Orbite Technologies Inc.

Formerly known as Orbite Aluminae Inc.

(A development stage company)

Condensed Interim Financial Statements
(unaudited)
For the quarter and six months ended June 30, 2016

ORBITE TECHNOLOGIES INC.

Condensed Interim Financial Statements
(unaudited)

For the quarter and six months ended June 30, 2016

Financial Statements

ORBITE TECHNOLOGIES INC.

Condensed Interim Statements of Financial Position
(in thousands of dollars, unless otherwise indicated)
(unaudited)

		June 30, 2016		December 31, 2015
Assets				
Current assets:				
Cash	$	4,185	$	1,723
Short-term investments		1,373		875
Restricted cash		3,875		4,152
Sales taxes and other receivables		1,563		1,462
Current income and mining taxes recoverable		1,761		1,761
Investment tax credits and other				-
governmental assistance receivable		13,455		12,837
Inventory		242		244
Prepaid expenses and others		1,150		1,599
Total current assets		27,604		24,653
Non-current assets:				
Property, plant and equipment (note 3)		111,307		99,410
Patents and others		1,963		1,770
Exploration and evaluation assets		17,055		17,044
Total non-current assets		130,325		118,224
Total assets	$	157,929	$	142,877
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	$	7,524	$	8,071
Short-term loans (note 4)		10,811		11,768
Long-term debt (note 6)		2,677		550
Derivative financial instruments (note 10)		192		108
Total current liabilities		21,204		20,497
Non-current liabilities:				
Convertible debentures liability (note 5)		5,330		113
Long-term debt (note 6)		13,788		16,422
Deferred income and mining tax liabilities		2,372		2,372
Total non-current liabilities		21,490		18,907
Equity				
Share capital and warrants (note 7)		197,714		183,538
Contributed surplus		18,791		17,576
Deficit		(101,270)		(97,641)
Total equity attributable to equity holders of the Company		115,235		103,473
Commitment (note 11), Subsequent events (note 13), Going concern (note 2)				
Total liabilities and equity	$	157,929	$	142,877

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

ORBITE TECHNOLOGIES INC.

Condensed Interim Statements of Comprehensive Loss
(in thousands of dollars, except per unit amounts)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Expenses				
Research and development charges, net of investment tax credits and other governmental assistance of: $27 (2015- $8) for three months ended June 30 $30 (2015- $29) for six months ended June 30	$ 397	$ 533	$ 857	$ 916
General and administrative charges	1,310	1,815	2,855	3,021
HPA plant operations	1,121	1,131	2,249	1,986
Other income	(1,041)	-	(1,541)	-
Loss before net finance income (expense) and income and mining taxes	1,787	3,479	4,420	5,923
Net finance expense (income) (note 8)	129	261	(818)	503
Net loss and comprehensive loss	$ 1,916	$ 3,740	$ 3,602	$ 6,426
Basic and diluted net loss per share	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.02)
Weighted average number of shares outstanding	426,550,959	357,441,920	413,694,313	339,219,968

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

ORBITE TECHNOLOGIES INC.

Condensed Interim Statements of Changes in Equity
(in thousands of dollars, except per unit amounts)
(unaudited)

	Number of shares	Share capital and warrants	Contributed surplus	Deficit	Total
Balance at December 31, 2015	385,328,049	$ 183,538	$ 17,576	$ (97,641)	$ 103,473
Share-based payments(note 7)	-	-	272	-	272
Warrants issued (note 7)	-	-	136	-	136
Exercise of warrants (note 7)	2,200,000	1,037	(71)	-	966
Share issuance costs (note 7)	-	-	-	(27)	(27)
Shares issued (note 7)	25,011,826	6,028	-	-	6,028
Shares issued for interest (note 7)	104,787	28	-	-	28
Convertible debentures conversion (note 5)	26,606,149	7,083	-	-	7,083
Equity component of convertible debentures (note 5)	-	-	878	-	878
Comprehensive loss	-	-	-	(3,602)	(3,602)
Balance at June 30, 2016	439,250,811	$ 197,714	$ 18,791	$ (101,270)	$ 115,235

	Number of shares	Share capital and warrants	Contributed surplus	Deficit	Total
Balance at December 31, 2014	320,795,551	$ 169,153	$ 14,981	$ (82,272)	$ 101,862
Share-based payments	-	-	528	-	528
Warrants issued	-	-	1,459	-	1,459
Shares issued for interest	54,761	13	-	-	13
Convertible debentures conversion	47,146,542	9,923	-	-	9,923
Comprehensive loss	-	-	-	(6,426)	(6,426)
Balance at June 30, 2015	367,996,854	$ 179,089	$ 16,968	$ (88,698)	$ 107,359

