PYROGENESIS CANADA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2014

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

November 28, 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 unaudited financial statements and related notes thereto of the Company for the three and nine months ended September 30, 2014 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 November 28, 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 that relate, but are not limited, 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 labor 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 significant 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 (including 3D printing), 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 production 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 Sept 30, 2014	2013	% Change	Nine months ended Sept 30, 2014	2013	% Change
Revenue	$ 1,215,261	$ 1,394,255	-13%	$ 3,980,220	$ 3,877,216	3%
Cost of sales and services before amortization of intangible assets	722,860	818,793		2,039,701	2,246,505	
Gross margin before amortization of intangible assets	492,401	575,462		1,940,519	1,630,711	
Amortization of intangible assets	349,268	349,268		1,047,805	1,047,805	
Gross margin	143,133	226,194		892,714	582,906	
Selling, general and administrative	1,082,803	1,013,214		3,109,362	3,021,782	
Research and development	36,102	35,382		164,802	129,204	
Financing charges	19,970	94,202		197,274	279,557	
	1,138,875	1,142,798		3,471,438	3,430,543	
Loss from operations	(995,742)	(916,604)	9%	(2,578,724)	(2,847,637)	-9%
Other income	47	1,448		1,148	2,869	
Comprehensive loss	$ (995,695)	$ (915,156)	9%	$ (2,577,576)	$ (2,844,768)	-9%
Basic and diluted loss per share	$ (0.01)	$ (0.01)		$ (0.04)	$ (0.05)	
Adjusted EBITDA (loss)	$ (531,629)	$ (275,859)	93%	$ (1,024,660)	$ (932,160)	10%

Extract from Statement of Financial Position at :

		Sept 30, 2014		Dec 31. 2013
Current assets		2,303,773		2,247,261
Non-curret assets		3,829,884		4,923,611
Total assets	$	6,133,657	$	7,170,872
Current liabilities		2,495,452		3,621,024
Non-current liabilities		1,553,478		8,159,862
Total Liabilities	$	4,048,930	$	11,780,886
Shareholders' equity (deficiency)	$	2,084,727	$	(4,610,014)

RESULTS OF OPERATIONS

Revenues

Revenues for the third quarter of fiscal 2014, ending September 30, 2014 "2014-Q3", were $1,215,261, a decrease of 13% over revenues of $1,394,255 reported during the same period in fiscal year 2013. Revenues in 2014-Q3 are recognized based on progress achieved on the reorder of the plasma waste destruction system to be installed on the CVN-79, the next US Navy Ford-class aircraft carrier, by work completed under phase 1 of the tactical mobile plasma system for destruction of chemical warfare agents, by the ongoing R&D projects incorporating novel plasma based technologies in the oil and gas industrial sector, and on the work on the Company's latest project to manufacture ten plasma based powder production systems for 3D printing.

Revenues for the first nine months of fiscal 2014 were $3,980,220, an increase of 3% over revenues of $3,877,216 reported during the same period in fiscal year 2013.

Revenues are now derived from a broader client, technology and industry base, which is a result of the increased identification and acceptance of PyroGenesis' novel plasma solutions in various industries.

Year-to-date revenues were impacted by certain customer-originated delays with respect to the commencement of the deployment of the European 10 TPD Plasma Waste to Energy system, the cancellation of the second phase of the Asian Plasma Torch project, and the short-term postponement of activities related to the CVN-79 project during Q2, on which activity has since resumed. Management expects the deployment of the European plasma system to commence shortly.

Cost of Sales and Services and Gross Margin

	Three months ended Sept 30, 2014	2013	% Change	Nine months ended Sept 30, 2014	2013	% Change
Employee Compensation	$ 367,551	$ 213,892	72%	$ 894,708	$ 624,950	43%
Subcontracting	30,352	27,730	9%	42,503	42,718	-1%
Direct materials	216,669	517,823	-58%	769,171	1,403,770	-45%
Manufacturing overhead & other	126,294	141,889	-11%	386,644	277,308	39%
Investment tax credits	(18,006)	(82,541)	-78%	(53,325)	(102,241)	-48%
Sub-total before amortization of intangible assets	722,860	818,793	-12%	2,039,701	2,246,505	-9%
Amortization of intangible assets	349,268	349,268	0%	1,047,805	1,047,805	0%
Total Cost of Sales and Services	$ 1,072,128	$ 1,168,061	-8%	$ 3,087,506	$ 3,294,310	-6%

