PyroGenesis Canada Inc.

Condensed
Interim Financial Statements

Three Months Ended March 31, 2013 and 2012

(Unaudited)

PyroGenesis Canada Inc.

Three Months Ended
March 31, 2013 and 2012

Contents

PyroGenesis Canada Inc.

Condensed Interim Statement of Financial Position

(Unaudited) At	**March 31, 2013 $**	December 31, 2012 $
Assets		
Current assets		
Cash	**563,659**	2,195,571
Accounts receivable *[note 4]*	**240,132**	157,013
Sales tax receivable	**81,714**	118,603
Investment tax credits receivable *[note 5]*	**266,550**	254,550
Prepaid expenses	**79,903**	69,391
Total current assets	**1,231,958**	2,795,128
Property and equipment *[note 6]*	**1,804,512**	1,852,845
Intellectual property *[note 7]*	**5,238,627**	5,587,896
Total assets	**8,275,097**	10,235,869
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *[note 8]*	**1,222,834**	1,959,309
Current portion of obligation under finance lease	**2,763**	2,763
Billings in excess of costs and profits on uncompleted contracts	**1,908,847**	2,269,440
Loans - other - current portion *[note 10]*	**768,130**	-
Total current liabilities	**3,902,574**	4,231,512
Non-current liabilities		
Obligation under finance lease	**8,214**	8,896
Loans - other *[note 10]*	**7,626,919**	8,449,772
Total liabilities	**11,537,707**	12,690,180
Shareholders' deficiency *[note 11]*		
Common shares	**12,249,527**	12,249,527
Warrants	**1,497,948**	1,497,948
Contributed surplus	**1,808,930**	1,663,090
Other equity	**24,844**	24,844
Deficit	**(18,843,859)**	(17,889,720)
	(3,262,610)	(2,454,311)
	8,275,097	10,235,869

Approved on behalf of the board:

"P. Peter Pascali" *P. Peter Pascali*

"Alan Curleigh" *Alan Curleigh*

See accompanying Notes to the Financial Statements

PyroGenesis Canada Inc.

Condensed Interim Statement of Comprehensive Loss

(Unaudited)

Three months ended March 31	**2013** $	2012 $
Revenue	**1,141,143**	807,943
Expenses		
Cost of sales and services *[note 13]*	**918,131**	1,513,116
Selling, general and administrative *[note 13]*	**1,081,936**	1,039,134
Financing charges	**95,215**	133,749
	2,095,282	2,685,999
Loss from operations	**(954,139)**	(1,878,056)
Other income	**-**	9,893
Total comprehensive loss	**(954,139)**	(1,868,163)
Basic and fully diluted loss per share	**$(0.02)**	$(0.03)
Weighted average number of common shares outstanding - basic and diluted	**63,538,649**	59,212,417

See accompanying Notes to the Financial Statements

PyroGenesis Canada Inc.

Condensed Interim Statement of Changes in Deficiency

(Unaudited)
Three months ended March 31

	Number of Class A common shares	Class A common shares $	Warrants $	Contributed surplus $	Other Equity $	Deficit $	Total $
Balance – January 1, 2013	**63,538,649**	**12,249,527**	**1,497,948**	**1,663,090**	**24,844**	**(17,889,720)**	**(2,454,311)**
Share based payment	**-**	**-**	**-**	**145,840**	**-**	**-**	**145,840**
Comprehensive loss during the period	**-**	**-**	**-**	**-**	**-**	**(954,139)**	**(954,139)**
Balance – March 31, 2013	**63,538,649**	**12,249,527**	**1,497,948**	**1,808,930**	**24,844**	**(18,843,859)**	**(3,262,610)**

	Number of Class A common shares	Class A common shares $	Warrants $	Contributed surplus $	Other Equity $	Deficit $	Total $
Balance – January 1, 2012 (restated)	**59,114,094**	**10,596,651**	**110,306**	**711,035**	**30,966**	**(12,080,585)**	**(631,627)**
Issuance of common shares *[note 11(i)]*	**4,424,555**	**3,539,644**	**-**	**-**	**-**	**-**	**3,539,644**
Fair value warrants *[note 11(i)]*	**-**	**(1,332,234)**	**1,332,234**	**-**	**-**	**-**	**-**
Brokers' fees – cash payment *[note 11(i)]*	**-**	**(234,000)**	**-**	**-**	**-**	**-**	**(234,000)**
Additional legal fees *[note 11(i)]*	**-**	**(137,239)**	**-**	**-**	**-**	**-**	**(137,239)**
Additional agent fees *[note 11(i)]*	**-**	**(127,887)**	**-**	**-**	**-**	**-**	**(127,887)**
Broker warrants *[note 11(i)]*	**-**	**(55,408)**	**55,408**	**-**	**-**	**-**	**-**
Share based payment	**-**	**-**	**-**	**208,523**	**-**	**-**	**208,523**
Comprehensive loss during the period	**-**	**-**	**-**	**-**	**-**	**(1,868,163)**	**(1,868,163)**
Balance – March 31, 2012	**63,538,649**	**12,249,527**	**1,497,948**	**919,558**	**30,966**	**(13,948,748)**	**749,251**

