PYROGENESIS CANADA INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2013

(All figures expressed in Canadian dollars unless otherwise noted.)

August 29, 2013

This management's discussion and analysis (MD&A) of PyroGenesis Canada Inc. ("PCI" or the "Company") have been prepared by management and should be read in conjunction with the unaudited financial statements and related notes thereto of the Company for the three and six months ending June 30, 2013 which were prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's Audit Committee has reviewed and approved this MD&A.

The MD&A was prepared as of August 29, 2013. Additional information regarding the Company is available on SEDAR (www.sedar.com).

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. All statements other than statements of historical fact contained in this MD&A are forward-looking statements, including, without limitation, the Company's: statements regarding its products and services; relations with suppliers and customers; future financial position; business strategies; potential acquisitions; potential business partnering; litigation; and plans and objectives. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" and similar words or the negative thereof. Although management of the Company believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

In particular, this MD&A contains forward-looking statements relating to:

- the business strategies of the Company;
- the capital resources of the Company;
- the ability of the Company to increase sales, including as a result of the successful completion of the Company's current projects;

- management's expectation that the Company will achieve sustained annual growth and profitability, and that gross margins will increase resulting in a decrease in expenses as a percentage of revenue; and

- the Company's overall financial performance.

By their nature, forward-looking statements require assumptions and are subject to inherent risks and uncertainties including those discussed herein. In particular, forward-looking statements relating to future sales, growth and profitability are based on the assumption that current projects will be completed and the Company will be awarded certain anticipated contracts pursuant to recent negotiations with, and statements made by, third parties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned to not place undue reliance on forward-looking statements made herein because a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including, but not limited to, the strength of the Canadian and US economy; operational, funding, and liquidity risks; unforeseen engineering and environmental problems; delays or inability to obtain required financing and/or anticipated contracts; risks associated with licenses, permits and regulatory approvals; supply interruptions or labour disputes; foreign exchange fluctuations and collection risk; competition from other suppliers or alternate less capital intensive energy solutions; and the risk factors described under the heading "Risk Factors" in the Company's annual information form for the financial year ended December 31, 2012. We caution that the foregoing list of factors is not exhaustive, and that, when relying on forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Forward-looking statements are provided as of the date of this MD&A, and the Company assumes no obligation to update or revise such forward-looking statements to reflect new events or circumstances except as required under applicable securities laws.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A or such other date specified herein.

OVERVIEW

PyroGenesis is a leader in the design, development, manufacture and commercialization of plasma torches and advanced plasma waste to energy systems. The Company's torches are some of the most reliable in the world and its systems are capable of converting waste into energy and non-hazardous products. The Company's patented, proprietary and proven technologies have been developed over 20 years. Accepted systems by the US Navy and the US Air Force set the Company's business apart from many of its competitors.

The Company has four distinct product offerings. (i) Torches: the Company has recently been aggressively developing the market for its plasma torches as a standalone product. The Company has found that its torches have novel and promising applications in the mining and metallurgical industry as well as in the petrochemical sector to name only a few; (ii) Engineering Services: the Company's engineering services and piloting capabilities are being increasingly sought after due to its capable and innovative team of professionals and its state of the art facilities; (iii) Marine-Based Waste Treatment: the Company offers a marine based Plasma Arc Waste Destruction System ("PAWDS") which can destroy combustible waste on board ships; and a (iv) Land-based Waste Treatment: Plasma Resource Recovery System ("PRRS") which is designed to treat a range of industrial, hazardous, clinical and municipal waste streams on land.

SELECTED FINANCIALINFORMATION

Statement of Comprehensive Loss

	Three months ended June 30, 2013	2012	% Change	Six months ended June 30, 2013	2012	% Change
Revenues	$ **1,341,818**	$ 777,197	73%	$ **2,482,961**	$ 1,585,140	57%
Cost of sales and services before amortization of licenses	**787,625**	668,777		**1,395,786**	1,832,625	
Gross margin before amortization of licenses	**554,193**	108,420		**1,087,175**	(247,485)	
Amortization of licenses	**349,268**	349,269		**698,537**	698,537	
Gross margin	**204,925**	(240,849)		**388,638**	(946,022)	
Selling, general and administrative	**1,091,679**	1,013,083		**2,134,316**	2,052,217	
Financing charges	**90,140**	104,362		**185,355**	238,111	
Loss from operations	**(976,894)**	(1,358,294)		**(1,931,033)**	(3,236,350)	
Other income	**1,421**	45		**1,421**	9,938	
Total comprehensive loss	**$ (975,473)**	$ (1,358,249)	-28%	**$ (1,929,612)**	$ (3,226,412)	-40%
Loss per share - basic	**$ (0.015)**	$ (0.021)		**$ (0.030)**	$ (0.053)	

