Orbite Technologies Inc.

Financial Statements

Years ended December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Orbite Technologies Inc.

We have audited the accompanying financial statements of Orbite Technologies Inc., which comprise the statements of financial position as at December 31, 2016 and December 31, 2015, the 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 Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Orbite Technologies Inc. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the financial statements which indicates that Orbite Technologies Inc. has not generated cash flows from operations, existing working capital is insufficient to implement their plan, and it has no committed sources of future financing. These conditions, along other matters as set forth in Note 2 in the financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Orbite Technologies Inc.'s ability to continue as a going concern.

KPMG LLP*

March 31, 2017

Montréal, Canada

*CPA auditor, CA, public accountancy permit No. A123145

ORBITE TECHNOLOGIES INC.
Financial Statements

Years ended December 31, 2016 and 2015

Financial Statements

ORBITE TECHNOLOGIES INC.

Statement of Financial Position

(in thousands of dollars, unless otherwise indicated)

	Note		December 31, 2016		December 31, 2015
Assets					
Current assets:					
Cash		$	1,746	$	1,723
Short-term investments			559		875
Restricted cash	8		4,052		4,152
Sales taxes and other receivables			1,323		1,462
Current income and mining taxes recoverable			1,761		1,761
Investment tax credits and other governmental assistance receivable			9,330		12,837
Inventory			329		244
Prepaid expenses and others			1,344		1,599
Total current assets			20,444		24,653
Non-current assets:					
Investment tax credits receivable			8,543		-
Property, plant and equipment	4		124,170		99,410
Patents and others			1,908		1,770
Exploration and evaluation assets	5		16,067		17,044
Total non-current assets			150,688		118,224
Total assets		$	171,132	$	142,877
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities		$	11,310	$	8,071
Convertible debentures liability	7		7,732		-
Short-term loans	6		794		11,768
Long-term debt	8		3,895		550
Derivative financial instruments	12		39		108
Total current liabilities			23,770		20,497
Non-current liabilities:					
Convertible debentures liability	7		14,822		113
Long-term debt	8		12,242		16,422
Deferred income and mining tax liabilities			2,372		2,372
Accrued long-term liabilities			76		-
Total non-current liabilities			29,512		18,907
Equity					
Share capital and warrants	9		205,768		183,538
Contributed surplus			19,705		17,576
Deficit			(107,623)		(97,641)
Total equity attributable to equity holders of the Company			117,850		103,473
Going concern (note 2), Commitment (note 17), Subsequent events (note 18)					
Total liabilities and equity		$	171,132	$	142,877

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

Approved on behalf of the Board

(S) Claude Lamoureux, Director (S) Pierre Gignac, Director

ORBITE TECHNOLOGIES INC.

Statement of Comprehensive Loss

(in thousands of dollars, except per share amounts)

	Note	For the years ended December 31, 2016	2015
Expenses			
Research and development charges, net of investment tax credits and other governmental assistance of: $90 (2015- $141)		$ 1,500	$ 1,903
General and administrative charges		5,250	6,027
HPA plant operations		4,580	4,764
Exploration and evaluation assets write-off	5	993	-
Insurance claim recovery		(1,750)	(348)
Loss before net finance expense (income) and income taxes		10,573	12,346
Net finance expense (income)	10	(324)	3,023
Loss before income taxes		10,249	15,369
Income taxes			
Deferred		(294)	-
Net loss and comprehensive loss		$ 9,955	$ 15,369
Basic and diluted net loss per share (in dollars)		$ 0.02	$ 0.04
Weighted average number of shares outstanding		432,673,540	358,097,017

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

ORBITE TECHNOLOGIES INC.
Statement of Changes in Equity
(in thousands of dollars, except number of shares)

	Note	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	9	-		-		1,371		-		1,371
Warrants issued	7, 9,12	-		-		1,459		-		1,459
Exercise of share options	9	50,000		32		(12)		-		20
Exercise of warrants	9	3,253,003		1,504		(223)				1,281
Shares issued for interest	9	96,737		33		-		-		33
Convertible debentures conversion	7, 9,12	61,132,758		12,816		-		-		12,816
Comprehensive loss		-		-		-		(15,369)		(15,369)
Balance at December 31, 2015		385,328,049	$	183,538	$	17,576	$	(97,641)	$	103,473
Share-based payments	9	-		-		917		-		917
Warrants issued	7, 9,12	-		-		736		-		736
Exercise of share options	9	600,000		373		(165)		-		208
Exercise of warrants	9	6,682,975		2,736		(159)		-		2,577
Share issuance costs	7, 9	-		-		-		(27)		(27)
Shares issued	9	25,011,826		6,028		-		-		6,028
Shares issued for interest	9	218,118		61		-		-		61
Convertible debentures conversion	7, 9,12	50,439,926		13,032		-		-		13,032
Equity component of convertible debentures	7	-		-		800		-		800
Comprehensive loss		-		-		-		(9,955)		(9,955)
Balance at December 31, 2016		468,280,894	$	205,768	$	19,705	$	(107,623)	$	117,850

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

ORBITE TECHNOLOGIES INC.

Statement of Cash Flows

(in thousands of dollars, unless otherwise indicated)

	Note	For the years ended December 31, 2016	2015
Cash flows used in operating activities:			
Comprehensive loss		$ (9,955)	$ (15,369)
Non-cash items:			
Depreciation of property, plant and equipment		238	273
Depreciation and write-off of patents		202	106
Exploration and evaluation assets write-off	5	993	-
Share-based payments recognized in comprehensive loss	9	917	1,057
Deferred taxes		(294)	-
Net finance expense (income)		(1,144)	2,796
		(9,043)	(11,137)
Changes in non-cash working capital items:			
Sales taxes and other receivables		139	(116)
Investment tax credits and other governmental assistance receivable		(100)	-
Prepaid expenses and others		255	(454)
Inventory		(85)	(115)
Accounts payable and accrued liabilities		1,452	1,212
		1,661	527
Interest received		2	453
Interest paid		(1,814)	(2,083)
		(9,194)	(12,240)
Cash flows from financing activities:			
Net proceeds from convertible debentures	7	34,096	13,422
Repayment of convertible debentures	7		(25,000)
Net proceeds from short-term loans	6	5,530	14,768
Repayment of short-term loans	6	(16,253)	(3,199)
Proceeds from long-term debt	8	200	12,561
Repayment of long-term debt	8	(1,304)	(5)
Issuance of shares, warrants and exercise of options	9	8,813	1,333
Share issuance costs		(27)	-
		31,055	13,880
Cash flows used in investing activities:			
Changes in restricted cash		(23)	12,371
Changes in investment tax credits receivable		3,608	10,035
Additions to patents		(398)	(405)
Additions to property, plant and equipment		(25,326)	(24,294)
Additions to exploration and evaluation assets		(12)	(104)
Changes in short-term investments		313	(498)
		(21,838)	(2,895)
Net increase (decrease) in cash		23	(1,255)
Cash - beginning of year		1,723	2,978
Cash - end of year		$ 1,746	$ 1,723

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

1. Corporate information

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 from "Orbite Aluminea Inc." to "Orbite Technologies Inc." On June 17, 2015, the Company changed its listing category on the Toronto Stock Exchange from "mining" to "industrial-technology". Orbite is evolving from a development stage company into an operating entity as it enters into the commercial phase and expects commercial revenues generated from the HPA production facility in 2017. The Company's shares are listed on the Toronto Stock Exchange "TSX'' under the stock symbol "ORT" and on the OTCQX International under the symbol "EORBF." The Company's convertible debentures are also listed on the TSX under the symbols "ORT.DB.C'', and "ORT.DB.D'' and "ORT.DB.E".

The Company's head and registered office is located at 6505 TransCanada Highway, Suite 610, Montreal, Québec, H4T 1S3. The Company also operates a technology development center where its high purity alumina ("HPA") processes and technologies are tested and optimized and the HPA Plant, the production facility.

