PYROGENESIS CANADA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and twelve months ended December 31, 2013

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

April 30, 2014

This management's discussion and analysis (MD&A) of PyroGenesis Canada Inc. ("PCI" or the "Company") has been prepared by management and should be read in conjunction with the audited financial statements and related notes thereto of the Company for the period ended December 31, 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 April 30th, 2014. 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 the results 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 cost of sales 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, 2013. 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 Canada, a TSX Venture 50® company, is the world leader in the design, development, manufacturing and commercialization of advanced plasma processes. The company provides engineering and manufacturing expertise, cutting-edge contract research, as well as turnkey process equipment packages to the defense, metallurgical, mining, advanced materials, oil & gas, and environmental industries. With a team of experienced engineers, scientists and technicians working from its Montreal office and its 3,800 m^2 demonstration facility, PyroGenesis maintains its competitive advantage by remaining at the forefront of technology development and commercialization. PyroGenesis' core competencies allows the Company to be a leader in providing innovative plasma torches, plasma waste processes, high-temperature metallurgical processes, and engineering services to the global marketplace. PyroGenesis' operations are ISO 9001:2008 certified, and have been since 1997. PyroGenesis is a publicly-traded Canadian company on the TSX Venture Exchange (Ticker Symbol PYR.V).

SELECTED FINANCIAL INFORMATION

	Three months ended Dec 31, 2013	2012	% Change	Twelve months ended Dec 31, 2013	2012	% Change
Revenue	**$ 1,878,793**	$ 1,221,501	54%	**$ 5,756,009**	$ 3,323,236	73%
Cost of sales and services before amortization of intangible assets	**887,307**	839,927		**3,133,812**	3,444,560	
Gross margin before amortization of intangible assets	**991,486**	381,574		**2,622,197**	(121,324)	
Amortization of intangible assets	**349,268**	349,268		**1,397,073**	1,397,073	
Gross margin	**642,218**	32,306		**1,225,124**	(1,518,397)	
Selling, general and administrative	**1,029,572**	738,185		**4,051,354**	3,832,087	
Research and development	**81,773**	-		**210,977**	-	
Financing charges	**92,569**	134,288		**372,126**	468,791	
	1,203,914	872,473		**4,634,457**	4,300,878	
Loss from operations	**(561,696)**	(840,167)	-33%	**(3,409,333)**	(5,819,275)	-41%
Other income	**25**	2,032		**2,894**	12,147	
Loss on settlement of convertible debenture	**-**	(2,007)			(2,007)	
Impairment loss on property and equipment	**(581,638)**	-		**(581,638)**	-	
Comprehensive loss	**$ (1,143,309)**	$ (840,142)	36%	**$ (3,988,077)**	$ (5,809,135)	-31%
Basic and fully diluted loss per share	**$ (0.02)**	$ (0.01)	79%	**$ (0.06)**	$ (0.09)	-30%
EBITDA (loss)	**$ (635,344)**	$ **(286,305)**	122%	**$ (2,012,912)**	$ **(3,684,320)**	-45%

Extract from Statement of Financial Position at :

	Dec 31, 2013	Dec 31, 2012
Total assets	**$ 7,170,872**	$ 10,235,869
Current liabilities	**3,621,024**	4,231,512
Non-current liabilities	**8,159,862**	8,458,668
Total Liabilities	**$ 11,780,886**	$ 12,690,180

RESULTS OF OPERATIONS

Revenues

Revenues for the 2013 year totaled $5,756,009, an increase of 73% from the $3,323,236 reported for the 2012 year. This increase in revenue in 2013 is primarily a result of $3.6 million of revenues on the execution of a $5.6 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 in 2013 and 2014.

Revenues for the fourth quarter of fiscal year 2013, ended December 31, 2013 (hereafter "2013-Q4") were $1,878,793, an increase of 54% over revenues of $1,221,501 reported during the same period in fiscal 2012. Revenues in 2013-Q4 are positively impacted by the work achieved and recognition of the revenues on the CVN-79 project, as well as other projects in progress or completed in the quarter.

Additionally impacting the 2013-Q4 revenues are $658,187 of revenues associated with the sale by the Company of its 50% share in a development project to its joint-operation partner.