Statement of Financial Position at :

	June 30, 2013	December 31, 2012
Total assets	$ **9,066,464**	$ 10,235,869
Total liabilities	**13,154,762**	12,690,180
Shareholders' equity	$ **(4,088,298)**	$ (2,454,311)

RESULTS OF OPERATIONS

Revenues

Revenues for the second quarter of fiscal 2013, ending June 30, 2013 "2013-Q2" were $1,341,818, an increase of 73% over the revenue of $777,197 reported during the same period in fiscal year 2012. This increase in revenue in 2013 reflects the end of the "gap period" the Company has been faced with while securing its first reorder from its established client base. In late November 2012, the Company announced that it had secured a $5.5 million reorder from Newport News Shipbuilding for a plasma waste destruction system to be installed on the CVN-79, the next US Navy Ford-class air craft carrier, which is to be delivered and recognized into income over the next two years. Revenues in 2013-Q2 are positively impacted by the work achieved and recognition of the revenues on this new major contract, as well as other projects in progress or completed in the quarter.

Revenues for the first six months of fiscal 2013 were $2,482,961, an increase of 57% over the revenues of $1,585,140 reported during the same period in fiscal year 2012.

Cost of Sales and Services and Gross Margin

Cost of Sales and Services

	Three months ended June 30, 2013	2012	% Change	Six months ended June 30, 2013	2012	% Change
Salaries and sub-contracting	**209,916**	593,735	-65%	**443,843**	1,386,778	-68%
Materials and equipment	**551,177**	6,795	8012%	**852,334**	278,808	206%
Manufacturing overhead	**73,614**	121,855	-40%	**151,110**	275,286	-45%
Foreign exchange loss (gain)	**(39,382)**	(6,511)	505%	**(31,801)**	2,055	-1647%
Government grants and research and development tax credits	**(7,700)**	(47,097)	-84%	**(19,700)**	(110,302)	-82%
Sub-total before amortization of licences	**787,625**	668,777	18%	**1,395,786**	1,832,625	-24%
Amortization of licenses	**349,268**	349,269	0%	**698,537**	698,537	0%
Total Cost of Sales	**$ 1,136,893**	$ 1,018,046	12%	**$ 2,094,323**	2,531,162	-17%

Gross Margin

	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Revenues	**1,341,818**	777,197	**2,482,961**	1,585,140
Cost of Sales and Services before amortization of licenses	**787,625**	668,777	**1,395,786**	1,832,625
Gross Margin before amortization of licenses	**554,193**	108,420	**1,087,175**	(247,485)
Gross Margin % before amortization of licenses	**41.3%**	14.0%	**43.8%**	-15.6%
Amortization of licenses	**349,268**	349,269	**698,537**	698,537
Gross Margin after amortization of licenses	**$ 204,925**	$ (240,849)	**388,638**	$ (946,022)
Gross Margin % after amortization of licenses	**15.3%**	-31.0%	**15.7%**	-59.7%

Cost of Sales before government grants and research and development tax credits for the second quarter of fiscal 2013, ending June 30, 2013 was $787,625, an increase of 18% as compared to net costs of $668,777 reported during the same period in the prior fiscal year. On a year-to-date basis, the cost of sales before government grants was $1,395,786 as compared to $1,832,625 for the same period in the prior year, for a decrease of 24%.

Due to the limited number of significant projects that the Company currently executes at any given time, the type of contracts and the nature of project activity that is being executed during a quarter, will have a significant impact on the overall level of cost of sales reported in a period as well as the composition of the cost of sales (mix between labor and materials and equipment). During 2013, the major project being executed is the execution of the CVN-79 project for the next US Navy Ford-class air craft carrier. As this is a repeat order for the Company, the project has a relative lower level of labor and a higher level of equipment and material than in the first order, and as reflected in the financial results.

Starting in the second half of 2012, management has implemented more stringent and effective project management methods on the execution of its projects. As a result, in-house labor costs recorded on projects have decreased by 48% during Q2 and 50% year-to-date. Due to the nature and location of the projects, the level of sub-contracted services is only $5,135 in 2013-Q2 as compared to $202,092 in 2012-Q2 when significant site work was conducted via sub-contractors due to the location of one of the Company's projects.