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

ORBITE TECHNOLOGIES INC.
Condensed Interim Statements of Cash Flows
(in thousands of dollars, unless otherwise indicated)
(unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash flows used in operating activities:				
Comprehensive loss	$ (1 914)	$ (3 740)	$ (3 602)	$ (6 426)
Non-cash items:				
Depreciation of property, plant and equipment	63	69	126	145
Depreciation of patents	22	3	32	7
Share-based payments recognized in comprehensive loss (note 7)	111	344	501	518
Net finance expense (income)	24	177	(818)	362
	(1 694)	(3 147)	(3 761)	(5 394)
Changes in non-cash working capital items:				
Sales taxes and other receivables	(188)	(432)	(101)	254
Investment tax credits and other governmental assistance receivable	-	(7)	-	(43)
Prepaid expenses and others	155	58	225	(157)
Inventory	2	10	2	18
Accounts payable and accrued liabilities	(2 138)	(308)	159	105
	(2 169)	(679)	285	177
Interest received	34	114	35	266
Interest paid	(425)	(548)	(860)	(1 081)
	(4 254)	(4 260)	(4 301)	(6 032)
Cash flows from financing activities:				
Net proceeds from convertible debentures (note 5)	4 780	13 422	10 456	13 422
Net proceeds from short-term loans (note 4)	2 807	-	2 807	3 025
Repayment of short-term loans (note 4)	(3 623)	-	(3 718)	-
Proceeds from long-term debt (note 6)	200	-	200	-
Repayment of long-term debt (note 6)	(2)	(1)	(83)	(2)
Issuance of shares, warrants and exercise of options (note 7)	6 056	13	7 022	13
Share issuance costs	(27)	-	(27)	-
	10 191	13 434	16 657	16 458
Cash flows used in investing activities:				
Changes in restricted cash	-	(2 045)	-	(6 097)
Changes in investment tax credits receivable	3 608	2 000	3 608	6 000
Additions to patents	(84)	(201)	(216)	(309)
Additions to property, plant and equipment	(6 505)	(7 045)	(12 776)	(9 252)
Additions to exploration and evaluation assets	(5)	(8)	(12)	(13)
Changes in short-term investments	(495)	(2)	(498)	(28)
	(3 481)	(7 301)	(9 894)	(9 699)
Net increase in cash	2 456	1 873	2 462	727
Cash- beginning of period	1 729	1 832	1 723	2 978
Cash- end of period	$ 4 185	$ 3 705	$ 4 185	$ 3 705

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

1. Corporate information

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 convertible debentures are also listed on the TSX under the symbol "ORT.DB.C''.

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.

The Board of Directors approved the condensed interim financial statements for the quarter ended June 30, 2016 and authorized their publication on July 27, 2016.

2. Basis of presentation and measurement

The condensed interim financial statements for the quarter ended June 30, 2016 have been prepared in accordance with IAS 34, *Interim Financial Reporting*. These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited annual financial statements and notes thereto prepared for the year ended December 31, 2015. Results for the first six months of the year may not necessarily be indicative of full year results.

Certain prior-year amounts have been reclassified to conform to the current year's presentation.

Going Concern

The condensed 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 sources 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 completed a public offering of $8.5 million on February 3, 2016 and an additional $1.1 million on February 23, 2016 (see note 5). During the second quarter of 2016 the Company received a total of $12.8 million from an aggregate of $15 million financing announced on April 27, and $1 million from a non-brokered financing.

Subsequent to June 30, 2016, the Company drew the remaining $2.1 million on the $4.9 million 2016 Investissement Québec bridge loan.

The Company has no other committed sources of future financing as of the date of these interim financial statements other than the one mentioned above. Management expects to start commercial production in the third quarter of 2016. The Company currently does not have any executed sales orders pending achieving commercial production. If additional delays in reaching commercial production or in achieving positive cash flows from sales were to occur, the Company's working capital may be insufficient to meet its obligations. Once Orbite reaches commercial production of the HPA plant and has sales, they can obtain further financing through the MidCap revolving facility.