Gross Margin

	Three months ended Sept 30, 2014	2013	Nine months ended Sept 30, 2014	2013
Revenue	$ 1,215,261	$ 1,394,255	$ 3,980,220	$ 3,877,216
Cost of Sales and Services before amortization of intangible assets	722,860	818,793	2,039,701	2,246,505
Gross Margin before amortization of intangible assets	492,401	575,462	1,940,519	1,630,711
Gross Margin % before amortization of intangible assets	40.5%	41.3%	48.8%	42.1%
Amortization of intangible assets	349,268	349,268	1,047,805	1,047,805
Gross Margin after amortization of intangible assets	$ 143,133	$ 226,194	$ 892,714	$ 582,906
Gross Margin % after amortization of intangible assets	11.8%	16.2%	22.4%	15.0%

Cost of Sales before the cost of amortization of intangible assets for the third quarter of fiscal 2014, ending September 30, 2014, was $722,860, a decrease of 12% compared to costs of $818,793 reported during the same period in the prior fiscal year. On a year-to-date basis, the cost of sales and services before amortization of intangible assets was $2,039,701 as compared to $2,246,505 for the same period in the prior year; a decrease of 9%.

During 2014-Q3, employee compensation charged to Cost of Sales and Services increased by 72%, predominately as a result of increased project workload on the CVN-79 project, the tactical mobile plasma system, the manufacturing of the first of ten powder production systems (3D printing), projects in the oil and gas sector, and other new projects. Direct materials decreased versus the same period the prior year, which is a result of the procurement phase of the related projects. In 2014-Q3, the Company spending on the equipment and materials on projects CVN-79 was minimal as the project is near completion, whereas in 2013-Q3 major spending on equipment purchases was ongoing. Manufacturing overhead and other costs decreased by 11% due mainly to foreign exchange gain realized of purchases of equipment on material on projects versus a net foreign exchange loss in 2013 Q3.

The type of contracts and the nature of project activity that are being executed during any given quarter will have a significant impact on both the overall level of cost of sales and services reported in a period as well as the composition of the cost of sales and service (mix between labor and materials and equipment).

In 2013, management implemented stringent and effective project management methods with respect to project execution which have resulted in a more efficient use of labor resources in engineering, procurement and manufacturing. In-house labor costs recorded on projects are consistently at or below targeted budget levels. Also in 2013, management undertook to invest more heavily in the development of internally funded R&D projects, and as such these costs are now reflected as a separate line item on the Statement of Comprehensive Loss. The investment tax credits recorded against Cost of Sales are related to external client funded projects that qualify for tax credits.

The number of projects the company is executing and has under development is increasing significantly. Due to ongoing efforts to reduce fixed manufacturing costs and streaming lining its operating procedures the Company is well positioned to address the higher business volumes. The Company has become more competitive, as the majority of these cost containment measures are permanent and as such will have a long term impact on the company's profitability. All manufacturing overhead costs are fully applied against Cost of Sales and Services.

The amortization of intangible assets of $349,268 in 2014 Q3 relates 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 improvements in gross margins (before amortization of intangible assets) started in 2012, 2014-Q3 posted strong gross margins of 40.5%, which were in line with the Company's expectations for the period. Gross margin for 2014-Q3 before amortization of intangible assets was $492,401 (40.5% of revenues), versus a gross margin of $575,462 (41.3% of revenues) for 2013-Q3. The strong level of gross margin was achieved through an increased control over project management and technical resources as well as improved procurement techniques.

The 2014-Q3 YTD gross margins were impacted by the one-time event in 2014-Q2 wherein the termination of a project due to a customer's breach of contract resulted in recognition of $620,000 of Billings in excess of costs and profits on uncompleted contracts to Revenues. Management notes that it continues to target gross margins of approximately 40% which are consistent with the average gross margins it has been realizing.