The level of Material and Equipment costs incurred on projects in 2013-Q2 has increased by 81 fold from 2012-Q1 and 3 fold on a year-to-date basis. M&E cost during 2013-Q2 was $551,177 versus $6,795 in 2013-Q2 (when almost no procurement was performed). Year-to-date, M&E for 2013 was $852,334 versus $278,334 for 2012. The actual value of Material and Equipment costs can vary very significantly from one quarter to another, and is influenced directly by the number of projects being executed and the level of Material and Equipment cost components in the contracts under execution. Through-out 2013, material and equipment costs (and associated revenues) will rise significantly as the Company completes major purchases required for its new contract for the plasma waste destruction system to be installed on the CVN-79 the next US Navy Ford-class air craft carrier.

As previously announced, in May 2012, the Company implemented significant cost containment measures. As a result of these measures, management believes that the Company is better positioned and has become more competitive as many of the cost containment measures will have a long term positive impact on the company's profitability, as an example rental expenses were reduced by approximately 50% to $350,000 per year. The savings from the containment measures are reflected in the year over year 45% reduction in manufacturing overhead. All manufacturing overhead has been full applied against Cost of Sales and Services in the quarter.

During 2012, management has been restructured to permit more focus on business development and operations. The results of these changes has been particularly positive on operations, where the Company has benefitted from better utilization of resources and cost containments, on-time delivery, meeting key project milestones, and improved reporting with respect to project progress and issues.

The level of government grants and research and development ("R&D") tax credits recorded in 2013-Q2 was $7,700, versus $47,097 in 2012-Q2. The decrease in R&D tax credits recorded is due to decreased spending on R&D eligible projects as the company focused greater portion of its resources on revenue generating projects.

The amortization of licenses of $349,268 per quarter is related to licenses and know how purchased in 2011 from a company controlled by a shareholder of the Company. The majority of the expense is a non-cash item and the offsetting debt is repayable $40,000 per month until December 31, 2040.

Building on the improvement in gross margin on projects that started in 2012-Q4, the 2013-Q2 shows an impressive improvement over most of 2012. Gross margin for 2013-Q2 before amortization of licenses was $554,193 (41.3% on revenues), versus $108,420 (14.0% on revenues) for 2012- Q2. For the six months ended June 30, 2013, the year-to-date gross margin was $1,087,175 (43.8% on revenues), versus negative $247,485 (negative 15.6% on revenues) for the same period in 2012. The improved level of gross margin in 2013 was achieved through controlled project management, tight control over technical resources employed on projects, and favorable pricing on equipment purchases.

Management is pleased with the performance of its technical and project teams for completing projects under budget and on time. The ability to execute projects on time and also improve the project margins is a key demonstration that PyroGenesis is ready to face the challenges ahead as it volume of projects and revenues grow.

Management is confident that with the increased focus on operations and project execution, PyroGenesis will continue to see favorable gross margins on projects. Margins will naturally fluctuate quarter to quarter depending on the types of projects under execution and the completion stage of the projects.

Government grants of $39,299 originally recorded in Cost-of-Sales in 2013-Q1, were reclassified to Selling, General and Administrative expense in-order to be applied against the R&D costs captured in SG&A. This treatment has been applied consistently in 2013-Q2.

Selling, General and Administrative Expenses

	Three months ended June 30, 2013		2012	% Change	Six months ended June 30, 2013		2012	% Change
Salaries and consulting fees	$	**616,719**	$ 360,575	71%	$ **1,232,324**	$	761,214	62%
Government grants		**(36,703)**	-		**(76,002)**		-	
Professional fees		**162,720**	249,355	-35%	**254,394**		454,475	-44%
Office and general		**150,691**	126,278	19%	**327,860**		256,607	28%
Interest and bank charges		**3,006**	5,462	-45%	**6,321**		37,095	-83%
Amortization Machinery & Equipment		**45,461**	62,890	-28%	**93,794**		125,780	-25%
Sub-total before Share based payments		**941,894**	804,560	17%	**$ 1,838,691**	$	1,635,171	12%
Share based payments		**149,785**	208,523	-28%	**295,625**		417,046	-29%
Total selling, general and administrative	$	**1,091,679**	$ 1,013,083	8%	**2,134,316**		2,052,217	4%

Selling, general and administrative expenses for the second quarter of fiscal 2013, ending June 30, 2013 were $1,091,679, an increase of 8% versus the $1,013,083, reported during the same period in fiscal year 2012. 2013-Q2, includes stock based compensation of $149,785, ($295,625 in 2010-Q2). The costs associated with stock based compensation (a non-cash item on which options vest over a four year period) commenced in 2011-Q3 when a stock option plan was put in place. Before stock based compensation, Selling, general and administrative, increased by 17% in 2013-Q2 over the same time frame in the prior year, and 12% on a year-to-date basis for the six months ended June 30th.