The Company is a clean technology based mineral processing and resource development company. The Company has developed 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 ("SGA"), as well as rare earth oxides ("REO") and rare metal oxides ("RMO").

2. Basis of presentation and measurement

The 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 financial statements for the year ended December 31, 2016, and authorized their publication on March 31, 2017.

Basis of measurement

The financial statements have been prepared on a historical cost basis except for derivative financial instruments, the Company's 2013 convertible debentures and the 2016–2018 ITC debentures, which are measured at fair value through profit or loss.

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

Going Concern

The 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 the plant, the production ramp-up, the attainment of profitable operations or the receipt of proceeds from the disposition of its mineral property interests. The Company is evolving from a development stage to an operating Company and has not generated revenue or cash flows from its HPA plant. The Company's sources of funding to this point has been the issuance of equity securities, debt and government grants.

On March 31, 2017 the Company announced that the supplied decomposer and calciner electrical heating system is not robust enough to reliably achieve the 3 tpd design capacity of the calcination system, but is rather limited to approximately 1-1.2 tpd. Management believes it has a solution that could resolve the issues encountered with the electrical heating element system and allow the capacity of the decomposer to be increased to 5 tpd (the calciner capacity is already 5 tpd).

Management estimates that approximately $8 million of external capital costs and 8 months are required to implement the proposed solution for the reliable, consistent, and continuous production of 3 tpd of 5N+ HPA. Accordingly, operations will be suspended as the Company concentrates its human and financial capital on implementing this proposed solution. As at the date of these financial statements, the Company's working capital is insufficient to cover the costs to implement their plan to address the equipment issue. The Company has no other committed sources of future financing currently available as of the date of these financial statements. The Company is examining available options to raise funds and limit its cash outflows. The Company may be unable to meet its current obligations.

Commercial production will not commence before sufficient financing is secured and the above-noted equipment issues have been remedied.

In addition, the Company will not be able to meet its debt covenants under its Facility as early as April 1, 2017 (see note 8), which will result in the right by the lender to request the immediate repayment of amounts borrowed under the Facility.

These conditions indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

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

Functional and presentation currency

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

3. Significant accounting policies

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

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

There were no new standards, interpretations, amendments or improvements issued by the IASB effective January 1, 2016 requiring mandatory adoption that were relevant to the Company.

b) Standards, amendments and interpretations not yet in effect

Disclosure initiative – Amendments to IAS 7

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment apply prospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company will adopt the amendment to IAS 7 in its financial statement as of January 1, 2017 and does not expect the amendments to have a material impact on the financial statements.

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 recogni-zing 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.

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 addresses the classification and measurement of financial assets. The new standard defines two instead of four measurement categories for financial assets, with classification to be based partly on the Company's business model and partly on the characteristics of the contractual cash flows from the respective financial asset. 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 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 Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The potential impact of the adoption of this standard on the financial statements of the Company has not yet been determined.

IFRS 16 Leases ("IFRS 16")

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The potential impact of the adoption of this standard on the financial statements of the Company has not yet been determined.

c) Use of estimates and judgments

The preparation of the 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.

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 future financing and projected future cash flows.

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 at issuance, 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.

Estimate of the fair value of share-based payments including the estimate of the life of the stock 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 stock options at grant date is based on the legal life of the stock options and expected 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 Company's share price over the expected term of the options granted. Historical volatility is revised whenever facts and circumstances 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 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.

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.

Accounting for research and development activities relating to mining and non-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.

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. The Company must apply judgment to determine if there is an indication for impairment. In such circumstances, the impairment loss is recognized as an expense in accordance with IFRS 6.

Assessment of impairment of the HPA plant

The Company must apply its judgment to determine if there is an indication that the carrying amount of the HPA plant may not be recoverable thereby triggering the need for an impairment test during the fiscal year of 2016. Management determined that no triggering event occurred throughout the year ended December 31, 2016.

d) 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.

e) Financial instruments

Financial assets

Financial assets in the scope of IAS 39 *Financial Instruments: Recognition and Measurement ("IAS 39")* 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 presented in the statement of financial position as at December 31, 2016 and 2015 as a current asset, represents an amount of US$3 million that is being kept in a segregated account of the Company and may not be used until the Company has produced at least one ton of 99.999% high purity alumina ("5N+ HPA") for any three consecutive days, and completed its first sale and delivery of 5N+ HPA that is not a sample sale.

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.

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, short-term loan 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, 2015, 2016, IQ and 2015 ITC 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. Up to the date of redemption, the 2012 convertible debentures were measured at their amortized cost using the effective interest rate method.

The 2015 and 2016 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 and the 2016-2018 ITC Debentures

These convertible debentures, designated as financial liabilities at fair value through profit or loss, are subsequently measured at fair value with changes recognized in net finance expense (income). The Company's financial instruments at Fair value through Profit and Loss are valued at closing using quoted market prices. When a quote price in an active market is not available at closing, an estimated value is calculated using a suitable valuation model and Management is required to make estimates and assumptions in relation to the inputs to be used in the valuation models. Such inputs include the credit spread, volatility of the share price, expected life of the instruments, risk free rate amongst other. On the date of conversion by the holder, the fair value of the debenture is transferred to share capital and warrants.

f) 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.

g) 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.

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:

Buildings	25 years
Computer equipment	3 years
Leasehold improvements	over the term of the leases
Machinery and equipment including vehicles	5 to 25 years
Furniture and fixtures	5 to 15 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. 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 derecognized.

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

h) 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.

i) 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. 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.

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.

Changes in the assumptions and estimates may affect the Company’s determination of the recoverable amount and may lead to an outcome where impairment charges would be required in a future period. In addition, actual results may vary from the Company’s cash flow projections, and such variations may be material and unfavorable, thereby triggering the need for future impairment tests where the Company’s conclusions may differ.

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.

j) 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.

k) 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.

l) 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.

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

n) Finance income and finance expense

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

o) 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.

p) 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 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 28% 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.

q) 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 up to 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.

r) 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.

s) 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 shares, which comprise warrants, stock options, and convertible debentures. For the years ending on December 31, 2016 and 2015, all warrants, stock options, and convertible debentures were anti-dilutive since the Company reported net losses.

(in thousands of dollars, unless otherwise indicated)

t) Segment reporting

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

4. Property, plant and equipment

	Land and improvements	Buildings and improvements	Machinery, equipment, furniture and fixtures	Assets under construction	Total
Cost					
Balance at December 31, 2014	$ 264	$ 8 938	$ 1 939	$ 68 163	$ 79 304
Additions	-	114	356	29 282	29 752
Investment tax credits	-	-	-	(8 462)	(8 462)
Balance at December 31, 2015	$ 264	$ 9 052	$ 2 295	$ 88 983	$ 100 594
Additions	23	320	257	33 058	33 658
Investment tax credits	-	-	-	(8 543)	(8 543)
Government grants	-	-	-	(117)	(117)
Balance at December 31, 2016	$ 287	$ 9 372	$ 2 552	$ 113 381	$ 125 592
Accumulated depreciation					
Balance at December 31, 2014	$ -	$ 185	$ 726	$ -	$ 911
Depreciation	-	52	221	-	273
Balance at December 31, 2015	$ -	$ 237	$ 947	$ -	$ 1 184
Depreciation	-	42	196	-	238
Balance at December 31, 2016	$ -	$ 279	$ 1 143	$ -	$ 1 422
Carrying amounts					
As at December 31, 2016	$ 287	$ 9 093	$ 1 409	$ 113 381	$ 124 170
As at December 31, 2015	$ 264	$ 8 815	$ 1 348	$ 88 983	$ 99 410

Most of the equipment purchased and constructed in relation to the HPA commercial plant is eligible for a 40% (before July 1, 2015), and 32% (after July 1, 2015) investment tax credit ("ITC"). The tax credit receivable is recorded in the same period as the eligible addition and is credited against property, plant and equipment. During the year ended December 31, 2016, $3.6 million of ITC were received (representing 90% of the claimed amount) in relation with its 2014 ITC claim. During the year ended December 31, 2015, $9.7 million of ITC were received from the Québec Revenue Agency in relation with its 2012 and 2013 ITC claims. Orbite is currently under audit by the Québec Revenue Agency with regards to its 2014 and 2015 ITC claims. Orbite is not aware of any actual or threatened contest by the tax authorities, 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.