With the increased focus on operations and project execution, PyroGenesis expects to continue to post favorable gross margins despite the fact that margins will naturally fluctuate quarter to quarter depending on the types of projects under execution and the completion stage of the projects.

Selling, General and Administrative Expenses

	Three months ended Sept 30, 2014	2013	% Change	Nine months ended Sept 30, 2014	2013	% Change
Employee compensation	**$ 588,872**	$ 541,248	9%	**$ 1,673,717**	$ 1,617,370	3%
Professional fees	**220,984**	75,535	193%	**602,378**	329,929	83%
Office and general	**76,655**	43,146	78%	**235,731**	215,325	9%
Travel	**46,243**	18,033	156%	**127,746**	82,641	55%
Depreciation on property and equipment	**44,828**	46,044	-3%	**129,337**	139,838	-8%
Other expenses	**55,221**	139,425	-60%	**161,953**	191,271	-15%
Sub-total before Share-based payments	**1,032,803**	863,431	20%	**2,930,862**	2,576,374	14%
Share-based payments	**50,000**	149,783	-67%	**178,500**	445,408	-60%
Total selling, general and administrative	**$ 1,082,803**	$ 1,013,214	7%	**$ 3,109,362**	$ 3,021,782	3%

Selling, general and administrative expenses for the third quarter of fiscal 2014, ending September 30, 2014, were $1,082,803, an increase of 7% versus $1,013,214, reported during the same period in fiscal year 2013. 2014-Q3, includes share based compensation of $50,000, ($149,783 in 2013-Q3). The costs associated with share-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. Selling, general and administrative before share based payments increased by 20% in 2014-Q3 over the same period in the prior year, and 14% on a year-to-date basis for the nine months ended September 30, 2014.

Within SG&A are costs associated with Corporate Administration, Business Development, Proposals, Operations Administration, Investor Relations and Employee Training.

Of note is that during 2013, management took the strategic decision to increase its commitment to business development, proposal development and the general management thereof. It is expected that there is a natural delay between the expenses incurred of such items and the related increase in revenues derived there from. Management is happy to report that this commitment has already started to produce results as has been evidenced by the reported increased levels of new business volumes as recorded in the record backlog.

2014-Q3 major variances versus same period in of prior year (2013) are as follows:

-Employee compensation increased by 9%, due to the largest business development push in the Company's history.
-Professional fees increased by 193% due to increased level of external investor relations services and business development services.
-Travel costs increased by 156%, due to increased Business Development and Investor Relations travel.

-Other expenses decreased by 60%, resulted mainly due to reclassification of expenses in 2013-Q3 which increased the period costs. 2014-Q3 costs were negatively affected by increased insurance costs relating to increased business volumes.
-Share based payments decreased by 67% as a result of the vesting structure of the stock option plan. The majority of the stock options will be fully vested by December 31, 2014.

Research and Development ("R&D") Costs

Given the fact that in 2013, management determined that internally funded R&D projects were going to be a critical component to further improve its product lines, and as such made the strategic decision to increase the level of such funding, the Company decided, going forward, to account and disclose, the net costs incurred on internally funded R&D projects as a separate line item in the Statement of Comprehensive Loss thereby better reflecting the level of spending in, what management believes will become an increasingly significant area of its business. Prior to 2013, all of the Company's R&D work was done as part of their contract research services and with externally client funded projects some of which were R&D tax credit expenditure eligible.

Internal R&D Project Costs

	Three months ended Sept 30, 2014	2013	% Change	Nine months ended Sept 30, 2014	2013	% Change
Employee compensation	$ 43,664	$ 46,809	-7%	$ 196,062	$ 172,956	13%
Subcontracting	7,349	8,118	-9%	23,459	33,065	-29%
Materials and equipment	6,092	1,374	343%	24,879	19,809	26%
Other expenses	943	245	285%	2,731	540	406%
Sub-total before government grants	58,048	56,546	3%	247,131	226,370	9%
Government grants	(21,946)	(21,164)	4%	(82,329)	(97,166)	-15%
Total net R&D costs	$ 36,102	$ 35,382	2%	$ 164,802	$ 129,204	28%

During 2014-Q3, the Company incurred $36,102 of costs net of grants on internal R&D projects versus $35,382 the same period for the prior year. For the nine months ended September 30, 2014, net spending on internal R&D projects was $164,802 versus $129,204 during the same period in 2013.