Cost of Sales and Services and Gross Margin

Cost of Sales and Services

	Three months ended Dec 31, 2013	2012	% Change	Twelve months ended Dec 31, 2013	2012	% Change
Employee Compensation	**$ 80,559**	$ 226,937	-65%	**$ 705,509**	$ 1,393,062	-49%
Subcontracting	**7,294**	62,266	-88%	**50,012**	660,035	-92%
Direct materias	**735,538**	548,710	34%	**2,139,308**	1,100,125	94%
Manufacturing overhead & other	**131,386**	249,220	-47%	**408,694**	681,775	-40%
Government grants and investment tax credits	**(67,470)**	(247,206)	-73%	**(169,711)**	(390,437)	-57%
Sub-total before amortization of intangible assets	**887,307**	839,927	6%	**3,133,812**	3,444,560	-9%
Amortization of intangible assets	**349,268**	349,268	0%	**1,397,073**	1,397,073	0%
Total Cost of Sales and Services	**$ 1,236,575**	$ 1,189,195	4%	**$ 4,530,885**	$ 4,841,633	-6%

Gross Margin

	Three months ended Dec 31, 2013	2012	Twelve months ended Dec 31, 2013	2012
Revenues	**$ 1,878,793**	$ 1,221,501	**$ 5,756,009**	$ 3,323,236
Cost of Sales and Services before amortization of intangible assets	**887,307**	839,927	**3,133,812**	3,444,560
Gross Margin before amortization of intangible assets	**991,486**	381,574	**2,622,197**	(121,324)
Gross Margin % before amortization of intangible assets	**52.8%**	31.2%	**45.6%**	-3.7%
Amortization of intangible assets	**349,268**	349,268	**1,397,073**	1,397,073
Gross Margin after amortization of intangible assets	**$ 642,218**	$ 32,306	**$ 1,225,124**	$ (1,518,397)
Gross Margin % after amortization of intangible assets	**34.2%**	2.6%	**21.3%**	-45.7%

Cost of Sales and Services before the cost of amortization of intangible assets for the 2013 year was $3,133,812, a decrease of 9.0% over the $3,444,560 reported during the prior fiscal year.

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 direct materials and equipment ("direct materials") than in the first order, as reflected in the financial results.

The level of direct material costs incurred on projects in 2013 has increased by 94% from 2012 and 34% during 2013-Q4. Direct materials for 2013 were $2,139,308 versus $1,100,125 for 2012. Throughout 2013, the key equipment components and systems were procured and incorporated in our CVN-79. The actual level of direct material costs can vary significantly from one quarter to another, and is influenced directly by the number of projects being executed and the level of direct material cost components in the contracts under execution.

Throughout 2013, management implemented more stringent and effective project management methods on the execution of its projects which results in more efficient use of labor charged on projects. In-house labor costs recorded on projects have decreased 49% in fiscal 2013. Starting in 2013, management took the strategic decision to invest in the development of internally funded R&D projects. The costs associated with the execution of internally funded research and development projects have been isolated and presented as a separate cost element on the Statement of Comprehensive Loss.

The level of sub-contracting has returned to more normal levels during 2013. In the prior year, the Company executed a large portion of project management via sub-contracting on a project that was based outside of Canada.

Starting in 2012, the Company implemented significant cost containment measures. As a result of these measures, the Company is better positioned and has become more competitive as many of the cost containment measures have a long term positive impact on the company's profitability. The savings from the containment measures are reflected in the year with manufacturing overhead being reduced by 40% over the prior year. All manufacturing overhead costs have been fully applied against Cost of Sales and Services in the quarter.

The level of government grants and investment tax credits applied against Cost of Sales and Services has decreased in 2013 by $220,726. In 2013, the Company created a separate R&D department where in-house funded R&D costs are captured. These costs are reported outside of Cost of Sales and Services. Additionally in 2013 the level of qualifying R&D expenditures are lower simply due to the nature of the projects executed (major repeat order with US Navy Ford-class air craft carrier).

The amortization of intangible assets of $1,397,073 is related to the licenses and know - how purchased in 2011 from a company under common control. This expense is a non-cash item and the underlying asset will be fully amortized by the end of 2016.

Building on the improvement in gross margin on projects that started in late 2012, the 2013 fiscal year shows an impressive improvement in gross margin over 2012. Gross margin for 2013 before amortization of intangible assets was $2,622,197 (45.6% on revenues), versus a negative margin of $121,324 (negative 3.7% on revenues) for 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 direct materials.

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 its 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.