In addition, under its Facility, the Company has restrictive covenants to be met in the second half of 2016 for which compliance will depend on the timing of completion of the HPA plant, timing and quantum of sales, and achieving positive cash flows from commercial production. If the Company does not comply with such covenant, management will need to obtain a waiver from its lender to avoid the consequences of the event of default, as it has in the past obtained two waivers from its lender.

If the going concern assumption were not appropriate for these consolidated interim 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.

Functional and presentation currency

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

Significant accounting policies

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2015.

Standards, amendments and interpretation not yet in effect

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the impact of IFRS 15 on its financial statements and whether to early adopt.

(in thousands of dollars, unless otherwise indicated)

3. Property, plant and equipment

	Land and improvements	Buildings and improvements	Machinery, equipment, furniture and fixtures	Assets under construction	Total
Cost					
Balance at December 31, 2015	$ 264	$ 9,052	$ 2,295	$ 88,983	$ 100,594
Additions	23	136	65	16,101	16,325
Investment tax credits	-	-	-	(4,185)	(4,185)
Government grants	-	-	-	(117)	(117)
Balance at June 30, 2016	$ 287	$ 9,188	$ 2,360	$ 100,782	$ 112,617
Accumulated depreciation					
Balance at December 31, 2015	$ -	$ 237	$ 947	$ -	$ 1,184
Depreciation	-	26	100	-	126
Balance at June 30, 2016	$ -	$ 263	$ 1,047	$ -	$ 1,310
Carrying amounts					
As at June 30, 2016	$ 287	$ 8,925	$ 1,313	$ 100,782	$ 111,307
As at December 31, 2015	$ 264	$ 8,815	$ 1,348	$ 88,983	$ 99,410

The majority 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, 2016, $1.4 million (June 30, 2015 – $1.9 million) in borrowing costs were capitalized in assets under construction.

4. Short term loans

	Investissement Quebec	Revolving credit facility	Term loan A	Other short-term loans	Total
Balance at December 31, 2015	$ 7,600	$ 3,396	$ 575	$ 197	$ 11,768
Proceeds	2,807	-	-	-	2,807
Effective interest accretion	-	-	20	-	20
Repayments	-	(3,041)	(535)	(142)	(3,718)
Effect of changes in foreign exchange rates	-	(23)	(43)	-	(66)
Balance at June 30, 2016	$ 10,407	$ 332	$ 17	$ 55	$ 10,811

On April 27, 2016, Orbite entered into a loan agreement for up to $4.9 million bridge loan with Investissement Quebec. As of June 30, 2016, $2.8 million was drawn from the available aggregate of $4.9 million, while the balance of the loan will be drawn as the capital expenditures underlying the ITCs are expended by the Company.

(in thousands of dollars, unless otherwise indicated)

The bridge loan bears interest at a rate of 3.5% over the prevailing prime lending rate, which currently stands at 2.7%, payable monthly, is collateralized against the Company's ITC receivables for the 2016 financial year and is repayable upon receipt by the Company of the 2016 ITC payments from tax authorities, but not later than July 23, 2018. The loan is also subject to other customary terms and conditions.

During the six-month period ended June 30, 2016 the aggregate interest expense for the short term loans amounted to $382 thousand (June 30, 2015 – $81 thousand).

During the quarter and six-month period ended June 30, 2016 Orbite received payments totaling $3.6 million from tax authorities in consideration of Company's 2014 investment tax credits. The sums received were used to partially repay the revolving credit facility and term loan A on a prorated basis.

5. Convertible debentures

	2015 Convertible debentures	2016 Convertible debentures	IQ Convertible debentures	Total
Balance at December 31, 2015	$ 113	$ -	$ -	$ 113
Issuances	-	6,794	3,901	10,695
Effective interest accretion	4	155	49	208
Conversion into common hares	(117)	(5,559)	-	(5,676)
Interest paid in shares upon conversion	-	(10)	-	(10)
Balance at June 30, 2016	$ -	$ 1,380	$ 3,950	$ 5,330

2015 Convertible debentures

On April 7, 2016, the Company exercised its option to convert all of the 179 units outstanding of the 2015 convertible debentures. As a result 712,644 Class A shares were issued for an amount of $127 thousand which included the Make-Whole amount and unpaid interest. The conversion is a non-cash transaction and thus excluded from the cash flow statement.