See accompanying Notes to the Financial Statements

PyroGenesis Canada Inc.

Condensed Interim Statement of Cash Flows

(Unaudited)

Three months ended March 31	**2013** **$**	2012 $
Cash flows provided (used) by		
Operating activities		
Comprehensive loss	**(954,139)**	(1,868,163)
Items not requiring an outlay of cash:		
Expenses paid through issuance of options	**145,840**	208,523
Repayment of convertible FIER loan – equity portion	**-**	(30,966)
Amortization of property and equipment	**48,333**	62,890
Amortization of licenses	**349,269**	349,268
	(410,697)	(1,278,448)
Net change in non-cash operating working capital items *[note 12]*	**(1,165,810)**	1,030,304
	(1,576,507)	(248,144)
Investing activities		
Purchase of property and equipment	**-**	(271,189)
Financing activities		
Decrease in bank indebtedness	**-**	(240,000)
Repayment of obligation under finance lease	**(682)**	-
Repayment of loans – other	**(54,723)**	(249,455)
Repayment of long term debt	**-**	(976,396)
Proceeds from equity issues	**-**	3,539,644
Costs related to short form prospectus	**-**	(361,887)
	(55,405)	1,711,906
Increase (decrease) in cash	**(1,631,912)**	1,192,573
Cash - beginning of period	**2,195,571**	481,396
Cash - end of period	**563,659**	1,673,969

See accompanying Notes to the Financial Statements

1. Nature of operations and going concern disclosure

(a) Nature of operations

PyroGenesis Canada Inc. (the "Company") was formed by the amalgamation of PyroGenesis Canada Inc. with Industrial Growth Income Company ("IGIC") on July 11, 2011. . The Company owns patents of advanced waste treatment systems technology and provides such systems to its clients. The Company is domiciled at 1744 William Street, Suite 200, Montreal, Quebec. The Company is publicly traded on the TSX Venture Exchange under the Symbol "PYR". These financial statements were approved and authorized for issuance by the Board of Directors on May 30, 2013.

(b) Going concern

These financial statements have been prepared on the going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company has incurred substantial recurring losses to date $954,139 in 2013 and has an accumulated deficit of $18,843,859 at March 31, 2013. In addition, the Company's current liabilities exceed its current assets as at March 31, 2013 in the amount of $2,670,616.

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

In the future, it may be necessary for the Company to raise additional capital to fund its operations and continued development and introduction of new products to its family of products. To date, the Company has raised financing through successive issuances of equity. There is no certainty that the Company will continue to raise additional financing or expand its sales to fund its operations.

The financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should the Company be unable to achieve its plan and continue in business. If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the statements of financial position classifications used. The impact on the financial statements could be material.

2. Basis of preparation

(a) Statement of compliance:

These condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. These condensed interim financial statements do not include all of the necessary information required for full annual financial statements in accordance with IFRS and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2012.

(b) Functional and presentation currency

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

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following item in the statements of financial position:

- Financial instruments classified as fair value through profit or loss and available for sale are measured at fair value.

See accompanying Notes to the Financial Statements

3. Significant accounting policies

The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its financial statements as at and for the year ended December 31, 2012 except for the following new accounting pronouncements:

Adoption of new and revised standards

On January 1, 2013, the Company adopted the new or amended IFRS and Interpretations of IFRS ("Interpretations") that are mandatory for application from that date. Changes to the Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS and Interpretations. The adoption of these new or amended IFRS and Interpretations did not result in substantial changes to the Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years, except as disclosed below:

IAS 1 *Presentation of Financial Instruments*

The amendment to IAS 1, issued June 2011, requires items in other comprehensive income and their related income tax effects to be grouped on the basis of whether they may subsequently be reclassified to profit or loss. The amendment will only affect disclosure and is effective for annual periods beginning on or after July 1, 2012. The adoption of this new standard did not result in any changes to the condensed interim financial statements.