(in thousands of dollars, unless otherwise indicated)

During the year ended December 31, 2016, $3.3 million (December 31, 2015 – $3.6 million) in borrowing costs were capitalized in assets under construction.

The Company reviews property, plant and equipment for impairment upon the occurrence of events or changes in circumstances indicating that, at the lowest level of determinable cash flows, the carrying value of the property plant and equipment may not be recoverable. Management concluded that no triggering event occurred throughout the year ended December 31, 2016 and December 31, 2015.

5. Exploration and evaluation assets

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

	Grande-Vallée	Chaswood	Rimouski Cap-Chat	Le Tac	Other	Total
Balance at December 31, 2014	$ 15,726	$ 760	$ 197	$ 227	$ 65	$ 16,975
Additions	63	2	4	-	-	69
Balance at December 31, 2015	$ 15,789	$ 762	$ 201	$ 227	$ 65	$ 17,044
Additions	11	4	-	-	1	16
Write-off	-	(766)	-	(227)	-	(993)
Balance at December 31, 2016	$ 15,800	$ -	$ 201	$ -	$ 66	$ 16,067

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. Current expenditures allow the Company to maintain its assets. During the year ended December 31, 2016 and 2015, the Company has not identified any indicators of impairment on the exploration and evaluation assets that would require an impairment test to be performed.

Grande-Vallée property

In September 2012, the Company was issued a 20-year renewable mining lease (BM 1013) on its Grande-Vallée property, by the Ministère des Ressources naturelles et de la Faune du Québec, Québec's Ministry of Natural Resources and Wildlife now called Ministère de l'Énergie et des Ressources Naturelles ("MERN"). Unless otherwise exempted by the MERN, exploration work on the property had to be initiated by the Company no less than four years from issuance of the mining lease. A request to obtain a four-year extension of the delay to initiate exploration work was made to the MERN. The MERN recently informed the Company that the extension was not granted and as a result and in order to protect its asset, the Company is in the process of registering claims for the property covered by the mining lease.

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.

In order to acquire a 100% undivided interest in the property, the Company had to fulfill certain conditions which were more fully described in previous years' disclosure documents. The Company did not meet the conditions. In light of the Company's business strategy where the commercialization of the commodity minerals is in the longer-term horizon, management decided it would not allocate any additional resources to the Chaswood Property. Consequently, the assets related to this property have been written-off during the fourth quarter of 2016.

(in thousands of dollars, unless otherwise indicated)

Le Tac and other properties

Management also decided not to allocate any additional resources to the Tac property. Consequently, the assets related to this property have been written-off during the fourth quarter of 2016. Certain of the Company's other properties are subject to royalties varying from 1.5% to 2% of any production sold from these claims.

6. Short term loans

	IQ bridge loans	Revolving credit facility	Term loan A	Other short-term loans	Total
Balance at December 31, 2014	$ -	$ -	$ -	$ -	$ -
Proceeds	10,625	3,407	594	193	14,819
Transaction cost	-	-	(52)	-	(52)
Effective interest accretion	-	-	6	4	10
Repayments	(3,025)	(174)	-	-	(3,199)
Effect of changes in foreign exchange rates	-	163	27	-	190
Balance at December 31, 2015	$ 7,600	$ 3,396	$ 575	$ 197	$ 11,768
Proceeds	4,920	-	-	610	5,530
Effective interest accretion	-	-	41	-	41
Repayments	(12,520)	(2,813)	(535)	(385)	(16,253)
Effect of changes in foreign exchange rates	-	(251)	(41)	-	(292)
Balance at December 31, 2016	$ -	$ 332	$ 40	$ 422	$ 794

IQ bridge loans

On April 27, 2016, Orbite entered into a loan agreement for up to $4.9 million bridge loan with IQ. From the available aggregate of $4.9 million, a portion of $2.8 million was drawn on May 31, 2016, while the remaining balance of $2.1 million was drawn on July 25, 2016.

On August 10, 2016, $4.9 million was used to repay the 2016 ITC bridge loan contracted with IQ from the proceeds received from the 2016-2018 ITC Debentures (see note 7). Consequently, the security granted to IQ on the Company's 2016 ITC was discharged.

On September 28, 2016, $7.6 million was used to repay the 2015 bridge loan with IQ from the proceeds received from the 2015 ITC Debentures (see note 7). Consequently, the security granted to IQ on the Company's 2015 ITC was discharged.

In November 2015, the Company also used a portion of proceeds of the Revolving credit facility and Term loan A, namely $3.025 million to repay in full the bridge loan contracted with IQ in January 2015. The security granted to IQ on the Company's 2014 ITC was discharged.

The IQ bridge loans were bearing interest at an annual interest rate of 3.5% over the prevailing prime lending rate. Interest was payable monthly and amounted to $0.4 million during the year ended December 31, 2016 (December 31, 2015 – $0.3 million).

Revolving credit facility and Term Loan A

On November 5, 2015, the Company completed a secured debt financing totalling up to $22 million (US$16.95 million) in the aggregate (the "Facility"). The Facility is comprised of a $8.5 million (US$6.5 million) Revolving credit facility, a Term Loan A of $0.6 million (US$0.45 million) and Term Loan B of $13.0 million (US$10.0 million) (see note 8). The Revolving credit facility and term loans bear interest at the London Interbank Offered Rate (or Libor) rate, which shall be no less than 0.5% (0.6167% as of December 31, 2016 and 0.275% as of December 31, 2015), plus 6.5%.

On initial recognition, the transaction costs were prorated between the Revolving credit facility and the term loans. The Facility is subject to certain reporting, financial and other conditions as discussed in note 8. The Facility shall expire on November 5, 2019.

During the second quarter of 2016 Orbite received payments totaling $3.6 million from tax authorities in consideration of the Company's 2014 ITC. The amounts received were used to partially repay the revolving credit facility and term loan A on a prorated basis.

The remaining portion of the Revolving credit facility and Term Loan A will be repayable as the remaining ITC payments for the 2014 financial year are received by the Company. Given the expected short-term repayment dates, these loans were classified as current liabilities.

The Revolving credit facility was recorded at fair value for its initial proceeds of $3.4 million (US$2.6 million) and transaction costs of $0.7 million (US$0.6 million) are amortized on a straight-line basis for a period of 4 years and are included in prepaid expenses and other. The balance of the Revolving credit facility will be used to finance the Company's eligible receivables.

(in thousands of dollars, unless otherwise indicated)

7. Convertible debentures

	2012	2013	2015	February 2016	IQ	2016-2018 ITC	2015 ITC	October 2016	Total
Balance at December 31, 2014	$ 20,668	$ 704	$ -	$ -	$ -	$ -	$ -	$ -	$ 21,372
Issuances	-	-	8,614	-	-	-	-	-	8,614
Effective interest accretion	2,482	-	132	-	-	-	-	-	2,614
Early redemption	(25,000)	-	-	-	-	-	-	-	(25,000)
Interest payments	(1,500)	-	-	-	-	-	-	-	(1,500)
Loss on early redemption	3,350	-	-	-	-	-	-	-	3,350
Conversion into common shares	-	(576)	(8,560)	-	-	-	-	-	(9,136)
Interest paid in shares upon conversion	-	-	(73)	-	-	-	-	-	(73)
Net change in fair value (FVTPL)	-	(128)	-	-	-	-	-	-	(128)
Balance at December 31, 2015	$ -	$ -	$ 113	$ -	$ -	$ -	$ -	$ -	$ 113
Issuances	-	-	-	6,794	3,901	12,000	7,621	3,457	33,773
Effective interest accretion	-	-	4	56	440	-	111	9	620
Conversion into common shares	-	-	(117)	(6,630)	-	-	-	(3,373)	(10,120)
Interest paid in shares upon conversion	-	-	-	(19)	-	-	-	(1)	(20)
Net change in fair value (FVTPL)	-	-	-	-	-	(1,812)	-	-	(1,812)
Balance at December 31, 2016	$ -	$ -	$ -	$ 201	$ 4,341	$ 10,188	$ 7,732	$ 92	$ 22,554
Presented as:									
Current									7,732
Non-current									14,822

2012 Convertible debentures

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

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 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.