2016 Convertible debentures

On February 3, 2016, the Company completed the first portion of a public offering of units in the amount of $8.482 million under the short form base shelf prospectus and prospectus supplement dated March 18, 2015 and January 28, 2016 respectively. Included in the 8,482 units were 2,938 units issued to several of the Company's key suppliers as consideration for outstanding invoices in the aggregate amount of $2.938 million. On February 23, 2016, the Underwriter exercised a portion of its underwriter's option to purchase an additional 1,060 units for gross proceeds of $1.1 million.

Each unit consists of $1,000 principal amount of convertible unsecured unsubordinated debentures (the "Debentures") and 2,500 share purchase warrants, each such warrant exercisable into one share for a period of 36 months at a price of $0.40 per share. The Debentures will mature 5 years from their issue date, on February 3, 2021, (the "Maturity Date") and bear interest at a rate of 5% per annum. Each Debenture is 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 $0.40 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 Debentures until the Maturity Date (the "Make-Whole Amount") divided by the then 5-day volume weighted average trading price of the common shares on the TSX two (2) days prior to conversion (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. Any outstanding amount of principal at maturity date will be repayable through issuance of shares based on the Conversion Price.

(in thousands of dollars, unless otherwise indicated)

For its services, the Underwriter received a cash commission of $0.6 million (equal to 7% of the gross proceeds raised under the bought deal and underwriter's option and 4% on the value of the units for debt conversion) and 1,155,700 non-transferable broker warrants (equal to 7% of the shares into which the principal of the Debentures sold under the bought deal and underwriter's option are convertible). Each broker warrant is exercisable into one share for a period of 36 months at a price of $0.40 per share.

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 $0.40 less the 25% maximum discount allowable in accordance with the rules of 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 expense (income), the debt portion is initially recorded at its fair value and subsequently accounted for using the effective interest rate method. The warrants are equity classified with no future remeasurement and represent, if any, the residual value of the proceeds from the issuance of the Debentures.

At the issuance date, the 2016 convertible debentures were recorded as follows:

Debt component net of transaction cost of $852	$	6,794
Recognition of the conversion option derivative financial liability on issuance of convertible debentures		1,896
Non-cash transaction costs related to broker's warrants recognised as contributed surplus		136
Units issued for settlement of accounts payable		(2,938)
Transaction costs recognised as finance expenses		(211)
Net proceeds	$	5,677

During the six months ended June 30, 2016, 25,893,505 common shares were issued as a result of the exercise of the conversion option by the 2016 debenture holders (7,796 units of debentures were converted at a weighted average price of $0.3011 per common share). The common shares issued included the accrued and unpaid interest to the date of conversion. Consequently, an amount of $6,956 million 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 of $110 thousand to the date of conversion was transferred to share capital. The conversion is a non-cash transaction and thus excluded from the cash flow statement.

(in thousands of dollars, unless otherwise indicated)

IQ Convertible debentures

On June 1st, 2016 as part of the $15 million financing from the Government of Quebec, Investissement Quebec ("IQ") subscribed to a convertible debenture (the "Debenture") in the capital amount of $5 million at an interest rate of 10% annually.

The debenture is unsecured, matures five years from the closing date and bears interest at a rate of 10% annually, payable monthly. Interest earned during the first two years will be capitalized and payable upon the maturity date of the debenture or convertible into shares at the market price at the time of conversion, at the holder's sole discretion. The debenture (principal only) is convertible at the option of the holder at any time prior to the maturity date, in Class A Shares of the Company at a price of $0.241 per share.

The debenture and the underlying shares issued in connection with the financing are subject to a mandatory hold period of 4 months after the closing date. The net proceeds of the financing will also be used to complete the construction of the production plant of high purity alumina located in Cap-Chat, Quebec

Upon initial recognition, the debt component of $3.9 million of IQ convertible debentures was calculated by discounting the future cash flows of interest and principal at a rate of 14%. The fair value of the conversion feature was obtained by using the residual method and represents the net proceeds of $4.8 million less the fair value of the debt component. As a result, an amount of 0.9 million was recorded as equity component in contributed surplus.

6. Long-term debt

	June 30, 2016	December 31, 2015
Balance - beginning of period	$ 16,972	$ 4,644
Net proceeds	83	12,561
Gain on debt extinguishment	-	(1,263)
Effective interest accretion	379	425
Repayments	(83)	(5)
Effect of changes in foreign exchange rates	(886)	610
Balance at end of period	$ 16,465	$ 16,972
Presented as:		
Current	2,677	550
Non-current	13,788	16,422

During the six months ended June 30, 2016, the Company repaid its first of 10 semi-annual installments of $80 thousand (2015 – nil) to the government of Canada.