The increase in Selling, general and administrative spending is mainly attributable to increased investment in personnel with the hiring of a senior financial executive, and the expansion of the Company's sales force by two seasoned business development people, plus the investment of R&D spending to develop new technologies and products, the costs that are accounted for under SG&A. Increases in office and general spending are mainly attributed to further development of our information systems.

Financing Charges

Financing Charges

	Three months ended June 30, 2013	2012	% Change	Six months ended June 30, 2013	2012	% Change
Financing charges	$ 90,140	$ 104,362	-14%	$ 185,355	$ 238,111	-22%

Financing charges decreased by 14% to $90,140 for the three months ended June 30, 2013, (2012: $104,362), and decreased by 22% to $185,355 for the six months ending June 30, 2013 (2012: $238,111).

The decrease in the financing charges in 2013 versus 2012 is primarily due to the repayment of the $1,000,000 of convertible debenture in 2012 Q1.

As at the end of 2012-Q1, the Company had repaid all bank lines-of-credits and venture capital loans ($1,000,000 convertible debenture). As such there is no debt owing to external non-related parties.

Amortization of Property and Equipment

	Three months ended June 30, 2013	2012	% Change	Six months ended June 30, 2013	2012	% Change
Amortization of property and equipment	**$ 45,461**	$ 62,890	-28%	**$ 93,794**	$ 125,780	-25%

Amortization of machinery and equipment decreased by 28% to $45,461 in 2013-Q2 (2012- Q2: 62,890), and decreased by 25% on a year-to date basis. This is primarily as a result of decreased investments in machinery and equipment in recent years from the level of investment in 2010 when major acquisitions were made.

Research and Development Tax Credits

	Three months ended June 30, 2013	2012	% Change	Six months ended June 30, 2013	2012	% Change
Research tax credits	$ **7,700**	14,597	-47%	$ **19,700**	$ 77,802	-75%

Research and development tax credits were accrued for in the amount of $7,700 in 2013-Q2 versus $14,597 in 2012-Q2. As PyroGenesis focuses on the commercialization (sales and delivery) of its proven technologies, the number of projects eligible for research and development tax credits decrease. PyroGenesis continues to make strategic investments in research and development projects incorporating the involvement of partners and government bodies where strategically justified.

Net Profit/Loss

	Three months ended June 30, 2013	2012	% Change	Six months ended June 30, 2013	2012	% Change
Loss from operations	$ **(976,894)**	$ (1,358,294)	-28%	$ **(1,931,033)**	$ (3,236,350)	-40%
Total comprehensive loss	**(975,473)**	(1,358,249)	-28%	**(1,929,612)**	(3,226,412)	-40%

Loss from operations for the second quarter of fiscal 2013, ending June 30, 2013 was $976,894 as compared to a loss of $1,358,294 for the same period in 2012, a decrease of 28%. Year-to-date as at the end of the second quarter, loss from operations decreased by 40% over the prior year.

Loss from operations for 2013-Q2 before non-cash items (share based payments: $149,785; amortization of licenses and property and equipment: $394,729) was $432,380.

During 2012, Management took several key steps to restructure and strengthen the Company's management, reduce fixed operating expenses, increase the focus on increasing revenues and improving the gross margins on projects. The results from these measures started to be evident towards the end of 2012 and in the first half of 2013.

The 28% and 40% decrease in comprehensive loss in 2013- Q2 and 2013 year-to-date (YTD) over the respective 2012 comparatives is due to:

- revenues have increased by 73% and 57% for a net increase in revenues of $564,621 and $879,821 for the 2013-Q2 and 2013- YTD over the comparative period in the prior year.
- gross margin before amortization of licenses was $554,193 (41.3% GM) for 2013-Q2 and as compared to a margin of $108,420 (14.0% GM) in 2012-Q2, for an net improvement in margin of $445,773 or 27.3% points. 2013 year-to date, gross margin is $1,087,175 (43.8% GM) versus a negative margin of $247,485 (-15.6% GM) for the comparative period in 2012 (for an improvement in margin of $1,334,660). The dramatic improvement in gross margin is a positive sign that Management's restructuring to allow greater concentration on operations is bringing positive results.