IFRS 11 *Joint arrangements*

IFRS 11, issued in May 2011, classifies joint arrangements as either joint operations or joint ventures based on the contractual rights and obligations of the arrangement rather than its legal form. Joint venturers use the equity method to account for their interest in the joint venture as proportionate consolidation is no longer permissible. Joint operators recognize and measure the relevant assets, liabilities, income and expenses based on applicable IFRSs, in relation to their interest in the arrangement. The standard, which supersedes IAS 31 *Joint ventures and SIC 13 Jointly controlled entities – Non-monetary contributions by venturers*, is effective for annual periods beginning on or after January 1, 2013. The adoption of this new standard did not result in any changes to the condensed interim financial statements.

IFRS 12 *Disclosures of interests in other entities*

IFRS 12, issued in May 2011, contains enhanced disclosure requirements for interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It replaces the disclosure requirements in existing IAS 27 *Consolidated and separate financial statements,* IAS 28 *Investments in associates* and IAS 31 *Interests in joint ventures*. The standard is effective for annual periods beginning on or after January 1, 2013. The adoption of this new standard did not result in any changes to the condensed interim financial statements.

IFRS 13 *Fair value measurement*

IFRS 13, issued in May 2011, redefines fair value to emphasize that it is a market-based measurement, not an entity-specific measurement. It also provides a single framework for measuring fair value and applies, with limited exceptions, when another standard permits or requires fair value measurement. In addition, IFRS 13 requires specific disclosures about fair value measurement. The standard is effective for annual periods beginning on or after January 1, 2013. The adoption of this new standard did not result in any changes to the condensed interim financial statements.

4. Accounts receivable

Accounts receivable are carried on the statements financial position net of an allowance for doubtful accounts. This provision is established based on the Company's best estimates regarding the ultimate recovery of balances for which collection is uncertain. Uncertainty of ultimate collection may become apparent from various indicators, such as a deterioration of the credit situation of a given client and delay in collection beyond the contractually agreed upon payment terms. Management regularly reviews accounts receivable, monitors past due balances and assesses the appropriateness of the allowance for doubtful accounts.

Details of accounts receivable were as follows:

	March 31, 2013 $	December 31, 2012 $
1 – 30 days	**143,413**	28,610
30 – 60 days	**13,405**	8,856
61 – 90 days	**-**	10,702
Greater than 90 days	**8,827**	8,827
Total	**165,645**	56,995
Receivable from joint operator	**74,487**	74,487
Other receivable	**-**	25,531
Total accounts receivable	**240,132**	157,013

5. Investment tax credits receivable

Research and development tax credits in the amount of $12,000 (2012 - $63,205) have been included as a reduction of $50,000 (2012 - $789,634) of related research and development expenses.

6. Property and equipment

	Computer hardware $	Computer software $	Machinery $	Computer hardware under finance lease $	Torch asset under construction $	Leasehold improve-ments $	Equipment under finance lease $	Total $
Cost:								
Balance at January 1, 2013	**131,735**	**203,114**	**1,545,260**	**25,859**	**925,417**	**67,903**	**14,326**	**2,913,614**
Additions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at March 31, 2013	**131,735**	**203,114**	**1,545,260**	**25,859**	**925,417**	**67,903**	**14,326**	**2,913,614**
Accumulated amortization:								
Balance at January 1, 2013	**(109,681)**	**(167,163)**	**(750,674)**	**(25,859)**	**-**	**(4,527)**	**(2,865)**	**(1,060,769)**
Amortization	**(2,481)**	**(4,494)**	**(39,730)**	**-**	**-**	**(1,138)**	**(490)**	**(48,333)**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at March 31, 2013	**(112,162)**	**(171,657)**	**(790,404)**	**(25,859)**	**-**	**(5,665)**	**(3,355)**	**(1,109,102)**
Net book value	**19,573**	**31,457**	**754,856**	**-**	**925,417**	**62,238**	**10,971**	**1,804,512**