During the second quarter of 2016 the Company received the remaining $0.2 million financial contribution on the $4 million contribution agreement signed on February 3, 2014 and amended on October 20, 2015 with Canada Economic Development for Quebec Regions ("CED"). The remaining portion of the Loan was discounted at a rate of 11% and was initially recorded at $83 thousand, reflecting its fair value given its noninterest bearing nature. The $117 thousand difference between the proceeds received and the initial carrying amount is considered a grant and credited to property, plant and equipment.

(in thousands of dollars, unless otherwise indicated)

7. Share capital, warrants and share-based payments

Share capital

On May 6, 2016, Orbite completed a non-brokered private placement in the amount of $1 million at a price of $0.241 per share. Consequently, a total number of 4,264,938 Class A shares underlying the financing were issued without payment of a commission.

On May 19, 2016, the Company completed an equity financing in the amount of $5 million with Ressources Quebec inc., a subsidiary of Investissement Quebec, acting as agent of the Government of Quebec, which resulted in the issuance of 20,746,888 Class A shares of Orbite at a price of $0.241 per share. An amount of $27 thousand was recorded as share issuance cost.

On May 31, 2016 the Company issued 104,787 Class A shares at a price of $0.268 in settlement of the interest due on the 2016 Convertible debentures, representing an amount of $28 thousand.

Warrants

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

	June 30, 2016			June 30, 2015		
	Number of warrants		Weighted average exercise price (in dollars)	Number of warrants		Weighted average exercise price (in dollars)
Balance - beginning of period	70,437,970	$	0.75	47,623,893	$	0.46
Issued	25,010,700		0.40	18,924,230		0.39
Exercised	(2,200,000)		0.44	-		-
Balance - end of period	93,248,670	$	0.65	66,548,123	$	0.44

As part of the 2016 convertible debentures issued in February 2016 (see Note 5), the Company issued 23,855,000 warrants to the debenture holders at an exercise price of $0.40 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 1,155,700 warrants to the brokers at an exercise price of $0.40 per share for a period of 36 months. The fair value of the broker warrants of $136 thousand was determined using a Black and Scholes option pricing model and classified as transaction cost under the net finance expense (income). The assumptions used in the pricing model included a risk-free rate of 0.4% and exercise price of $0.40, an expected volatility of 72.7% and no expected dividend.

As part of the financing completed on May 19, 2016, the Company amended the terms of the 17,857,143 warrants issued to Ressources Quebec in May 2014, by reducing the exercise price from $0.33 to $0.241 and extending the expiry date from May 2017 to May 2019.

(in thousands of dollars, unless otherwise indicated)

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

Exercise price (in dollars)	Expiry date	Number of warrants
$ 0.241	May 2019	17,857,143
$ 0.39	April 2018	14,802,477
$ 0.40	February 2019	25,010,700
$ 0.48	December 2016	14,235,500
$ 0.60	July 2017	14,200,000
$ 3.50	December 2017	7,142,850
		93,248,670

Share options

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

	June 30, 2016		June 30, 2015	
	Number of options	Weighted average exercise price (in dollars)	Number of options	Weighted average exercise price (in dollars)
Balance - beginning of period	19,395,250	$ 0.68	15,792,500	$ 0.94
Issued	850,000	0.30	5,459,000	0.30
Expired	(185,000)	2.61	(2,493,750)	1.47
Cancelled	(152,500)	0.34	(62,500)	0.40
Balance - end of period	19,907,750	$ 0.65	18,695,250	$ 0.68
Options excercisable - end of period	15,610,081	$ 0.74	11,178,912	$ 0.87

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

	June 30, 2016	
Exercise price (in dollars)	Number	Weighted average remaining contractual life (years)
$ 0.33 - 0.40	12,746,500	8.1
$ 0.41 - 0.67	3,220,000	2.0
$ 0.68 - 1.69	2,025,000	6.9
$ 1.70 - 2.53	300,000	5.9
$ 2.54 - 2.97	1,566,250	5.2
$ 2.98 - 3.47	50,000	0.1
	19,907,750	6.7

(in thousands of dollars, unless otherwise indicated)

The share-based payment expense was recognized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Research and development	$ 12	$ 22	$ 33	$ 38
General and administration	81	289	$ 422	445
HPA plant operations	18	33	46	35
Recognized in comprehensive loss	111	344	501	518
Prepaid expenses and others	-	-	(225)	-
Capitalized in property, plant and equipment	-	3	(4)	10
	$ 111	$ 347	$ 272	$ 528