The convertible debentures were secured against the HPA plant buildings as well as the Company's 2012 and 2013 refundable ITC resulting from the purchase of manufacturing equipment related to the Company's HPA facility and restricted cash.

On October 16, 2015, the Company redeemed the entire outstanding 2012 debentures in the aggregate principal amount of $25 million plus accrued interests. As per the terms of the Trust Indenture, for each $1,000 principal amount of debentures redeemed, the Company issued 285.714 class A share purchase warrants exercisable until December 13, 2017 at a price of $3.50. Accordingly, all of the security granted by the Company to secure the 2012 debentures were released and discharged.

During the year ended December 31, 2015 the Company received installments totaling $9.7 million in addition to the $16.3 million received in 2014 from the tax authorities in consideration of investment tax credits on the equipment purchased for manufacturing and processing in the Gaspé region. The total payments of $25 million (including interest), which related to the 2012 and 2013 fiscal years were deposited in a segregated account and served for redemption of the 2012 convertible debentures on October 16, 2015. The redemption payment was allocated between the carrying amount of the debt component and the fair value of the derivative liability component at the redemption date. The difference of $3.3 million between the redemption payment and the carrying amount of the liability components was recognized as a loss in net finance expense (income).

(in thousands of dollars, unless otherwise indicated)

2013 Convertible debentures

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

During the year ended December 31, 2015, all 2013 convertible debentures were converted.

2015 Convertible debentures

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

On May 6, 2015, Orbite concluded the issuance of 5,000 additional units for gross proceeds of $5 million as a result of the exercise of the over-allotment by the underwriter under the public offering, of its financing option, bringing the aggregate gross proceeds for the public offering to $15 million.

Each unit consists of $1,000 principal amount of 5% convertible unsecured unsubordinated debentures and 1,077 share purchase warrants of the Company. The 2015 convertible debentures mature on April 6, 2020 and 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, 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 $0.9 million (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 expense (income), the debt portion is initially recorded at its fair value and subsequently accounted for using the effective interest rate method at a rate of 19%, 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 2012 convertible debentures.

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

Debt component net of transaction costs of $1,315	$ 8,614
Recognition of the conversion option derivative financial liability on issuance of convertible debentures	3,785
Warrants issued net of transaction cost of $129[a]	1,156
Non-cash transaction costs related to broker warrants recognised as contributed surplus	303
Transaction costs recognised as finance expenses	(436)
Net proceeds	$ 13,422

[a] Recognized in contributed surplus as these warrants were part of a hybrid instruments with a debt component

(in thousands of dollars, unless otherwise indicated)

February 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.

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 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 February 2016 convertible debentures will mature in 5 years from their issue date, on February 3, 2021, and bear interest at a rate of 5% per annum. Each February 2016 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 February 2016 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 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.

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 2016 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.

At the issuance date, the February 2016 Convertible debentures were recorded as follow:

Debt component net of transaction costs 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 warrants recognised as contributed surplus	136
Units issued for settlement of accounts payable [a)]	(2,938)
Transaction costs recognised as finance expenses	(211)
Net proceeds	$ 5,677

[a)] Non-cash transaction, excluded from the statement of cash flow.

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.

IQ Convertible debenture

On June 1st, 2016, the Company issued $5 million convertible debenture to IQ (the "IQ Convertible debentures") by way of private placement.

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.

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.

2016-2018 ITC Debentures

On August 10, 2016, the Company completed a private placement consisting of 12,000 units for an aggregate principal amount of $12 million, secured against the Company's ITC receivables resulting from capital expenditures at its HPA plant in Cap-Chat, Québec for the Company's 2016, 2017 and 2018 financial years. Each unit is comprised of $1,000 principal amount bearing interest at an annual rate of 9% payable semi-annually maturing in 5 years from issuance and convertible into shares of the Company at a price of $0.42, and 833 warrants exercisable into one share at a price of $0.55 for a period of 36 months from the date of closing.

For a period ending 3 years from closing, the Company may redeem up to, but not more than, 65% of the initial principal amount of the debentures plus accrued and unpaid interest, upon which, the Company shall also issue warrants to purchase shares equal to 1% of the total number of shares issuable upon full conversion of the debentures for each 1% of the principal amount being redeemed. The Redemption Warrants have an exercise price of $0.44 and expire on the maturity date of the Debentures. Following the period of 3 years from closing, the Company has the right to redeem all or part of the debentures at a price equal to the principal amount plus accrued and unpaid interest without issuance of the Redemption Warrants or other compensation.

For its services, the agent received a cash commission of $0.7 million (equal to 6% of the gross proceeds) and 1,714,286 broker warrants, each such warrant exercisable into one share of the Company at a price of $0.44 for a period of 36 months from the date of closing.

The 2016-2018 ITC Debentures is a hybrid contract containing a prepayment embedded derivative requiring bifurcation. As a result, at the date of issuance, the Company has elected to use the Fair Value Through Profit and Loss (FVTPL) option with future changes in fair value recognized in net finance income (expense). By electing the FVTPL, the transaction costs of $1.3 million are included in the net finance income (expense).

The issuance of the 2016- 2018 ITC Debentures was initially recorded at $12,000,000 based on the fair value of the convertible debenture with no residual amount remaining to allocate to the warrants classified in equity. The Company used $4.9 million to repay the 2016 ITC bridge loan with IQ from the proceeds received from the 2016-2018 ITC Debentures (see note 4).

2015 ITC Debentures

On September 28, 2016, the Company completed a private placement consisting of 8,500 units for an aggregate amount of $8.5 million, secured against the ITC for the Company's 2015 financial year. Each unit is comprised of $1,000 principal amount bearing interest at a rate of 7% annually, maturing 2 years from the date of closing and convertible into shares of the Company at a price of $0.44. These funds allowed the Company to repay the $7.6 million 2015 ITC bridge loan entered into with Investissement Québec in November 2015 (see note 6).

For its services, the agent received a cash commission of $0.3 million (equal to 4% of the gross proceeds) and 772,727 broker warrants, each such warrant exercisable into one share of the Company at a price of $0.44 for a period of 36 months from the date of closing. Upon initial recognition, the debt component was calculated by discounting the future cash flows of interest and principal at a rate of 8.5% excluding transaction costs. The amount of the conversion option recognized in equity was obtained by using the residual method and represents the net proceeds less the fair value of the debt component. The Debenture is classified in current liabilities based on the expected collection of the Company's 2015 ITC which are classified as current assets.

(in thousands of dollars, unless otherwise indicated)

At the issuance date the 2015 ITC Debentures were recorded as follows:

Debt component net of transaction costs of $646	$ 7,621
Conversion option on issuance of convertible debentures recognised as contributed surplus	215
Non-cash transaction costs related to broker warrants recognised as contributed surplus	173
Net proceeds	$ 8,009

October 2016 Convertible debentures

On October 31, 2016, the Company completed a public offering of 5,458 units in the aggregate amount of $5.458 million under the short-form base shelf prospectus and prospectus supplement dated March 18, 2015 and October 27, 2016 respectively.