SUMMARY OF QUARTERLY RESULTS

	2013		2012				2011 Restated	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	**$ 1,341,818**	**$ 1,141,143**	$ 1,221,501	$ 516,595	$ 777,197	$ 807,943	$ 1,326,420	$ 1,909,231
Loss from operations	**(976,894)**	**(954,139)**	(840,167)	(1,742,758)	(1,358,294)	(1,878,056)	(873,569)	(2,165,062)
Total comprehensive loss	**(975,473)**	**(954,139)**	(840,142)	(1,742,581)	(1,358,249)	(1,868,163)	(868,468)	(2,815,300)
Net loss per share - basic	**(0.015)**	**(0.015)**	(0.094)	(0.027)	(0.021)	(0.032)	(0.020)	(0.037)

As illustrated above, the revenues and losses from operations have varied considerably from quarter to quarter, however results have become much more consistent over the last three quarters. Revenues are recognized based on a percentage of completion basis, and project work is dependent on customer timing for project engineering, manufacturing, and testing.

LIQUIDITY AND CAPITAL RESSOURCES

During the first half of the 2013 fiscal year, the primary sources of funding for PyroGenesis have been cash generated from projects.

At June 30, 2013, PyroGenesis had cash on hand of $608,786 and negative working capital of $3,191,487, (negative $1,436,384 at December 31, 2012). Included in the current liabilities at June 30, 2013, are "loans from related parties" totaling $696,591 which have been deferred until March 31, 2014 to provide the Company with additional short-term funding.

Since the end of 2012-Q1, there is no debt owing to non-related third parties.

Since the Company went public in July 2011, the primary source of funding has been the issuance of shares via public offerings. The Company's ability to raise additional funds from the equity markets will largely depend upon general market conditions and the Company's ability to secure contracts. Current market conditions do limit the potential to raise additional funding.

In late November 2012, the Company announced that it had secured a $5.5 million reorder from Newport News Shipbuilding for a plasma waste destruction system to be installed in a new US Navy air craft carrier. This order provides the Company a solid foundation of backlog and workload going into 2013, as it pursues securing additional new orders.

Summary of Cash Flows

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Cash provided by (used) by operating activities	$ **73,470**	$ (967,432)	$ **(1,503,037)**	$ (1,190,732)
Cash provided by (used in) investing actiities	**(59,059)**	37,359	**(59,059)**	(233,830)
Cash provided by (used in) financing activities	**30,716**	(25,642)	**(24,689)**	1,661,420
Increase (decrease) in cash	**45,127**	(955,715)	**(1,586,785)**	236,858

Cash flow from operations resulted in a source of cash of $73,470 for the three-month period ended June 30, 2013 and a net use of cash of $1,503,037 for the six month period ending June 30, 2013, compared to a net use of cash of $967,432 and $1,190,732 for respective periods in the previous year. For 2013-Q2 despite a net comprehensive loss $975,473, costs not requiring outlays of cash totaling $544,514 consisting mainly of costs related to issuance of options and amortization of property, equipment and licenses.

Investing activities resulted in use of cash of $59,059 for the three month and six month period ending June 30, 2013. Cash used for investment activities in 2013 was related to increase in the investment in the torch asset under construction.

Financing activities resulted in a source of funds of $30,716 for the three-months period ended June 30, 2013, compared to an use of funds of $25,642 for the same period in the previous year. During the first half of 2013, financing activities resulted in a net use of funds of $24,689 versus a net source of funds of $1,661,420 for the same period in the prior year. During the first quarter of 2012, the Company completed an equity issuance which raised net proceeds of $3,177,757, of which $1,516,337 was used for the repayment of bank debt, and the repayment of long-term debt.

During 2012, as described in note 11 of the June 30, 2013 financial statements, the $40,000 per month balance of sale payments were not made during the 2012 and 2013, and as such an amounts totaling $496,591 has been deferred until March 31, 2014. This deferral of payment has been granted in order to provide the Company with additional short term financing.

