 debenture holders. During the period, 11,663 units of debentures were converted at a weighted average price of \$0.250 per common share. The common shares issued included the accrued and unpaid interest to the date of conversion. Consequently, an amount of \$9,721,196 (including accrued interest paid in shares of \$34,109) 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.

2013 Convertible debentures

During the six month period ended June 30, 2015, 553,941 common shares were issued as a result of the exercise of the conversion option by the 2013 debenture holders. During the period, 150 units of debentures were converted at a weighted average price of \$0.366 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 \$202,500 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.

2012 Convertible debentures

The 2012 convertible debentures are secured against the HPA plant buildings having a carrying value of \$8,745,403 at June 30, 2015 (December 31, 2014 – \$8,846,796) 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 \$3,356,591 at June 30, 2015 (December 31, 2014 - \$9,356,591) and the restricted cash of \$22,473,726 (December 31, 2014 - \$16,354,020). During the six month period ended June 30, 2015, the Company received payments totaling \$6 million from tax authorities in consideration of its investment tax credits. As at June 30, 2015, a total amount of \$22,473,726 (including interest) is deposited in a segregated account and serves as security for the convertible debentures issued in December 2012 and maturing in December 2017.

8. Long-term debt

	June 30, 2015	December 31, 2014
Government loans	\$ 4,802,937	\$ 4,628,696
Secured loans	12,614	15,075
Total	4,815,551	4,643,771
Presented as:		
Current	5,072	4,972
Non-current	4,810,479	4,638,799

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Transactions affecting the long-term debt were as follows:

		June 30, 2015	December 31, 2014
Balance at January 1, 2015	\$	4,643,771	\$ 2,643,284
Net proceeds		-	3,800,000
Government grant allocated to property, plant and equipment		-	(2,066,842)
Effective interest accretion		174,521	272,812
Repayments		(2,741)	(5,483)
Balance at end of period	\$	4,815,551	\$ 4,643,771

9. Share capital, warrants, share-based payments and subscription rights

For the six months ended June 30, 2015 the Company issued 54,761 Class A shares at a price of \$0.2446 in settlement of the interest due on the 2013 Convertible debentures, representing an amount of \$13,391.

Warrants

The number of warrants issued and outstanding during the period are as follows:

		June 30, 2015		June 30, 2014
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance - beginning of period	47,623,893	\$ 0.46	16,449,020	\$ 0.49
Issued	18,924,230 *	0.39	17,857,143	0.33
Balance - end of period	66,548,123	\$ 0.44	34,306,163	\$ 0.41

* Upon issuance of the 2015 convertible debentures, 2,769,230 broker warrants were issued. The weighted average fair value of the broker warrants was \$0.1083 at issuance date and was determined using a Black Scholes option pricing model. The following assumptions used to determine the fair value of the warrants issued are as follows: a \$0.26 stock price, a \$0.39 exercise price, an 80% expected volatility rate, a 0% expected dividend rate, a risk-free rate of 0.6% and a 3 years expected life.

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The number of warrants issued and outstanding by exercise price is as follows:

Exercise price	Expiry date	Number of warrants
\$ 0.33	May 2017	17,857,143
\$ 0.39	April 2018	18,924,230
\$ 0.48	December 2016	15,566,750
\$ 0.60	July 2017	14,200,000
		66,548,123

Share options

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

		June 30, 2015		June 30, 2014
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance - beginning of period	15,792,500	\$ 0.94	15,083,489	\$ 1.25
Granted	5,459,000	0.30	6,507,500	0.40
Exercised	-	-	(2,950,000)	0.25
Expired	(2,493,750)	1.47	(494,996)	3.29
Cancelled	(62,500)	0.40	(523,493)	2.56
Balance - end of period	18,695,250	\$ 0.68	17,622,500	\$ 1.01
Options exercisable - end of period	11,178,912	\$ 0.87	11,598,327	\$ 1.17

On April 28, 2015, the Company granted new stock options to certain employees at an exercise price of \$0.30 per share, which was treated as a new grant for accounting purposes.