During 2013-Q4, Cost of Sales and Services before amortization of intangible assets was $887,307, an increase of 6.0% over the $839,927 reported during the same period the prior fiscal year. The level of employee compensation in 2013-Q4 was positively affected by an adjustment to bring costed labor in-line with actual salary and benefits costs. Direct materials were 34.0% higher in 2013-Q4 than the same period the prior year due to procurement related to the CVN 79 project.

Gross Margin in 2013-Q4 was particularly strong with gross margin before amortization of intangible assets at $991,486 (52.8% of revenues) as compared to gross margin of $381,574 (31.2% of revenues) for the same period the prior year. The current quarter’s gross margin is favorably impacted by the reduction to project cost projections based on achieved savings on labor and direct materials on projects sufficiently advanced to allow management to recognize these savings to profit.

Selling, General and Administrative Expenses

	Three months ended Dec 31, 2013	2012	% Change	Twelve months ended Dec 31, 2013	2012	% Change
Employee compensation	$ 444,568	$ 362,504	23%	$ 2,061,938	$ 1,267,275	63%
Professional fees	197,842	(33,830)	-685%	527,771	567,941	-7%
Office and general	63,282	142,753	-56%	278,607	354,079	-21%
Travel	31,164	49,070	-36%	113,805	241,999	-53%
Depreciation of Machinery and Equipment	66,128	70,281	-6%	205,966	258,951	-20%
Other expenses	65,108	64,062	2%	256,379	189,787	35%
Sub-total before Share-based payments	868,092	654,840	33%	3,444,466	2,880,032	20%
Share-based payments	161,480	83,345	94%	606,888	952,055	-36%
Total selling, general and administrative	$ 1,029,572	$ 738,185	39%	$ 4,051,354	$ 3,832,087	6%

Selling, general and administrative ("SG&A") expenses for fiscal 2013 are $4,051,354, an increase of 6% versus the $3,832,087, reported during fiscal year 2012. 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, SG&A, increased by 20% in 2013 versus 2012.

The increase in SG&A spending in 2013 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 individuals and increased proposal costs. In 2012 Q3, the level of the vacation pay accrual was re-evaluated which resulted in a one-time reduction to salary expense in the amount of $232,000. This one-time adjustment in the vacation pay accrual decreased significantly the reported net SG&A salary costs in 2012.

Reduction in Selling, General and Administrative costs were realized on professional fees paid to third parties, office and general, travel and in depreciation expense of property and equipment.

Management has taken the strategic decision to increase the resources available in business development, proposals and general management. Management believes that these increased investments will result in increased levels of new business volumes as it seeks to expand into new market segments.

Research and Development ("R&D") Costs

Starting in 2013, the Company has decided to account and disclose the net costs incurred on internally funded R&D projects as a line item on the Statement of Comprehensive Loss to better report the level of spending on this important area of its business. In 2013, management took the strategic decision to increase the level of internally funded R&D projects, which it determines to be critical to achieve new technological improvements to its product offerings. Prior to 2013, all of the Company's R&D work was done as part of their contract research services and on externally client funded projects some of which were R&D expenditure eligible.

Internally Funded R&D Project Costs

	Three months ended Dec 31, 2013	2012	Twelve months ended Dec 31, 2013	2012
Employee compensation	**$ 114,303**	$ -	**$ 287,259**	$ -
Subcontracting	**13,069**		**46,134**	
Materials and equipment	**7,636**	-	**27,445**	-
Other expenses	**463**	-	**1,003**	-
Sub-total before government grants	**135,471**	-	**361,841**	-
Government grants	**(53,698)**	-	**(150,864)**	-
Total net R&D costs	**$ 81,773**	$ -	**$ 210,977**	$ -

During the 2013 fiscal year, the Company incurred $361,841 of costs on internal R&D projects, and received government grants totaling $150,864, for net R&D spending of $210,977.

During 2013-Q4, the Company incurred $135,471 of R&D costs, and received government grants totaling $53,698, for net R&D spending of $81,773.

In addition to internally funded R&D projects, the company incurred R&D eligible expenditures on execution of external client funded projects. R&D tax credits on the external client funded projects are applied against Cost of Sales and Services (see below).

Research and Development Tax Credits

	Three months ended Dec 31, 2013	2012	% Change	Twelve months ended Dec 31, 2013	2012	% Change
Investment tax credits	**$ 67,470**	$ 242,263	-72%	**$ 169,711**	$ 361,324	-53%

Research and development ("R&D") tax credits of $169,711 were accrued in the 2013 fiscal year versus an amount of $361,324 in 2012, and $67,470 in 2013-Q4 versus $242,263 in 2012-Q4.