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

Research and Development Tax Credits

	Three months ended Sept 30, 2014	2013	% Change	Nine months ended Sept 30, 2014	2013	% Change
Research tax credits	**$ 18,006**	$ 82,541	-78%	**$ 53,325**	$ 102,241	-48%

Research and development ("R&D") tax credits of $18,006 were accrued in 2014-Q3 as compared to $82,541 during 2013-Q3. The decreased level of R&D tax credits in 2014 is in line with the level of qualifying costs on external R&D projects.

Financing Charges

	Three months ended Sept 30, 2014	2013	% Change	Nine months ended Sept 30, 2014	2013	% Change
Financing charges	**$ 19,970**	$ 94,202	-79%	**$ 197,274**	$ 279,557	-29%

Financing charges for 2014-Q3 were $19,970 versus $94,202 for the same period in the prior year. Financing charges relate to the interest component of the current portion of the long-term debt that came due during the period plus interest on loan due a related party. Financing charges decreased significantly starting in 2014-Q2 due to the conversion of $6,000,000 of debt to equity which took place on May 23, 2014 (see note 12 of the 2014-Q3 financial statements). The underlying long-term debt is scheduled to be completely repaid by the end of the 2017-Q1.

Depreciation on Property and Equipment

	Three months ended Sept 30, 2014	2013	% Change	Nine months ended Sept 30, 2014	2013	% Change
Amortization on property and equipment	**$ 44,828**	$ 46,044	-3%	**$ 129,337**	$ 139,838	-8%

Depreciation on property and equipment decreased by 3% to $44,828 in 2014-Q3, versus $46,044 for 2013-Q3, and decreased by 8% on a year-to date basis. This decrease is primarily as a result of decreased investments in machinery and equipment since 2010 when major acquisitions were made.

Comprehensive loss

	Three months ended Sept 30, 2014	2013	% Change	Nine months ended Sept 30, 2014	2013	% Change
Loss from operations	**$ (995,742)**	$ (916,604)	9%	**$ (2,578,724)**	$ (2,847,637)	-9%
Comprehensive loss	**$ (995,695)**	$ (915,156)	9%	**$ (2,577,576)**	$ (2,844,768)	-9%

Loss from operations and Comprehensive loss for the third quarter of fiscal 2014, ending September 30, 2014, was $995,742 and $995,695 respectively as compared to losses of $916,604 and $915,156 for the same period in 2013, an increase of 9% in both categories. Year-to-date, Loss from operations and Comprehensive loss was $2,578,724 and $2,577,576 respectively as compared to comparable losses of $2,847,637 and $2,844,768 for the same period in 2013, a decrease of 9% in both categories.

The 9% increase in the comprehensive loss in 2014-Q3 versus the comparable 2013 period, is predominately a result of a 13% decrease in the level of revenues recognized in the quarter (based on a percentage completion method), a 0.8% point decrease in gross margins from 41.3% to 40.5%, and an increase in SG&A costs of 7%. The Company continues to maintain strong control over its spending while increasing resources allocated to business development, proposals, investor relations and research and development.

EBITDA

	Three months ended Sept 30, 2014	2013	% Change	Nine months ended Sept 30, 2014	2013	% Change
Comprehensive loss	**$ (995,695)**	$ (915,156)	9%	**$ (2,577,576)**	$ (2,844,768)	-9%
Amortization on property and equipment	**44,828**	46,044		**129,337**	139,838	
Amortization of intellectual property	**349,268**	349,268		**1,047,805**	1,047,805	
Financing charges	**19,970**	94,202		**197,274**	279,557	
EBITDA (loss)	**$ (581,629)**	$ (425,642)	37%	**$ (1,203,160)**	$ (1,377,568)	-13%
Other non-cash items:						
Share-based payments	**50,000**	149,783		**178,500**	445,408	
Adjusted EBITDA (loss)	**$ (531,629)**	$ (275,859)	93%	**$ (1,024,660)**	$ (932,160)	10%

The Company reports on its EBITDA (Earnings from operations before interest, taxes, depreciation and amortization) and Adjusted EBITDA (Earnings from operations before interest, taxes, depreciation, amortization and other non-cash items including share-based payments costs).