6. Property and equipment (continued)

	Computer hardware $	Computer software $	Machinery $	Computer hardware under finance lease $	Torch asset under construction $	Leasehold improve-ments $	Equipment under finance lease $	Total $
Cost:								
Balance at January 1, 2012	**129,370**	**202,883**	**1,545,260**	**25,859**	**419,115**	**-**	**-**	**2,322,487**
Additions	**2,365**	**231**	**-**	**-**	**506,302**	**67,903**	**14,326**	**591,127**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at December 31, 2012	**131,735**	**203,114**	**1,545,260**	**25,859**	**925,417**	**67,903**	**14,326**	**2,913,614**
Accumulated amortization:								
Balance at January 1, 2012	**(92,603)**	**(131,328)**	**(552,028)**	**(25,859)**	**-**	**-**	**-**	**(801,818)**
Amortization	**(17,078)**	**(35,835)**	**(198,646)**	**-**	**-**	**(4,527)**	**(2,865)**	**(258,951)**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at December 31, 2012	**(109,681)**	**(167,163)**	**(750,674)**	**(25,859)**	**-**	**(4,527)**	**(2,865)**	**(1,060,769)**
Net book value	**22,054**	**35,951**	**794,586**	**-**	**925,417**	**63,376**	**11,461**	**1,852,845**

7. Intellectual property

Intangible assets are made up of licenses as follows:

2013	**Intellectual property $**
Cost:	
Balance at January 1, 2013	**8,409,051**
Additions	**-**
Disposals	**-**
Balance at March 31, 2013	**8,409,051**
Accumulated amortization:	
Balance at January 1, 2013	**(2,821,155)**
Amortization	**(349,269)**
Balance at March 31, 2013	**(3,170,424)**
Net book value	**5,238,627**

7. Licenses and intellectual property (continued)

2012	**Intellectual property $**
Cost:	
Balance at January 1, 2012	**8,409,051**
Additions	**-**
Disposals	**-**
Balance at December 31, 2012	**8,409,051**
Accumulated amortization:	
Balance at January 1, 2012	**(1,424,082)**
Amortization	**(1,397,073)**
Disposals	**-**
Balance at December 31, 2012	**(2,821,155)**
Net book value	**5,587,896**

On March 19, 2011, intellectual property and know-how was sold to PyroGenesis for $14,280,000 by a company controlled by the Company's controlling shareholder and will be payable in equal monthly instalments of $40,000 (Note 10) without interest. The payments commence on April 1, 2011 until December 31, 2040. The fair market value of this intellectual property was valued at $8,100,000 based on an independent external valuation. Prior to the purchase of the intellectual property, the Company carried the license related to this know-how for a carrying value of $463,574. The $7,636,426 represents the additional value attributed to the licenses as a result of the licenses becoming a part of the intellectual property acquired by the Company.

The intellectual property and know-how is being amortized on a straight line basis over it's remaining useful life, on March 19, 2011, of 5.79 years which represents the remaining useful life of the licenses at the time of purchase.

8. Accounts payable and accrued liabilities

	March 31, 2013 $	December 31, 2012 $
Accounts payable trade	**350,331**	592,215
Accrued liabilities	**425,795**	811,276
Accounts payable to a company under common control	**39,625**	51,625
Accounts payable - shareholder	**109,350**	149,213
Accounts payable - trust beneficially owned by the shareholder	**80,242**	137,489
Accounts payable - joint operator	**217,491**	217,491
	1,222,834	1,959,309

9. Joint operations

PyroGenesis entered into an agreement with another company to share costs, benefits and risks associated with the development of a pilot plasma destruction unit.

PyroGenesis has a 50% share in the joint operations. The activities to date have been the design, construction, assembly and commencement of commissioning of a torch asset system which is included in property and equipment in Note 6.

10. Loans – other

	2013	2012
	$	$
Balance of sale - company controlled by a shareholder (i)	**7,827,939**	7,889,861
Amounts payable - trust beneficially owned by the shareholder (ii)	**367,110**	359,911
Promissory note payable - company controlled by a shareholder (iii)	**200,000**	200,000
	8,395,049	8,449,772
Current portion	**768,130**	-
	7,626,919	8,449,772

(i) Due to – company under common control is payable in monthly instalments of $40,000 from April 1, 2011 until December 31, 2040 with interest at an implicit rate of 4.753% per annum. The implicit rate of interest is based on the present value of the cash flows at the time of sale having the same value as the intellectual property which were transferred to the Company in a transaction described in Note 7. The fair value of the intellectual property was based on an external independent valuation. During 2012, the $40,000 monthly instalments were not paid. The unpaid amounts were added back due to – company under common control in the amount of $436,591.

On February 1, 2012, the Company signed an amending agreement to amend the terms and conditions of the due to – company under common control. Based on the new agreement, payment for the period starting February 1, 2012 and ending February 1, 2013 has been postponed to March 31, 2014 except for a payment of $130,000 to be made on or before March 31, 2013.

Furthermore, each instalment for the period starting on March 1, 2013 and ending on March 1, 2014 will be reduced to $20,000 and the balance of each of these instalments will become due and payable on March 30, 2014.