8. Net finance income (expense)

	Three months ended June		Six months ended June 30,	
	2016	2015	2016	2015
Finance income				
Interest income	$ 34	$ 114	$ 41	$ 266
Finance expense				
Interest on convertible debentures and on short-term loan	(343)	(966)	(639)	(1,762)
Interest on long-term debt	(413)	(89)	(857)	(174)
Transaction costs and other interest	(164)	(465)	(505)	(537)
	(920)	(1,520)	(2,001)	(2,473)
Other financial gains (losses)				
Effect of changes in fair value of derivative financial instruments	(17)	125	425	(211)
Effect of changes in foreign exchange rates	47	14	907	(5)
	30	139	1,332	(216)
Capitalized interest on qualifying assets	727	1,006	1,446	1,920
Net finance income (expense)	$ (129)	$ (261)	$ 818	$ (503)

9. Earnings per share

For the period ended June 30, 2016 and 2015, all outstanding warrants, share options and convertible debentures were anti-dilutive since the Company reported net losses.

(in thousands of dollars, unless otherwise indicated)

10. Financial Instruments

Liquidity risk

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.

The following table presents the contractual maturities of the financial liabilities, operating leases and purchase obligations as of June 30, 2016:

	Carrying Amount	Contractual Cash flows	Payable within 1 year	Payable during Years 2 and 3	Payable during Years 4 and 5	Payable after year 5
Accounts payable and accrued liabilities	$ 7,524	$ 7,524	$ 7,524	$ -	$ -	$ -
Short-term loan	10,811	11,999	9,018	2,981	-	-
Derivative financial instrument [a)]	192	-	-	-	-	-
Convertible debentures [b)]	5,330	9,654	87	675	8,892	-
Long-term debt	13,788	21,745	3,888	9,773	4,904	3,180
Operating leases	-	261	261	-	-	-
Purchase obligations	-	1,123	1,123	-	-	-
	$ 37,645	$ 52,306	$ 21,901	$ 13,429	$ 13,796	$ 3,180

a) The embedded derivative has no outflows since it is included in the 2016 convertible debentures.

b) Includes interest outflows at 5% and 10%.

Fair value of financial instruments

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.

Basis for determining fair values

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

The fair value of the long-term debt was determined based on discounted cash flows using a rate of 11% based on rates for similar loans at the balance sheet date.

The fair value of the 2015 and 2016 convertible debentures conversion option derivative liability was determined using a Black Scholes option pricing model and the following assumptions at June 30, 2016: an

(in thousands of dollars, unless otherwise indicated)

72.7% (June 30, 2015 - 80%) expected volatility rate, a 0% expected dividend rate and a risk-free rate of 0.53% (June 30, 2015 – 0.47%) for the remaining expected life of the conversion option.

The fair value of the 2015 and 2016 convertible debentures, comprising the convertible debenture liability and the conversion option derivative financial liability components, was determined based on its quoted price on the TSX.

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

	June 30, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Derivative financial instrument (current liabilities)	192	192	108	108
Convertible debentures liability	5,330	5,207	113	190
Long-term debt (including current portion)	16,465	16,541	16,971	16,621

Convertible debentures

The 2015 and 2016 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 (income) (note 8).

The reconciliation of changes in level 3 fair value measurements for the three months ended June 30, 2016 is presented in the following table:

	June 30, 2016	December 31, 2015
Balance - beginning of period	$ 108	$ -
Recognition of the conversion option derivative financial liability on issuance of convertible debentures	1,896	3,785
Conversion into common shares	(1,387)	(3,606)
Gain recognized in net finance expense (income)	(425)	(71)
Balance - end of period	$ 192	$ 108

The effect of a change in the volatility assumption as of June 30, 2016, which is the significant unobservable input in the fair value estimate, would not have a significant impact on the derivative financial liability.

11. Commitment

As at June 30, 2016, the total remaining purchase commitment for capital expenditures at the HPA project relating to equipment amounts to approximately $ 1.1 million.

12. Related party transactions

During the three and the six months ended June 30, 2016, the Company incurred $122 thousand and $259 thousand (three and six months ended June 30, 2015 - $224 thousand and $342 thousand) from a legal firm in which a director of the Company is a 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.

13. Subsequent events

On July 25, 2016 Company drew $2.1 million on the remaining $4.9 million 2016 Investissement Québec bridge loan.