Each unit consists of $1,000 principal amount of convertible unsecured unsubordinated debentures and 2,793 share purchase warrants, each such warrant exercisable into one share for a period of 36 months at a price of $0.358 per share. The Debentures will mature in 5 years from their issue date, on October 31, 2021, and bear interest at a rate of 5% per annum. Each October 2016 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 October 2016 debentures divided by the conversion price of $0.358 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 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 the 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.

For its services, the Underwriter received a cash commission of $0.5 million (equal to 10% of the gross proceeds raised under the offering), a work fee of $0.2 million and 762,291 non-transferable broker warrants (equal to 5% of the shares into which the principal of the debentures sold under offering are convertible). Each broker warrant is exercisable into one share for a period of 36 months at a price of $0.358 per share.

The aggregate number of shares to be issued upon conversion of the October 2016 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 $0.358 less the 25% maximum discount allowable in accordance with the rules of the Toronto Stock Exchange.

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

Debt component net of transaction costs of $802	$ 3,457
Recognition of the conversion option derivative financial liability on issuance of convertible debentures	1,199
Non-cash transaction costs related to broker warrants recognised as contributed surplus	98
Transaction costs recognised as finance expenses	(226)
Net proceeds	$ 4,528

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.

(in thousands of dollars, unless otherwise indicated)

8. Long-term debt

		December 31, 2016		December 31, 2015
Government loans	$	4,070	$	3,735
Term Loan B		12,062		13,227
Other loans		5		10
Total	$	16,137	$	16,972
Presented as:				
Current		3,895		550
Non-current		12,242		16,422

As of December 31, 2016, the debt balance is comprised of:

a) Non-interest bearing loan of $0.5 million from the government of Canada, repayable in 10 equal semi-annual instalments beginning on April 1, 2016.

b) Non-interest bearing loan of $2.2 million from the government of Canada, repayable in 10 equal semi-annual instalments beginning on February 1, 2020.

c) Non-interest bearing loan of $1.3 million from the government of Quebec repayable in annual instalments based on future cash flows beginning on January 15, 2020 with any remaining balance due on January 2024.

d) Term Loan B, bearing interest at the London Interbank Offered Rate (or Libor) rate, which shall be no less than 0.5% plus 6.5%, repayable in 36 equal monthly instalments of $0.4 million (US$0.3 million) starting on December 1, 2016. The net carrying value of the Term Loan B as of December 31, 2016, was $12 million (US$9 million). Refer to note 6 for other details of the Facility.

Transactions affecting the long-term debt were as follows:

		December 31, 2016		December 31, 2015
Balance - beginning of year	$	16,972	$	4,644
Net proceeds		83		12,561
Gain on debt extinguishment		-		(1,263)
Effective interest accretion		805		425
Repayments		(1,304)		(5)
Effect of changes in foreign exchange rates		(419)		610
Balance - end of year	$	16,137	$	16,972

In 2010 and 2011, the Company received unsecured loans totalling $0.8 million from Canada Economic Development for Quebec Regions (“CED”) , repayable in 10 equal semi-annual instalments beginning on April 1, 2016.

On February 3, 2014, the Company signed an agreement with CED for a financial contribution comprised of a non-interest bearing secured loan in the amount of $4 million (the Loan) pursuant to CED’s Quebec economic development program. Based on the agreement, in March 2014, the Company received $3.8 million. The remaining $0.2 million was received in

2016. The Loan was discounted at a rate of 14.5% and was initially recorded at $1.8, reflecting its fair value given its non-interest bearing nature. The difference between the proceeds received and the initial carrying amount of $2 million is considered a grant and credited to property, plant and equipment.

On October 20, 2015, the Company entered into amendments to its contribution agreements with Canada Economic Development for the $0.8 million and the $4.0 million of non-interest bearing secured loans. The amendments provide that the $4 million loan payable in 10 semi-annual installments which were to begin in April 2017, have now been deferred to January 2020. The loans were initially secured by a first ranking movable hypothec against the Company's equipment located at the Company's high purity alumina production facility in Cap-Chat, Quebec, which was replaced by a second ranking hypothec against the (i) Company's equipment located at its HPA production facility in Cap-Chat, Quebec and its Development Technology Center in Laval, and (ii) the immovable comprised of the Company's HPA production facility in Cap-Chat, Quebec.

As the terms were considered to have been substantially modified, the loan was derecognized and a new loan was recognized at fair value. A gain on debt extinguishment of $0.4 million was recorded in net finance expense (finance). The fair value of $1.9 million was estimated using discounted future cash flows of the instrument with a discount rate of 11%. The remaining $0.2 million portion financial contribution received on the $4 million contribution agreement was discounted at a rate of 11% and was initially recorded at $83 thousand, reflecting its fair value given its non-interest 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.

The carrying value of the loan as at December 31, 2016 was $2.2 million (December 31, 2015 – $1.9 million) and is being accreted to $4 million over its remaining contractual term.

On October 6, 2015, the Company entered into a revised agreement with the government of Quebec regarding its $2 million non-interest bearing loan contracted on March 24, 2010, whereby the first principal payment date, based on future cash flows, is deferred to January 2020 (previously May 15, 2013) and the remaining balance due is deferred to January 2024 (previously May 2018).

As the terms were considered to have been substantially modified, the $2 million loan was derecognized and a new loan was recognized at fair value. A gain on debt extinguishment of $0.9 million was recorded in net finance income (expense). The fair value was estimated using discounted future cash flows of the instrument with a discount rate of 11%. The carrying value of the loan as at December 31, 2016 was $1.3 million (December 31, 2015 – $1.2 million) and is being accreted to $2 million over the estimated cash repayments.

The government loans were used to finance the HPA 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 prior to 2014 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 conditions of the original $3.8 million and $2 million loans in relation to capital expenditures have been fulfilled by the Company and there were no additional conditions in the amended agreements.

Term Loan B which is part of the $22 million Facility completed on November 5, 2015 was initially recorded at its fair value of $12.6 million (US$ 9.5 million) net of transaction costs of $0.8 million.

The interest paid during the year ended December 31, 2016 on the Term Loan B amounted to $0.9 million (US$ 0.7 million) (2015 – $151 (US$111)).

The Facility is subject to certain reporting, financial and other conditions including maintaining a minimum fixed charge coverage ratio beginning in second quarter of 2017 (as amended). In addition, the facility has a covenant for the commencement of the HPA Plant to produce 1 tpd by April 1, 2017 (as mended). The Facility is secured by a 1st ranking hypothec on the universality of the Company's present and future movable and immovable assets, excluding the ITC receivables for the 2015-2018 financial years, which are currently being financed through the 2015 ITC convertible debentures and the 2016-2018 ITC convertible debentures (see note 7).

Based on the events described in note 2, , the Company will not be able to meet its debt covenants under its Facility as early as April 1, 2017which will result in the right by the lender to request the immediate repayment of amounts borrowed under the Facility. The debt as been reflected as non current on the statement of financial position since the covenant default will occur after year-end date.

The restricted cash includes an amount of US$3 million borrowed under its US$16.95 million Facility which is being kept in a segregated account of the Corporation and may not be used until the following conditions are met: 1) the Corporation has produced at least one ton of 99.999% high purity alumina ("5N+ HPA") for any three consecutive days, and 2) the Corporation completed its first sale and delivery of 5N+ HPA that is not a sample sale. This amount is reflected on the statement of financial position as a current asset based on management expectation of realisation.