As PyroGenesis focuses on the commercialization (sales and delivery) of its proven technologies, the number of projects eligible for R&D tax credits decreases. PyroGenesis continues to make strategic investments in research and development projects incorporating the involvement of partners and government bodies where strategically justified.

Financing Charges

Financing Charges

	Three months ended Dec 31, 2013	2012	% Change	Twelve months ended Dec 31, 2013	2012	% Change
Financing charges	$ **92,569**	$ 134,288	-31%	**$ 372,126**	$ 468,791	-21%

Financing charges decreased by 21% to $372,126 for the 2013 fiscal year, versus $468,791 for the prior year, and decreased by 31% for 2013-Q4 versus 2012-Q4.

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

Depreciation of Property and Equipment

	Three months ended Dec 31, 2013	2012	% Change	Twelve months ended Dec 31, 2013	2012	% Change
Depreciation of property and equipment	**$ 66,128**	$ 70,281	-6%	**$ 205,966**	$ 258,951	-20%

Depreciation of property and equipment decreased by 20% to $205,966 in the 2013 fiscal year, versus $258,951 for 2012, and decreased by 6% in 2013-Q4 over the same period last year. 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.

Comprehensive loss

	Three months ended Dec 31, 2013	2012	% Change	Twelve months ended Dec 31, 2013	2012	% Change
Loss from operations	**$ (561,696)**	$ (840,167)	-33%	**$ (3,409,333)**	$ (5,819,275)	-41%
Total comprehensive loss	**$ (1,143,309)**	$ (840,142)	36%	**$ (3,988,077)**	$ (5,809,135)	-31%

The Loss from operations for fiscal 2013 was $3,409,333 compared to a loss of $5,819,275 in fiscal 2012; a decrease of 41%. The 2013-Q4 Loss from operations decreased by 33% over the same period in the prior year ($561,696 compared to $840,167).

The significant reduction in the Loss from operations in 2013 is due primarily to a 73% increase in revenues (net increase of $2,432,773), and an improvement in gross margin of $2,743,521.

The Total comprehensive loss for fiscal 2013 was $3,988,077 compared to a loss of $5,809,135 in fiscal 2012; a decrease of 31%. The 2013-Q4 Total comprehensive loss increased by 36% over the same period in the prior year. In 2013-Q4, management took a strategic decision to sell it 50% stake in a joint operation to develop an environmentally friendly and cost effective Steam Plasma Arc (SPARC) Destruction System which allows clients to safely destroy ozone-depleting substances (ODS). This transaction resulted in a write-down of the Company's investment in the operation of $581,638. As part of the sale agreement, the purchaser will commercialize the patented SPARC technology on an exclusive basis within Canada. This agreement contains several options for follow-on services contracts, all of which are expected to be executed within 2014. PCI continues to own the SPARC technology and all worldwide commercialization rights.

EBITDA

	Three months ended Dec 31, 2013	2012	% Change	Twelve months ended Dec 31, 2013	2012	% Change
Comprehensive loss	**$ (1,143,309)**	$ (840,142)	36%	**$ (3,988,077)**	$ (5,809,135)	-31%
Depreciation of property and equipment	**66,128**	70,281		**205,966**	258,951	
Amortization of intangible assets	**349,268**	349,268		**1,397,073**	1,397,073	
Financing charges	**92,569**	134,288		**372,126**	468,791	
EBITDA (loss)	**$ (635,344)**	$ (286,305)	122%	**$ (2,012,912)**	$ (3,684,320)	-45%
Other non-cash items:						
Share-based payments	**161,480**	83,345		**606,888**	952,055	
EBITDA (loss) before share-based payments	**$ (473,864)**	$ (202,960)	133%	**$ (1,406,024)**	$ (2,732,265)	-49%

The Company reports on its EBITDA (Earnings from operations before interest, taxes, depreciation and amortization and shared-based payments). EBITDA is not a performance measure defined under IFRS and is not considered an alternative to income (loss) from operations or net earnings (loss) in the context of measuring Company's performance. EBITDA does not have a standard meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies.

The EBITDA loss decreased by 45% to -$2,012,912 for fiscal 2013 compared to a loss of -$3,684,320 for fiscal 2012, and increased by 122% to -$635,344 in 2013-Q4 versus a loss of -$286,305 for 2012-Q4. The 2013-Q4 EBITDA loss includes the impairment loss on sale of the Company's joint-operation of $581,638.