EBITDA and Adjusted EBITDA are not performance measures defined under IFRS and they are not considered an alternative to income (loss) from operations or Comprehensive earnings (loss) in the context of measuring Company's performance. Management believes that providing certain non-GAAP performance measures, in addition to IFRS measures provides users of our financial statements with enhanced understanding of our results and related trends and increases transparency and clarity into the core results of the business. We believe Adjusted EBITDA is an important measure of operating performance because it allows management, investors and other to evaluate and compare our core operating results, including our return on capital and operating efficiencies, from period to period by removing the impact of our capital structure (interest expense from outstanding debt), asset base (depreciation and amortization), tax consequences, and other non-operating items not requiring cash outlays including share-based compensation.

Other companies may calculate Adjusted EBITDA differently, and therefore our Adjusted EBITDA may not be comparable to similarly titled measures of other companies.

EBITDA loss for 2014-Q3 was $581,629 as compared to a loss of $425,642 for the same period last year, an increase of 37%. For the nine months ended September 30, 2014, EBITDA loss was $1,203,160 as compared to a loss of $1,377,568 for the same period last year, an improvement of 13%. The increase in the EBITDA loss in the quarter is due primarily to the decrease in revenue recognized in the quarter and increased investment in Business Development and Investor Relations activities. On a year to date basis, the EBITDA loss is decreasing and moving in the right direction as a result of increasing revenues and improved gross margins. EBITDA in 2014 is being negatively impacted by the increased investment in business development with the goal to increase backlog and revenues going into 2015.

Adjusted EBITDA loss for 2014-Q3 was $531,629 as compared to a loss of $275,859 for the same period last year, an increase of 93%. For the nine months ended September 30, 2014, Adjusted EBITDA loss was $1,024,660 as compared to a loss of $932,160 for the same period last year, an increase of 10%.

SUMMARY OF QUARTERLY RESULTS

	2014			2013				2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	$ 1,215,261	$ 1,958,534	$ 806,425	$ 1,878,793	$ 1,394,255	$ 1,341,818	$ 1,141,143	$ 1,221,501
Gross margin before amortization of intangible assets	492,401	1,124,834	323,284	991,486	575,462	544,689	510,560	381,574
GM%	40.5%	57.4%	40.1%	52.8%	41.3%	40.6%	44.7%	31.2%
Loss from operations	(995,742)	(418,219)	(1,164,763)	(561,696)	(916,604)	(976,894)	(954,139)	(840,167)
Comprehensive loss	(995,695)	(417,153)	(1,164,728)	(1,143,309)	(915,156)	(975,473)	(954,139)	(840,142)
Net loss per share - basic and diluted	(0.01)	(0.01)	(0.02)	(0.02)	(0.01)	(0.02)	(0.02)	(0.01)

As illustrated above, although the revenues and losses from operations have varied from quarter to quarter, the trend has been towards increasing revenues, sustained strong gross margins, and lower losses. The decrease in revenues in 2014-Q1 was a temporary variation due to delays in commencement and continuation of previously reported projects. Revenues are recognized based on a percentage of completion basis, and are dependent the timing of project commencements and execution (including project engineering, manufacturing, and testing).

LIQUIDITY AND CAPITAL RESOURCES

During 2014-Q3, the primary sources of funding for PyroGenesis have been cash generated from projects. During 2014-Q2 (May 22, 2014) the Company completed a private equity placement which resulted in the proceeds of $3.120,697 which has been used to fund operations.

At September 30, 2014, PyroGenesis had cash on hand of $78,003 and negative working capital of $191,679 (cash balance of $1,182,835 and negative working capital of $1,373,763 at December 31, 2013). As disclosed in the Subsequent Events section, on November 26th, 2014, the Company closed a private placement of $1,500,000, which significantly strengthens its working capital position.

Although the Company has made tremendous improvements in increasing its backlog of new projects, the active projects are not producing sufficient positive cash flow to fund operations. Based on current backlog and known pipeline of prospective new projects, cash flow from operations will be positive in the near future.