However, in the event of any change with the Company that would be considered a material change by the directors, any and all outstanding amounts will become immediately due and payable on date of the material change.

(ii) Amounts payable - trust beneficially owned by the shareholder are unsecured, bear interest at 6% and is not repayable before January 1, 2014 unless of any change with the Company that would be considered a material change by the directors, any and all outstanding amounts will become immediately due and payable on date of the material change.

(iii) Promissory note payable - company under common control is unsecured, non-interest bearing, and is due March 31, 2014.

11. Shareholders' equity

Authorized:

The Company is authorized to issue an unlimited number of Class A common shares without par value.

Issues during 2012:

(i) On March 29, 2012, the Company completed an equity offering for a total of 4,424,555 Class A common shares at a price of $0.80 per share for net proceeds of $3,040,518 after a cash commission paid to the agents of $234,000, additional agent fees of $127,887 and legal fees of $137,239. Each unit is comprised of one Class A common share of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share at a price of $1.20 per Class A common share which can be exercised until March 29, 2015.

In accordance with the Black Scholes pricing model, the Company has allocated a value of $0.301 to the warrants for a total cost of $1,332,234 which has been credited to warrants. The following assumptions under the Black Scholes model were used to arrive at fair value:

Risk free interest rate	1.31%
Expected volatility	127%
Expected dividend yield	nil
Expected life	3 years

On closing, the agents received 309,719 warrants at a price of $0.80 which can be exercised until March 29, 2013.

In accordance with the Black Scholes pricing model, the Company has allocated a value of $0.179 to the warrants for a total cost of $55,408 which has been credited to warrants. The following assumptions under the Black Scholes model were used to arrive at fair value:

Risk free interest rate	1.07%
Expected volatility	128%
Expected dividend yield	nil
Expected life	1 year

(ii) On March 30, 2012, the broker warrants issued with the private placement that occurred on March 30, 2011 expired.

12. Supplemental disclosure of expenses and cash flow information

(i) Net changes in non-cash components of operating working capital

For the three months ended March 31,	**2013**	2012
	$	$
Decrease (increase) in:		
Accounts receivable	**(83,119)**	132,316
Sales taxes receivable	**36,889**	64,531
Investment tax credits receivable	**(12,000)**	989,521
Prepaid expenses	**(10,512)**	(67,067)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(736,475)**	(131,080)
Billings in excess of costs and profits on uncompleted contracts	**(360,593)**	28,529
	(1,165,810)	1,030,304

13. Other information

The Company is exposed to gains and losses as a result of foreign currency exchange fluctuations. Included in cost of sales and services is a foreign exchange loss of $7,581 (2012 - $8,566 foreign exchange loss),

During the three month period ended March 31, 2013, the Company recorded salary expenses of $816,433 (2012 Q1- $873,207).

14. Related party transactions

Rent was charged by a trust of which at least one of the trustees and beneficiaries is a shareholder and director of the Company in the amount of $26,880 (2012 - $30,995). A balance due of $80,242 (2012 - $76,387) is included in accounts payable and accrued liabilities.

Interest on long-term debt was charged by a trust of which at least one of the trustees and beneficiaries is a shareholder and director of the company in the amount of $7,198 (2012 - $5,086). Interest on long-term debt was also charged by a shareholder in the amount of $ nil (2012 - $2,498). The balance of interest on long-term debt that has not been paid of $ nil (2012 - $nil) is included in loans - other.

Interest on long-term debt was charged by a company under common control in the amount of $88,079 (2012 – $89,551)

Salaries to key management personal amounted to $191,750 (2012 - $108,750).

Fees of $19,506 were charged by directors (2012 - $26,917). A balance of $ nil (2012 - nil) is included in accounts payable and accrued liabilities.

Rent of $ nil (2012 - $99,000) was charged by a company under common control. A balance due of $39,625 (2012 - $2,058) is included in accounts payable and accrued liabilities.

Royalties of $ nil (2012 - nil) were charged by a company controlled by a shareholder.

These transactions are in the normal course of business and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

15. Credit risk

Risk management

The company generates revenues from customers in North America. The company performs credit evaluations of customers and generally does not require collateral. Allowances are maintained for potential losses. It is reasonably possible that the actual amount of loss, if any, incurred on accounts receivable will differ from management’s estimate.

One customer made up 36% trade receivables and a second customer made up 16% (2012 - one customer made up 26% trade receivables and a second customer made up 20%).

One customer made up 37% of revenues from operation and a second customer made up 27% (2012 - one customer made up 30%, a second customer made up 36%).