The weighted average fair value of share options granted was \$0.17 for the six months ended June 30, 2015 (for the six months ended June 30, 2014 - \$0.24). The weighted average assumptions used to determine the fair value of the options issued and the share-based payment expense are as follows:

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		June 30, 2015		June 30, 2014
Exercise price	\$	0.30	\$	0.40
Risk-free interest rate		0.92%		1.72%
Expected volatility		80%		75%
Expected life in years		6.40		5.73
Expected dividend		Nil		Nil
Expected forfeiture rate		9.70%		8.82%

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

		June 30, 2015
Exercise price	Number	Weighted average remaining contractual life (years)
\$0.30 - 0.40	13,549,000	8.1
\$0.41 - 0.67	1,020,000	0.4
\$0.68 - 1.69	2,025,000	7.9
\$1.70 - 2.53	435,000	5.0
\$2.54 - 2.97	1,566,250	6.2
\$2.98 - 3.47	50,000	1.1
\$3.48 - 4.47	50,000	0.9
	18,695,250	7.4

The share-based payment expense was recognized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Research and development	\$ 22,133	\$ 30,235	\$ 38,591	\$ 83,525
General and administration	288,171	304,232	444,841	1,020,947
HPA plant operations	33,338	7,904	34,919	23,813
Recognized in comprehensive loss	343,642	342,371	518,351	1,128,285
Capitalized in property, plant and equipment	2,694	-	8,861	55,357
	\$ 346,336	\$ 342,371	\$ 527,212	\$ 1,183,642

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10. Net finance expense

Net finance expense is composed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Finance income				
Interest income	\$ 113,986	\$ 25,648	\$ 265,785	\$ 51,018
Finance expense				
Interest on convertible debentures	(965,776)	(764,887)	(1,762,492)	(1,519,942)
Interest on long-term debt	(89,057)	(88,944)	(174,241)	(109,215)
Transaction costs and other interest	(465,370)	(34,453)	(536,983)	(56,964)
	(1,520,203)	(888,284)	(2,473,716)	(1,686,121)
Other financial losses				
Effect of changes in fair value of derivative financial instruments	125,228	(711,415)	(210,783)	(1,612,369)
Effect of changes in foreign exchange rates	14,164	3,358	(4,762)	(81,875)
	139,392	(708,057)	(215,545)	(1,694,244)
Capitalized interest on qualifying assets	1,005,610	854,024	1,920,139	1,615,630
Net finance expense	\$ (261,215)	\$ (716,669)	\$ (503,337)	\$ (1,713,717)

11. Related party transactions

During the three and six months ended June 30, 2015, the Company incurred \$224,278 and \$342,433 respectively (three and six months ended June 30, 2014 - \$62,501 and \$130,043) 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.

12. Earnings per share

For the period ended June 30, 2015 and 2014, all outstanding warrants, share options and convertible debentures were anti-dilutive since the Company reported net losses.

13. Financial Instruments

Financial risk management objectives and policies

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.

Financial risks

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

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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.

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 June 30, 2015:

	Carrying Amount	Contractual Cash flows	Payable within remaining financial year	Payable during		Payable After year 5
				Years 2 and 3	Years 4 and 5	
Accounts payable and accrued liabilities	\$ 3,122,658	\$ 3,122,658	\$ 3,122,658	\$ -	\$ -	\$ -
Short-term loan	3,025,000	3,217,088	96,044	3,121,044	-	-
Convertible debentures 2012 ^{a)}	21,272,384	29,902,000	1,000,000	28,902,000	-	-
Derivative financial instrument ^{b)}	687,456	-	-	-	-	-
Convertible debentures 2013 ^{c)}	501,525	482,951	27,863	55,725	399,363	-
Convertible debentures 2015 ^{d)}	1,980,209	3,920,975	83,425	333,700	3,503,850	-
Long-term debt	4,815,551	4,613,252	2,742	930,510	920,000	2,760,000
Operating leases	-	642,469	272,610	369,859	-	-
Purchase obligations	1,400,000	1,400,000	1,400,000	-	-	-
	\$ 36,804,783	\$ 47,301,393	\$ 6,005,342	\$ 33,712,838	\$ 4,823,213	\$ 2,760,000

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- a) Includes interest outflows at 8%. Secured by \$3,356,591 Investment tax credits receivable as of June 30, 2015. Funds representing an amount of \$22,473,726 received were deposited in a segregated account.
- b) The embedded derivative has no outflows since it is included in the 2012 and 2015 convertible debentures.
- c) 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.
- d) Includes interest outflows at 5%.