The conversion of $6,000,000 of long-term debt to equity (face value) in May 2014, strengthen the balance sheet of the Company and resulted in decreased interest expense of the Company in the third quarter by $70,000, which will benefit the Company until the debt is paid off by end of 2016.

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 July 2014, the Company recently announced that it has signed a $12.5 million contract with a major international manufacturer to supply ten plasma-based, powder productions systems for 3D printing. Work is well in progress on the first of the ten systems that will be executed over the next 15 months.

The Company is currently completing the final phase of the $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. The Company is also working on several other strategic mandates in the oil and gas industry as well as on military related contracts. These orders provide the Company with a solid foundation of contracted backlog throughout 2014 and into 2015. At September 30, 2014, the current backlog of signed contracts stands at $16,400,000 most of which is anticipated to be recognized as revenue in 2015.

Cash collections during 2014 have been strong with the exception of an outstanding receivable of $250,000 relating to the invoiced deposit on a contracted project.

Despite the May 2014 private placement and the increase in project backlog, cash flow remains challenging as management invests in increased business development, proposal structuring, investor relations, and on execution of key project milestones.

SUMMARY OF CASH FLOWS

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	2013	**2014**	2013
Cash provided by (used in) operating activities	$ **(569,619)**	$ 46,926	$ **(4,120,373)**	$ (1,456,111)
Cash provided by (used in) investing actiities	**(42,919)**	(93,506)	**(83,415)**	(152,565)
Cash provided by (used in) financing activities	**(62,456)**	32,184	**3,098,956**	7,495
Increase (decrease) in cash	**(674,994)**	(14,396)	**(1,104,832)**	(1,601,181)
Cash - end of period	**78,003**	594,390	**78,003**	594,390

For the three months ended September 30, 2014, cash flow from operating activities resulted in a net use of cash of $569,619 compared to a net source of cash from operating activities of $46,926 for the same period in the prior year.

Investing activities in 2014-Q3 resulted in use of cash of $42,919 and $93,506 for the same period in 2013. Cash used in investment activities in 2014 was mainly for property and equipment to make required upgrades to computer hardware and software used in the operations of the Company.

Financing activities in 2014-Q3 resulted in a use of funds of $62,456 as compared to source of funds $32,184 in 2013-Q3. Financing activities during 2014-Q3 consist of the repayment of current portion of long-term debt.

On December 16, 2013, the Company signed an amending agreement to amend the terms and conditions of the balance of sale with a company under common control. Based on the amending agreement payments starting on October 1, 2013 and ending May 1, 2014 plus other past due payments were deferred until April 1, 2015. As per the terms of the amending agreement, as the Company concluded a financing in excess of $3,000,000 before April 1, 2015, all deferred amounts have become immediately due and payable on the closing date of the financing.

On September 1, 2014, the Company signed an additional amending agreement to amend the terms and conditions of the deferred payments, whereby the balance of the deferred payments as at September 30, 2014 is completely deferred until December 31, 2015, with the exception of a payment for $100,000 to be made on or before November 1, 2014.

On September 1, 2014, the Company signed an additional amending agreement to amend the terms and conditions of the payments, whereby the complete balance of the amounts payable – trust beneficially owned by a shareholder as at September 30, 2014 is completely deferred until December 31, 2015, with the exception of a payment for $75,000 to be made on or before November 30, 2014.

For the three months period ended September 30, 2014, the net cash position of the Company decreased by $674,994 as compared to a net decrease of $14,396 for the same period in the prior year.

GOING CONCERN

Cash generated from projects has historically not been sufficient to meet the overall cash requirements of the Company to cover operating costs. For the Company to generate sufficient positive cash-flow from operations and meet current cash requirements, the level of business must exceed that recorded to date. Management expects that the benefits of previously announced steps to reduce fixed operating expenses, increase revenues and improve gross margins, will continue to be evidenced, and as a result the recent surge in backlog.

In the future, it may be necessary for the Company to raise additional capital to fund its operations and the continued development and introduction of new lines 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 be able to raise additional financing or expand is sales to fund its operations, although management is confident that it will be able to do so.

The September 30, 2014 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.