Another significant non-cash item which is excluded in computing EBITDA is the cost of the share-based payments. For fiscal 2013, the share-based payments were valued at $606,888. EBITDA for fiscal 2013 before share-based payments is -$1,406,024 versus -$2,732,265 for the prior year.

The significant improvement in the EBITDA during 2013 is a result of increased revenues and improved gross margins on projects.

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 throughout 2013.

SUMMARY OF QUARTERLY RESULTS

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	$ 1,878,793	$ 1,394,255	$ 1,341,818	$ 1,141,143	$ 1,221,501	$ 516,595	$ 777,197	$ 807,943
Loss from operations	(561,696)	(916,604)	(976,894)	(954,139)	(840,167)	(1,742,758)	(1,358,294)	(1,878,056)
Total comprehensive loss	(1,143,309)	(915,156)	(975,473)	(954,139)	(840,142)	(1,742,581)	(1,358,249)	(1,868,163)
Net loss per share - basic	(0.02)	(0.01)	(0.02)	(0.02)	(0.01)	(0.03)	(0.02)	(0.03)

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 five quarters, with overall increasing revenues, improved gross margins and decreased losses. 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 2013 fiscal year, the primary sources of funding for PyroGenesis have been cash generated from projects and from a private equity offering concluded in December 2013.

At December 31, 2013, PyroGenesis had cash on hand of $1,182,835 and negative working capital of $1,373,763 (negative $1,436,384 at December 31, 2012). Included in the non-current liabilities at December 31, 2013, are "loans from related parties" totaling $860,440 which have been deferred until April 1, 2015 to provide the Company with additional short-term funding.

Since the end of 2012-Q1, there is no debt owing to unrelated 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.

In late November 2012, the Company announced that it had secured a $5.6 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 throughout 2013. At December 31, 2013, the current backlog of signed contracts stands at $7,900,000 of which all is anticipated to be recognized as revenues in 2014.

Summary of Cash Flows

	Three months ended Dec 31, **2013**	2012	Twelve months ended Dec 31, **2013**	2012
Cash provided by (used in) by operating activities	$ **(157,571)**	$ 915,269	$ **(1,613,682)**	$ 353,789
Cash provided by (used in) investing actiities	**(173,169)**	(166,095)	**(325,734)**	(591,127)
Cash provided by (used in) financing activities	**919,185**	322,148	**926,680**	1,951,513
Increase (decrease) in cash	**588,445**	1,071,322	**(1,012,736)**	1,714,175

For the twelve months ended December 31, 2013, cash flow from operating activities resulted in a net use of cash of $1,613,682 compared to a generation of cash from operating activities of $353,789 for the same period the prior year. Despite the significant reductions in the Comprehensive Loss in 2013 versus 2012 (reduction of $1,821,058), 2013 had an adjusted net use of cash from operating activities of $1,196,512, plus a net change in non-cash operating working capital items of $417,170.

For the three months ended Dec 31, 2013, cash flow from operations resulted in a net use of cash of $157,571, compared to a net generation of cash of $915,269 for the same period the prior year.

Investing activities resulted in use of cash of $325,734 and $591,127 for the 2013 and 2012 fiscal years respectively. Cash used for investment activities in 2013 was related to increase in the investment in the torch asset under construction (part of Property and equipment) which was sold to a joint-operation partner in December 2013.

Financing activities resulted in a source of funds of $926,680 and $1,951,513 for the 2013 and 2012 fiscal years respectively. In December 2013, the Company completed its second private placement with existing shareholders through which gross proceeds of $1,281,000 were raised for general working capital purposes.

On April 22, 2014 (subsequent to the 2013 fiscal year), the Company announced that it has entered into an agreement with Mackie Research Capital Corporation (to act as an agent) to undertake a private placement of units for gross proceeds to the Company of approximately $3,000,000. The net proceeds from the offering will be used for general corporate purposes, working capital and development projects relating to recent business development efforts. Closing of the offering is scheduled to occur on or about May 13, 2014, subject to the approval of the TSX Venture Exchange and the satisfaction of other customary closing conditions.

As described in note 15 of the December 31, 2013 financial statements, the $40,000 per month balance of sale payments were partially made versus as called for in the balance of sale agreement with a company under common control. On December 16, 2013, the Company signed another amending agreement to amend the terms and conditions of the balance of sale – company under common control. Based on the new amendment, each instalment for the period starting on October 1, 2013 and ending on May 1, 2014 will be completely deferred until April 1, 2015 except for a payment of $178,175 to be made on or before December 31, 2013 and for a payment of $30,000 to be made on or before January 31, 2014.