9. 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) During the year ended December 31, 2015, 1,671,101 common shares were issued as a result of the exercise of the conversion option by the 2013 debenture holders. During the year, 521.5 units of debentures were converted at a weighted average price of $0.312, 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 $576 thousand, 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.

b) During the year ended December 31, 2015, 59,461,657 common shares were issued as a result of the exercise of the conversion option by the 2015 debenture holders. During 2015, 14,821 units of debentures were converted at a weighted average price of $0.249, 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 $12.2 million 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.

c) During the year ended December 31, 2015, the Company issued an aggregate 96,737 Class A shares at an average price of $0.40 in settlement of the interest due on the 2013 Convertible debentures and the 2015 Convertible debentures, representing a total amount of $33 thousand. The settlement is a non-cash transaction and is excluded from the cash flow statement.

d) 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.

e) 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.

f) On May 19, 2016, the Company completed an equity placement 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.

g) During the year ended December 31, 2016, the Company issued 129,823 Class A shares at a weighted average price of $0.270 per common share in settlement of the interest due on the February 2016 Convertible debentures, representing an amount of $40 thousand.

h) During the year ended December 31, 2016, 30,487,761 common shares were issued as a result of the exercise of the conversion option by the February 2016 debenture holders (9,262 units of debentures were converted at a weighted average price of $0.3044 per common share). The common shares issued included the accrued and unpaid interest to the date of conversion (32,545 Class A shares) as well as the Make-Whole-Amount. Consequently, an amount of $8.5 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 to the date of conversion ($10 thousand) was transferred to share capital. The conversion is a non-cash transaction and thus excluded from the cash flow statement.

i) During the year ended December 31, 2016, 19,327,816 common shares were issued as a result of the exercise of the conversion option by the October 2016 debenture holders (5,315 units of debentures were converted at a weighted average price of $0.275 per common share). The common shares issued included the accrued and unpaid interest to the date of conversion (25,241 Class A shares) as well as the Make-Whole-Amount. Consequently, an amount of $4.4 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 to the date of conversion ($6 thousand) 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)

Warrants

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

		December 31, 2016			December 31, 2015
	Number of warrants		Weighted average exercise price (in dollars)	Number of warrants		Weighted average exercise price (in dollars)
Balance - beginning of year	70,437,970	$	0.75	47,623,893	$	0.46
Issued	53,500,198		0.42	26,067,080		1.24
Exercised	(6,682,975)		0.39	(3,253,003)		0.39
Expired	(14,235,500)		0.48	-		-
Balance - end of year	103,019,693	$	0.62	70,437,970	$	0.75

As part of the debentures issued in December 2013 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 36 months. The fair value of these broker warrants was recorded as transaction cost and included in net finance expense. During the year ended December 31, 2016, 1,200,000 (December 31, 2015 - 131,250) of these warrants were exercised resulting in cash proceeds of $0.576 million (December 31, 2015 - $0.063 million). On December 10, 2016, the remaining 13,035,500 warrants and 1,200,000 brokers' warrants outstanding expired.

As part of the debentures issued in April 2015 (see note 7), the Company issued 16,155,000 warrants to the debenture holders at a weighted average exercise price of $0.39 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 2,769,230 warrants to the brokers at an exercise price of $0.39 per share for a period of 36 months. The fair value of the warrants was 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. During the year ended December 2016, 3,381,725 (December 31, 2015 - 3,121,753) of these warrants were exercised resulting in cash proceeds of $1.3 million (December 31, 2015 - $1.2 million) and a transfer of $0.159 million (December 31, 2015 - $0.223 million) from contributed surplus to share capital.

On October 16, 2015, in conjunction with the 2012 convertible debentures redemption, the Company issued 7,142,850 warrants to the debentures holders exercisable until December 13, 2017 at an exercise price of $3.50 in accordance with the terms of the Trust Indenture dated December 13, 2012 governing the 2012 8% convertible secured debentures. These equity classified warrants were not allocated any value.

As part of the February 2016 convertible debentures issued (see Note 7), 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 broker warrants each exercisable at a price of $0.40 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% an exercise price of $0.40, an expected volatility of 72.7% and no expected dividend.

(in thousands of dollars, unless otherwise indicated)

During the year ended December 2016, 1,101,250 of these warrants were exercised resulting in cash proceeds of $441 thousand.

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. During the year ended December 31, 2016, 1,000,000 of these warrants were exercised resulting in cash proceeds of $241 thousand.

As part of the 2016-2018 ITC Debentures issued in August 2016 (see Note 7), the Company issued 9,996,000 warrants to the debenture holders at an exercise price of $0.55 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 1,714,286 broker warrants each exercisable at a price of $0.44 per share for a period of 36 months. The fair value of the broker's warrants of $328 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 0.54% an exercise price of $0.44, an expected volatility of 73% and no expected dividend.

As part of the 2015 ITC Debentures issued in September 2016 (see Note 7), the Company issued 772,727 broker warrants each exercisable at a price of $0.44 for a period of 36 months. The fair value of the broker warrants of $173 thousand was determined using a Black and Scholes option pricing model and classified as transaction cost under contributed surplus. The assumptions used in the pricing model included a risk-free rate of 0.51% an exercise price of $0.44, an expected volatility of 73% and no expected dividend.

As part of the October 2016 convertible debentures issued (see Note 7), the Company issued 15,244,194 warrants to the debenture holders at an exercise price of $0.358 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 762,291 broker warrants each exercisable at a price of $0.358 for a period of 36 months. The fair value of the broker warrants of $98 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 0.55% an exercise price of $0.358, an expected volatility of 73% and no expected dividend.

The number of warrants issued and outstanding at December 31, 2016 by exercise price are as follows:

Exercise price (in dollars)	Expiry date	Number of warrants
$ 0.241	May 2019	16,857,143
$ 0.358	October 2019	16,006,485
$ 0.39	April 2018	12,420,752
$ 0.40	February 2019	23,909,450
$ 0.44	August 2019	1,714,286
$ 0.44	September 2019	772,727
$ 0.55	August 2019	9,996,000
$ 0.60	July 2017	14,200,000
$ 3.50	December 2017	7,142,850
		103,019,693

(in thousands of dollars, unless otherwise indicated)

Share-based compensation

Restricted share unit awards ("RSU")

RSUs may be granted at the discretion of the Board of Directors ("Board") or the Corporate Governance & Human Resources Committee (the "Committee") to full-time employees, officers and eligible contractors of the Company or an affiliate in a calendar year as compensation for services rendered. The number RSUs awarded will be credited to the participant's account effective on the grant date of the RSUs. The Committee shall establish criteria for the grant of RSUs to eligible participants from time to time.

These awards will be settled in shares or in cash equivalent to the share price at the discretion of the Committee. The Committee also have the discretion to credit a participant with additional RSUs when cash dividends are paid on the Company's shares.

Deferred share unit ("DSU")

DSUs may be granted at the discretion of the Board or the Committee to non-executive directors and employees in satisfaction of their annual compensation. Each DSU is equivalent to one class A share. DSUs must be retained until the participant leaves the Company, at which time the DSUs will be paid out in common shares or cash, at the discretion of the Board. In the event dividends are declared and paid, additional DSUs would be credited to reflect dividends paid on the common shares.

Stock options

The Company also maintains an incentive stock option plan (the "Plan"), whereby the Board or the Committee 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.

The stock options may be exercised over a period up to 10 years after the date of grant. The vesting period of currently outstanding stock 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 on the grant date.

The RSUs, DSUs and stock option plan provides that the maximum number of class A shares that can collectively be issued is equal to 10% of class A shares (46,828,089 in 2016; 38,532,804 in 2015) issued and that the maximum number of class A shares, which may be reserved for issuance of stock option to any individual, may not exceed 5% of the class A shares outstanding at the time of grant.