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:

	June 30, 2015		December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	\$ 3,704,547	\$ 3,704,547	\$ 2,977,929	\$ 2,977,929
Short-term investment	403,701	403,701	376,199	376,199
Derivative financial instrument (current assets)	-	-	354,000	354,000
Restricted cash	22,473,726	22,473,726	16,354,020	16,354,020
Financial liabilities				
Accounts payable and accrued liabilities	3,122,658	3,122,658	5,155,262	5,155,262
Short-term loan	3,025,000	3,025,000	-	-
Derivative financial instrument (current liabilities)	640,578	640,578	-	-
Derivative financial instrument (non-current liabilities)	46,878	46,878	69,604	69,604
Convertible debentures 2012 liability	21,272,384	24,875,000	20,667,513	23,500,000
Convertible debentures 2013 liability	501,525	501,525	704,025	704,025
Convertible debentures 2015 liability	1,980,209	3,370,370	-	-
Long-term debt (including current portion)	4,815,551	3,961,367	4,643,771	3,755,766

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.
- 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.

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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 expense (note 10).

The effect of a change in the volatility assumption as of June 30, 2015, 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 \$14,916
- A decrease of 5% would decrease the value of the derivative financial liability by \$20,121

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

The reconciliation of changes in level 3 fair value measurements of the non-current financial liabilities for the period ending June 30, 2015 is presented in the following table:

		June 30, 2015		June 30, 2014
Balance - beginning of period	\$	69,604	\$	3,510
Loss (gain) recognized in net finance expense (income)		(22,726)		349,298
Closing balance	\$	46,878	\$	352,808

2013 Convertible debentures

The 2013 convertible debentures including the conversion option is classified as level 1 fair value measurements since the debenture is listed on TSX exchange and the market is active. The changes in fair value are recognized in net finance expense. At the issuance date, the transaction costs were also included in net finance expense.

2015 Convertible debentures

The 2015 convertible debentures conversion option derivative financial liability was classified as a level 3 measurement. The variation in its fair value during the period is recorded under net finance expense (note 10).

The reconciliation of changes in level 3 fair value measurements for the six months ended June 30, 2015 is presented in the following table:

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	June 30, 2015
Balance - beginning of year	\$ -
Recognition of the conversion option derivative financial liability on issuance of convertible debentures	3,785,402
Conversion into common shares	(3,010,942)
Loss (gain) recognized in net finance expense	(133,882)
Closing balance	\$ 640,578

The effect of a change in the volatility assumption as of June 30, 2015, 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 \$32,123
- A decrease of 5% would decrease the value of the derivative financial liability by \$44,444.

Basis for determining fair values

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

The fair value of the long-term debt at June 30, 2015 and December 31, 2014 was determined based on discounted cash flows at a weighted average discount rate of 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 June 30, 2015: an 80% (December 31, 2014 - 75%) expected volatility rate, a 0% expected dividend rate and a risk-free rate of 0.47% (December 31, 2014 - 1.06%) 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 \$24,875,000 at June 30, 2015 (December 31, 2014 - \$ 23,500,000) and was determined based on its quoted price on the Toronto Stock Exchange.

The fair value of the 2013 convertible debenture liability including the embedded conversion option was \$501,525 at June 30, 2015 (December 31, 2014 - \$704,025) and was determined based on its quoted price on TSX.

The fair value of the 2015 convertible debentures conversion option derivative financial liability was determined using a Black Scholes option pricing model and the following assumptions at June 30, 2015: an 80% expected volatility rate, a 0% expected dividend rate and a risk-free rate of 0.47% for the remaining contractual life of the conversion option.

The fair value of the 2015 convertible debentures, comprising the convertible debenture liability and the conversion option derivative financial liability components, was \$3,370,370 at June 30, 2015 and was determined based on its quoted price on the Toronto Stock Exchange.

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14. Commitment

As at June 30, 2015, the total remaining purchase commitment for capital expenditures at the HPA project relating to equipment amounts to approximately \$1,400,000.

15. Subsequent event

On July 10, 2015, the Company received a payment of \$2.7 million for investment tax credits that relate to the 2012 and 2013 financial year. At the date of publication of the consolidated financial statements a total amount of \$25,000,000 has been cashed in (including interest) and was deposited in a segregated account. This serves as security for the convertible debentures issued in December 2012 and maturing in December 2017.

On July 20, 2015, the Company withdrew \$3.6 million on the \$5 million loan from Investissement Québec. As of July 20, 2015, \$6.685 million was withdrawn from the available aggregate \$8.025 million.