However, in the event that the Company should conclude a financing in excess of $3,000,000 before April 1, 2015, all deferred amounts will become immediately due and payable on the closing date of the financing. Additionally, in the event of any change within the Company that would be considered material by the holder of the balance of sale, such as a change in management, any and all amounts outstanding will become immediately due and payable on the date of the material change notwithstanding whether due or not at that date.

Additionally, the amount payable to a trust beneficially owned by a shareholder of \$382,025 has been deferred to July 1, 2015. These deferrals of payment have been granted in order to provide the Company with additional short-term financing.

For the fiscal year ended December 31, 2013, the net cash position of the Company decreased by \$1,012,736 as compared to a net increase of \$1,714,175 for the same period in the prior year. For the three month period ended December 31, 2013, the net cash position of the Company increased by \$588,445 as compared to an increase of \$1,071,322 for the same period the prior year.

Increasing revenues and gross margins, decreasing losses from operations, the December private placement and tightly managed cash flows on project and corporate expenditures have been critical in providing needed working capital in 2013.

Despite the growth in revenues, strong improvements in gross margins and decreasing the level of the operating loss, the Company remains committed to raising additional cash from operations and or to seek additional cash from equity issuances as it continues to further increase its business volume and improve its technical offerings.

GOING CONCERN

Despite the increased level of revenues in 2013, 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 further. Management's plan for the balance of 2014 and beyond, calls for increased order intake and revenues, competitive gross margins and controlled SG&A expense levels.

The December 31, 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 recurring operating losses. 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 in 2011 and the subsequent two private placements which took place in March 2012 and December 2013, 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 the Company's objective to achieve break-even measured on an EBITDA basis.

RELATED PARTY TRANSACTION

Details of related party transactions are disclosed in note 19 of the financial statements for the period ended December 31, 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

On April 22, 2014, the Company announced that it has entered into an agreement with an agent to undertake a private placement at a price of $0.60 per unit for gross proceeds of approximately $3,000,000. Each unit will be composed of one common share and one-half of one common share purchase warrant. The warrant will entitle the holder to purchase one common share at the price of $0.85. The warrants will expire 18 months following the closing date and will be subject to accelerated expiry provisions, such that if at any time after the completion of the hold period, the closing price of the common shares on the TSX Venture is at least $1.20 per common share for a period of 20 consecutive trading days, the Company may accelerate the expiry date of the warrants, in which event it will expire upon the date which is 20 days following the date the Company provides written notice of the accelerated expiry to holders.

The agent will be paid 7% in cash commission and will be granted an option to purchase common shares equal to 7% of the number of units issued in the private placement with the option expiring 18 months from the closing date.

OUTLOOK

2013 has been a watershed year for PyroGenesis as the full effect of the rationalization programs instituted in 2012 were realized as the largest business development push in the history of the company took hold. As a result, gross margins of 45% exceeded targeted goals and sales increased year over year by over 73% to 5.7MM; more to the point, backlog as of Dec 31, 2013, which is mostly expected to be accounted for as 2014 revenues, already exceeds 2013 Revenues by more than 40%. Management fully expects to have at least 100% growth in revenues year over year for the next three years while maintaining competitive gross margins.

The Company continues to implement measures to strengthen and focus its business development department, which includes, amongst other measures, hiring strategically focused professionals and realigning the company's business development efforts.

Previously mentioned efforts to refocus the Company's strategic objectives with the intent of leveraging off Company strengths have proven highly effective. Under the direction of the board of directors, this strategy has significantly "de-risked" your Company's business by becoming less dependent on environmental sales to the US Military as PyroGenesis has successfully increased sales of its proprietary plasma processes into the high-margin niche market segments in the oil and gas as well as the mining and metallurgical industries; the latter of which includes the recently announced success within the 3D printing industry wherein PyroGenesis has a proven, and commercially available, technology platform which can produce the most spherical Titanium powders highly sought after in 3D printing.

The company has further de-risked its business model by starting to incorporate recurring revenue features within the sales agreement. Management has targeted 2016 as the year in which the Company will be profitable from recurring revenues alone.

In conclusion, management is confident that the strategic plan adopted by the Board which has given effect to the realignment and de-risking of the Company's business, has proved a success and management expects that this success will continue and be improved upon into the foreseeable future.

ADDITIONAL INFORMATION

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