As at December 31, 2016, the Company had not granted any RSUs nor DSUs. Changes in the Company's Class A stock purchase options issued and outstanding are as follows:

	December 31, 2016		December 31, 2015	
	Number of options	Weighted average exercise price (in dollars)	Number of options	Weighted average exercise price (in dollars)
Balance - beginning of year	19,395,250	$ 0.68	15,792,500	$ 0.94
Granted	4,150,000	0.44	8,659,000	0.37
Exercised	(600,000)	0.35	(50,000)	0.40
Expired	(822,750)	1.63	(4,943,750)	0.98
Forfeited	(130,250)	0.32	(62,500)	0.40
Balance - end of year	21,992,250	$ 0.61	19,395,250	$ 0.68
Options excercisable - end of year	17,403,581	$ 0.68	12,290,580	$ 0.85

During the year ended December 31, 2016, the Company issued 1,250,000 (December 31, 2015 – 5,459,000) stock options to employees at a weighted average exercise price of $0.306 (December 31, 2015 – $0.30) and having a weighted average grant date fair value of $0.212 (December 31, 2015 – $0.17) per option.

During the year ended December 31, 2016, the Company issued 2,900,000 (December 31, 2015 – 3,200,000) stock options at an exercise price of $0.50 (December 2015 – $0.50) having a grant date fair value of $0.155 (December 2015 – $0.14) per option in compensation for advisory services of $0.45 million (December 31, 2015 – $0.45 million) rendered by a consultant. The options expire 30 months from the date of grant. The risk-free interest rate, expected volatility and expected life in years used to determine the fair value of the options were 0.62% (December 2015 – 0.81%), 73% (December 2015 – 80%) and 30 months (December 2015 – 30 months).

During the year ended December 31, 2016, 600,000 (2015 – 50,000) stock options were exercised resulting in cash proceeds of $0.2 million (2015 – $20 thousand) and a transfer from contributed surplus to share capital of $0.165 million (2015 – $ 12 thousand). The weighted average share price at the date of exercise for stock options exercised in the year ended December 31, 2016 was $0.445 (December 31, 2015 – $0.44).

During the year ended December 31, 2016 130,250 stock options were forfeited (2015 – 62,500). The exercise price of those options ranged from $0.30 to $0.40 (2015 – from $0.30 to $0.40) per share.

(in thousands of dollars, unless otherwise indicated)

The assumptions used to determine the fair value of the options granted are as follows:

	December 31, 2016	December 31, 2015
Exercise price	$ 0.30 - 0.50	$ 0.30
Risk-free interest rate	0.62 % - 1.04%	0.81%
Expected volatility	73% - 80%	80%
Expected life in years	3 - 6	4.96
Expected dividend	Nil	Nil
Expected forfeiture rate	10%	9.65%

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

	December 31, 2016	
Exercise price (in dollars)	Number	Weighted average remaining contractual life (years)
$ 0.33 - 0.40	12,208,500	7.9
$ 0.41 - 0.67	6,100,000	1.8
$ 0.68 - 1.69	2,025,000	6.4
$ 1.70 - 2.53	300,000	5.4
$ 2.54 - 2.97	1,358,750	5.0
	21,992,250	5.8

(in thousands of dollars, unless otherwise indicated)

The share-based payment expense was recognized as follows:

	December 31, 2016	December 31, 2015
Research and development	$ 54	$ 90
General and administration	1,082	870
HPA plant operations	81	97
Recognized in comprehensive loss	1,217	1,057
Prepaid expenses and others	(300)	300
Capitalized in property, plant and equipment	-	14
Recognized in contributed surplus	$ 917	$ 1,371

10. Net finance expense (income)

	December 31, 2016	December 31, 2015
Finance income		
Interest income	$ 66	$ 462
Finance expense		
Interest on convertible debentures and on short-term loan	1,415	3,214
Interest on long-term debt	1,703	431
Transaction costs and other interest	2,227	776
	5,345	4,421
Other financial losses (gains)		
Effect of changes in fair value of derivative financial instruments	(227)	203
Effect of changes in fair value of financial instrument at FVTPL	(1,481)	-
Effect of changes in foreign exchange rates	(557)	490
Loss on derecognition of current and non-current financial liabilities	-	1,997
	(2,265)	2,690
Capitalized interest on qualifying assets	3,338	3,626
Net finance expense (income)	$ (324)	$ 3,023

(in thousands of dollars, unless otherwise indicated)

11. 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:

	2016	2015
Loss before income taxes	$ 10,249	$ 15,369
Income taxes at combined federal and provincial income tax rate of 26.9%	(2,757)	(4,134)
Non-deductible share-based payments	247	264
Non-deductible expenses and other	(95)	41
Difference between curent and future tax rate	240	-
Change in unrecognised tax assets	2,071	3,829
Income taxes	$ (294)	$ -

The income taxes expense is made up of the following components:

	2016	2015
Current tax expense	$ -	$ -
Deferred tax expense:		
Origination and reversal of temporary differences	(294)	-
Income taxes	$ (294)	$ -

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

	Assets		Liabilities		Net	
	December 31,		December 31,		December 31,	
	2016	2015	2016	2015	2016	2015
Deferred tax assets (liabilities)						
Property, plant and equipment	$ -	$ -	$ (4,463)	$ (2,584)	$ (4,463)	$ (2,584)
Non capital losses	2,299	797	-	-	2,299	797
Research and development expenses	3,669	3,431	-	-	3,669	3,431
Deferred mining taxes	-		(2,372)	(2,372)	(2,372)	(2,372)
Convertible debentures	-	-	(901)	(804)	(901)	(804)
Other	-	-	(604)	(840)	(604)	(840)
Deferred tax assets (liabilities)	$ 5,968	$ 4,228	$ (8,340)	$ (6,600)	$ (2,372)	$ (2,372)
Set off of tax	(5,968)	(4,228)	5,968	4,228	-	-
Net deferred liabilities	$ -	$ -	$ (2,372)	$ (2,372)	$ (2,372)	$ (2,372)

(in thousands of dollars, unless otherwise indicated)

The movement in deferred tax balances are as follows:

	January 1, 2015	Recognised in profit or loss	December 31, 2015	Recognised in profit or loss	Recognised in equity	December 31, 2016
Property, plant and equipment	$ (1,763)	$ (821)	$ (2,584)	$ (1,879)	$ -	$ (4,463)
Non capital losses	647	150	797	1,502	-	2,299
Research and development expenses	2,974	457	3,431	238	-	3,669
Deferred mining taxes	(2,372)	-	(2,372)	-	-	(2,372)
Convertibles debentures	(1,328)	524	(804)	197	(294)	(901)
Other	(530)	(310)	(840)	236	-	(604)
	$ (2,372)	$ -	$ (2,372)	$ 294	$ (294)	$ (2,372)

The unrecognized deferred tax assets are as follows:

	2016	2015
Non capital losses carryforwards	$ 17,783	$ 16,420
Research and development expenses	-	90
Exploration and evaluation assets	664	730
Financing cost	1,253	107
Unrealized capital losses	12	-
	$ 19,712	$ 17,347

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 2037 and 2040.

As at December 31, 2016, the Company has non-capital losses carried forward that expire as follows:

	Federal	Quebec
2026	$ 250	$ 214
2027	476	474
2028	637	635
2029	628	626
2030	1,377	1,232
2031	4,479	3,998
2032	11,633	11,598
2033	15,871	15,508
2034	13,806	13,806
2035	14,289	14,289
2036	12,798	12,798
	$ 76,244	$ 75,178

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

12. Financial instruments

a) 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.

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 Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations. The Facility bears interest at the greater of 0.5% or the Libor rate plus an additional 6.5% fixed rate. Therefore, the Company is, mainly exposed to the risk of changes in fair value resulting from interest rate fluctuations and cash flow risk on variation of the Libor rate. 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 or held by a Canadian chartered bank having a good credit rating but the Company is subject to concentration of credit risk.

Currency Risk

The Company 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 are the U.S dollar and the Euro. An increase or decrease of 10 percent of the US dollar at the balance sheet date would have the effect, assuming that all other variables, in particular interest rates, remain constant, to reduce or increase equity and reduce or increase net loss by $1.5 million (2015 - $1.3 million).