RELATED PARTY TRANSACTION

Details of related party transactions are disclosed in note 16 of the financial statements for the period ended September 30, 2014.

There are no material changes during the quarter ended September 30, 2014 in the nature or extent of the related party transactions from those conducted in the 2013 fiscal year.

SUBSEQUENT EVENTS

On November 18, 2014, the Company announced that it was awarded an additional study under a Master Service Agreement with a global oil and gas company for $788,300. This contract involves the adaption of an existing plant at the Company's facility which will be used to test and further demonstrate the economics of the Company's proprietary technology. It is expected that this project will be completed in the second half of 2015.

On November 26, 2014, The Company announced the closing of a private placement of CAD$1,500,000 of units of PyroGenesis (the "Units") at $0.35 per Unit (the "Issue Price"), each Unit consisting of one (1) common share (each, a "Common Share") and one-half (1/2) of one Common Share purchase warrant (each whole Common Share purchase warrant, a "Warrant") of PyroGenesis (the "Private Placement"). Each Warrant entitles its holder to acquire an additional Common Share (each, a "Warrant Share") at an exercise price of $0.55 per Warrant Share for a period of 24 months following the closing of the Private Placement.

The Common Shares constituted qualifying shares for the purposes of the Quebec Stock Savings Plan II.

Each Unit will be subject to a statutory hold period of four months and one day from the closing date of the Private Placement and the Private Placement remains subject to final approval from the TSX Venture Exchange. A cash commission of 7% of the gross proceeds of the Private Placement was paid to Industrial Alliance Securities along with 300,000 compensation options ("Compensation Options") representing 7% of the Units sold under the Private Placement. Each Compensation Option is exercisable for one Unit at the Issue Price for a period of 24 months from closing of the Private Placement.

The Company intends to use the net proceeds from the Private Placement for general corporate purposes and working capital.

OUTLOOK

Although Q3 results are not in line with what one may have expected given recent press releases, we are happy to report that this was due to certain revenues, which were expected to be posted in Q3, will be accounted for in Q4 2014 and Q1 2015, and is not due to any deterioration in company prospects or backlog. Results were further exasperated by delays in the signing of two key contracts from Q3 to Q4 2014. These revenues would have contributed a minimum of $400K to profitability in the quarter for a loss of approximately $595K as compared to that posted of $995K (vs. loss posted same quarter

2013 of $916K). Notwithstanding this, PyroGenesis still posted 3% gains in revenues and a 10% improvement in profitability for year over year nine months comparison.

Notwithstanding the above, 2014 continues to prove itself to be the "tipping point year" for PyroGenesis as the full effects of the Company's strategic plan to position itself in new high margin niche markets are being realized. Management believes that based on the contracts in hand PyroGenesis will be profitable in 2015.

As noted, 9 month Revenues-to-date, 3% higher than the same period last year, are supported by a record backlog of signed contracts which are already more than 280% of 2013 revenues (which already were a 175% increase over 2012 revenues) and which are all expected to be completed over the next 15 months. Despite recent delays associated with certain project commencements, management still expects to post strong year over year results while maintaining its historic strong gross margins.

This progress has largely been due to the Company's successful repositioning itself in answer to the fiscal crisis confronting its largest client at the time; the US military. Under the direction of the Board, the Company has successfully transitioned from being a company predominately supplying waste management plasma processes to the US military to one that is supplying plasma processes to not only the military but also to the Oil and Gas as well as the Mining & Metallurgical and 3D Printing industries. In each case the Company has targeted high margin niche businesses with the potential for significant repeat orders. PyroGenesis' recent success within the 3D printing industry wherein the Company announced that they had signed a $12.5 MM contract to provide 10 plasma based systems to produce the smallest, and most uniform spherical Titanium powders to the industry, is just one of the many successes of this repositioning strategy. The Company expects many more of such contracts to be signed over the near term.

The Company continues to implement measures to strengthen and focus its business development department, which includes, amongst other measures, hiring additional strategically focused professionals.

The Company continues to de-risk its business model by starting to require recurring revenue features within sales agreements. Management has targeted 2016-2017 as the time frame in which the Company will be profitable from recurring revenues alone.

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

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