Starting in 2012, as described in note 11 of the June 30, 2013 financial statements, the $40,000 per month balance of sale payments covering the period February 1, 2012 to February 1, 2013 were deferred until March 31, 2014, with the exception of partial payment of $130,000 in February 2013. In addition, 50% of the $40,000 payments/month during the period March 1, 2013 and March 1, 2014, has been deferred until March 31, 2014. These deferrals of payments have been granted in order to provide the Company with additional short term financing. The deferred payments accumulated as at June 30, 2013 total $496,591, which are reflected as part of the Loans other- current portion on the Statement of Financial Position at June 30, 2013.

For the three months ended June 30, 2013, the net cash position of the Company increased by $45,127 as compared to a net decrease of $955,715 for the same period in the prior year. For the six month period ending June 30, 2013, the net cash position of the Company decreased $1,586,785 as compared to a net increase of $236,858 for the same period the prior year.

Increasing revenues, decreasing losses from operations and positive cash flows from projects have been critical in providing needed working capital in 2013.The decreasing cash position year-to-date reflects the company's continued need to raise additional cash from operations and/ or to seek additional cash from equity issuances as it continues to further increase revenues and improve its technical offerings.

GOING CONCERN

During 2012 and 2013, due to the reduced level of revenues, cash generated on projects with external clients was not sufficient to meet the overall cash requirements to cover operating costs. For the Company to generate sufficient positive cash-flow from projects and meet current cash requirements, the level of business intake and revenues must increase. Management's plan for 2013, calls for increased intake and revenues, competitive gross margins and controlled SG&A expense levels.

The June 30, 2013 financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

The Company has incurred substantial recurring operating losses to date $1,929,612 in 2013. In 2011 and 2012 losses had occurred as a result of the longer than anticipated "gap period" between the initial orders for our waste destructions systems sold to the US Navy and US Air Force and obtaining the critical reorders. During this period of time, the Company has lived through many challenges including a demanding cash management situation. During 2011 and 2012, the funds raised in the initial public offering and the subsequent second public offering which took place in March 2012, have allowed the Company to deal with the difficult market period all the while allowing management to restructure its operations and further develop its technologies and markets.

The increased revenues, improved gross margins and decreases operating losses in 2013, are an important step in Company's objective to achieve break-even measured on a cash basis.

RELATED PARTY TRANSACTION

Details of related party transactions are disclosed in note 15 of the financial statements for the period ended June 30, 2013.

There are no material changes during the 2013 fiscal year in the nature or extent of the related party transactions from those conducted in the 2012 business year, and these transactions are in the normal course of business.

SUBSEQUENT EVENTS

No material subsequent events took place pursuant to the end of 2013-Q2.

OUTLOOK

Over the recent past, and in conjunction with PyroGenesis' successful efforts to secure its first commercial reorder, Management has undertaken substantial measures to lower its operating costs and to refocus its strategic objectives with the intent of leveraging off the Company's strengths. The benefits of the measures put in place during this period, are continuing to show significant results and Management expects this will continue into the foreseeable future.

The realignment of PyroGenesis' business to emphasize higher margin, lower lead-time projects is reflected in 2013-Q2 gross margin of 41.3% (2013-Q1 gross margins of 50.1%).

The Company is also reaping the benefits of the restructuring it has undertaken and which saw a realignment of both its finance and operations departments. These realignments have greatly improved budgeting, reporting and project management within the Company. PyroGenesis is also in the process of strategically refocusing its business development department. As such, Management is continuing to implement measures to strengthen and focus its business development department, which includes, amongst other things, hiring strategically focused professionals and realigning the Company's business development efforts. These changes are expected to result in an improved management of the significant business opportunities arising from small improvements to date.

As a result of these improvements, revenues increased 73% in 2013-Q2 over same period last year, and management expects revenues to further increase as the full effects of the Business Development realignment are felt.

The Company's restructuring together with the development of new markets for its products and its strategic refocusing, combined with the unprecedented commercial validation of PyroGenesis' plasma waste destruction systems by their acceptance and reorder, position the Company as a strong and credible player both within the market for plasma based waste destruction technologies as well as that for niche torch applications.

As a result of these changes and developments, Management believes that the Company is now better positioned to secure multiple contracts and achieve significant growth in revenues and profitability in the mid-term. Management is of the opinion that, although the future is not without its challenges, the Company is executing its strategy embarked on in 2012, and is well positioned to build on this success.

ADDITIONAL INFORMATION

Additional information regarding the Company can be found on SEDAR at www.sedar.com.