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. (Refer to note 2 **Going concern**).

c) Fair value of financial instruments

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

The following table presents the contractual maturities of the financial liabilities, operating leases and purchase obligations as of December 31, 2016:

(in thousands of dollars, unless otherwise indicated)

	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	$ 11,310	$ 11,310	$ 11,310	$ -	$ -	$ -
Short-term loan	794	890	890	-	-	-
Derivative financial instrument [a)]	39	-	-	-	-	-
Convertible debentures [b)]	22,554	34,776	1,798	11,989	20,989	-
Long-term debt [c)]	16,137	20,715	4,667	9,888	3,380	2,780
Operating leases	-	324	163	120	41	-
Purchase obligations	-	51	51	-	-	-
	$ 50,834	$ 68,066	$ 18,879	$ 21,997	$ 24,410	$ 2,780

a) The embedded derivative has no outflows since it is included in the 2015 convertible debentures.

b) Includes interest outflows at 5%, 7%, 9%, and 10%.

c) The Company does not expect to met its covenants which would give the lender the right to demand immediate repayment (see note 8).

	December 31, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	$ 1,746	$ 1,746	$ 1,723	$ 1,723
Short-term investments	559	559	875	875
Restricted cash	4,052	4,052	4,152	4,152
Financial liabilities				
Accounts payable and accrued liabilities	$ 11,310	$ 11,310	$ 8,071	$ 8,071
Short-term loan	794	794	11,768	11,768
Derivative financial instrument (current liabilities)	39	39	108	108
Convertible debentures liabilities (current and non-current)	22,554	22,700	113	190
Long-term debt (including current portion)	16,137	17,449	16,971	16,621

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.

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.

(in thousands of dollars, unless otherwise indicated)

Basis for determining fair values

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

The fair value of the long-term debts at December 31, 2016 was determined based on discounted cash flows using a discount rate of 11%, a rate for similar loans at the balance sheet date based on a level 3 fair value measurement.

The fair value of the 2015 ITC convertible debentures and IQ convertible debentures was determined based on discounted cash-flows using a discount rate of 11% and 13%.

The fair value of the 2016-2018 ITC convertible debentures at December 31, 2016 was determined using a combination of discounted cash flow and Black Scholes models using inputs and assumptions including share price at December 31, 2016, expected maturity of 30 months, yield to maturity of 15% and an expected volatility of 70%.

The reconciliation of changes in level 3 fair value measurements convertible debenture conversion option is presented in the following table:

	2012	2015	February 2016	October 2016	Total
Balance at December 31, 2014	$ 70	$ -	$ -	$ -	$ 70
Recognition of the conversion option derivative financial liability on issuance of convertible debentures		3,785			3,785
Gain at redemption	(91)	-	-	-	(91)
Conversion into common shares	-	(3,606)			(3,606)
Loss (gain) recognized in net finance expense	21	(71)	-	-	(50)
Balance at December 31, 2015	$ -	$ 108	$ -	$ -	$ 108
Recognition of the conversion option derivative financial liability on issuance of convertible debentures			1,896	1,199	3,095
Conversion into common shares	-	(2)	(1,855)	(1,080)	(2,937)
Loss (gain) recognized in net finance expense (income)	-	(106)	(22)	(99)	(227)
Balance at December 31, 2016	$ -	$ -	$ 19	$ 20	$ 39

The reconciliation of changes in level 3 fair value measurements on the 2016-2018 ITC convertible debenture is presented in the following table:

	December 31, 2016
Balance - beginning of year	$ -
Recognition 2016-2018 ITC Debentures on issuance	12,000
Interest payments	(331)
gain recognized in net finance expense (income)	(1,481)
Balance - end of year	$ 10,188

The effect of a change in the volatility assumption as of December 31, 2016, which is the significant unobservable input in the fair value estimate, of 5% would have no significant impact on the derivative financial liability.

(in thousands of dollars, unless otherwise indicated)

As of December 31, 2016, the effect of a change of 5% in the volatility assumption would have a $0.1 million impact on the fair value estimate of the 2016-2018 Convertible debentures assuming that all other variables remain constant. The effect of a change of 5 % in the yield to maturity would have a $0.1 million impact on the fair value estimate of the 2016-2018 Convertible debentures assuming that all other variables remain constant. The effect of a change of 5 % in the Company market share price would have a $0.2 million impact on the fair value estimate of the 2016-2018 Convertible debentures assuming that all other variables remain constant.

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:

		December 31, 2016		December 31, 2015
Short-term employee salaries and directors compensation	$	1 891	$	1 991
Share-based payments		342		714
Total	$	2 233	$	2 705

Other related party transactions

During the year ended December 31, 2016, the Company incurred $0.4 million (December 31, 2015 - $0.4 million) 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, 2016 and 2015, all outstanding warrants, stock options and convertible debentures were anti-dilutive since the Company reported net losses.

15. 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, debt and government grants 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 a remaining revolving facility of $8.4 million (or US$6.3 million) against eligible receivables (see note 6 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.

(in thousands of dollars, unless otherwise indicated)

16. Supplemental information

The following charges have been recognized in the statement of comprehensive loss:

		December 31, 2016		December 31, 2015
Employee salaries	$	4,945	$	5,818
Operating lease expenses		571		596
Total	$	5,516	$	6,414

17. Subsequent events

February 2017 Debenture

On February 1, 2017, the Company completed the public offering of 11,500 units on a bought deal basis for an aggregate amount of $11.5 million under the short form base shelf prospectus and prospectus supplement dated January 6, 2017 and January 27, 2017 respectively.

Each unit consists of $1,000 principal amount of convertible unsecured unsubordinated debentures and 3,125 share purchase warrants of the Company at a price of $0,32 for a period of 36 months. The Debentures will mature on February 1, 2022 and will bear interest at a rate of 5% per annum payable semi-annually.

Each Debenture will be convertible, at the option of the holder, at any time prior to the Maturity Date, into that number of shares computed on the basis of (i) the principal amount of the Debentures divided by the conversion price of $0.32 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 from the date of conversion until the Maturity Date (the "Make-Whole Amount") divided by the five (5) day volume weighted average trading price of the 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. 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 $0.32 less the 25% maximum discount allowable by the Toronto Stock Exchange. Each Warrant will be exercisable into one share for a period of 36 months from their issue date at a price of $0.32 per share.

For its services, the Underwriter received a cash commission of $0.92 million (equal to 8% of the gross proceeds raised under the Bought Deal), plus work fee of $200 and 1,796,875 non-transferable broker warrants (equal to 5% 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 $0.32 per share.

Subsequently, 34,687,500 common shares were issued as a result of the exercise of the conversion option by the February 2017 debenture holders (11,100 units of debentures were converted at a weighted average price of $0.2445 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.

ITC 2015

On February 7, 2017, the Company received a first installment of $5.1 million from the tax authorities in consideration of its 2015 ITC on the equipment purchased for manufacturing and processing at its HPA plant. At the date of publication of the financial statements the amount was deposited in a segregated account and serves as security for the 2015 ITC convertible debentures issued in September 2016 and maturing in September 2019.

New Development

On March 31, 2017 the Company announced that the supplied decomposer and calciner electrical heating system is not robust enough to reliably achieve the 3 tpd design capacity of the calcination system, but is rather limited to approximately 1-1.2 tpd. Management believes it has a solution that could resolve the issues encountered with the electrical heating element system and allow the capacity of the decomposer to be increased to 5 tpd (the calciner capacity is already 5 tpd).

Management estimates that approximately $8 million of external capital costs and 8 months are required to implement the proposed solution for the reliable, consistent, and continuous production of 3 tpd of 5N+ HPA. Accordingly, operations will be suspended as the Company concentrates its human and financial capital on implementing this proposed solution. As at the date of these financial statements, the Company's working capital is insufficient to cover the costs to implement their plan to address the equipment issue. The Company has no other committed sources of future financing currently available as of the date of these financial statements. The Company is examining available options to raise funds and limit its cash outflows. The Company may be unable to meet its current obligations (see note 2 for more details)