PYROGENESIS CANADA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2015

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

May 30, 2015

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 March 31, 2015 which were prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A is the responsibility of management and has been reviewed and approved by the Board of Directors of the Company. The Board of Directors is responsible for ensuring that the Company fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and is comprised of independent and financially literate directors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the MD&A and financial statements for issuance to shareholders.

The MD&A was prepared as of May 30, 2015. 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 as a result of 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 forecasts 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 report for the fiscal year ended December 31, 2014. 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 Inc., 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 has been certified under ISO standards since 1997. PyroGenesis is a publicly-traded Canadian company on the TSX Venture Exchange (Ticker Symbol PYR).

SELECTED FINANCIAL INFORMATION

	Three months ended Mar 31, 2015	2014	2013	% Change 2015vs2014
Revenue	**$ 1,116,477**	$ 806,425	$ 1,141,143	38%
Cost of sales and services before amortization of intangible assets	**814,323**	483,141	630,583	
Gross margin before amortization of intangible assets	**302,154**	323,284	510,560	
Amortization of intangible assets	**349,268**	349,269	349,269	
Gross margin	**(47,114)**	(25,985)	161,291	
Selling, general and administrative	**1,191,516**	946,918	1,002,822	
Research and development	**29,124**	99,601	17,393	
Financing charges	**11,524**	92,259	95,215	
	1,232,164	1,138,778	1,115,430	
Loss from operations	**(1,279,278)**	(1,164,763)	(954,139)	10%
Other income	**189**	35	-	
Comprehensive loss	**$ (1,279,089)**	$ (1,164,728)	$ (954,139)	10%
Basic and diluted loss per share	**$ (0.02)**	$ (0.02)	$ (0.02)	
Adjusted EBITDA (loss)	**$ (728,760)**	$ (631,293)	(461,322)	15%

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

Extract from Statement of Financial Position at :

	Mar 31. 2015	Dec 31. 2014	Dec 31. 2013
Current assets	**5,378,434**	3,497,020	2,247,261
Non-current assets	**3,061,165**	3,438,312	4,923,611
Total assets	**$ 8,439,599**	$ 6,935,332	$ 7,170,872
Current liabilities	**2,161,172**	1,994,218	3,621,024
Non-current liabilities	**3,934,147**	2,062,862	8,159,862
Total liabilities	**$ 6,095,319**	$ 4,057,080	$ 11,780,886
Shareholders' equity (deficiency)	**$ 2,344,280**	$ 2,878,252	$ (4,610,014)

RESULTS OF OPERATIONS

Revenues

The Company posted revenues of $1,116,477 for the first quarter of fiscal year 2015 ended March 31, 2015 "2015-Q1", an increase of 38% as compared to the $806,425 reported in the same period of fiscal 2014. 2015-Q1 revenues primarily resulted from progress achieved on (i) the reorder of the plasma waste destruction system to be installed on the next US Navy Ford-class aircraft carrier; the CVN-79, (ii) work completed under phase 1 of the tactical mobile plasma system for destruction of chemical warfare agents, (iii) the ongoing R&D projects incorporating novel plasma based technologies in the oil and gas industrial sector, and (iv) work completed on the Company's latest project to manufacture ten plasma based powder production systems for 3D printing.

2015-Q1 saw revenues being generated from a more diverse client, technology and industry base, which was a direct result of the strategic targeting of new high value niche markets by the Company.

Cost of Sales and Services and Gross Margin

Cost of Sales and Services

	Three months ended Mar 31, 2015	2014	% Change 2015vs2014
Employee compensation	**$ 443,061**	$ 213,747	107%
Subcontracting	**122,156**	3,202	3715%
Direct materials	**220,656**	163,056	35%
Manufacturing overhead & other	**119,830**	110,412	9%
Foreign exchange loss	**(34,946)**	10,880	-421%
Investment tax credits	**(56,434)**	(18,156)	211%
Sub-total before amortization of intangible assets	**814,323**	483,141	69%
Amortization of intangible assets	**349,268**	349,269	0%
Total Cost of Sales and Services	**$ 1,163,591**	$ 832,410	40%

Gross Margin

	Three months ended Mar 31, 2015	2014
Revenue	**$ 1,116,477**	$ 806,425
Cost of Sales and Services before amortization of intangible assets	**814,323**	483,141
Gross Margin before amortization of intangible assets	**302,154**	323,284
Gross Margin % before amortization of intangible assets	**27.1%**	40.1%
Amortization of intangible assets	**349,268**	349,269
Gross Margin after amortization of intangible assets	**$ (47,114)**	$ (25,985)
Gross Margin % after amortization of intangible assets	**-4.2%**	-3.2%

Gross margin before amortization of intangible assets is not a performance measure defined under IFRS and it is not considered an alternative to gross margin in the context of measuring the Company's performance. Management believes that providing certain non-GAAP performance measures, in addition to IFRS measures provides users of the Company's financial statements with an enhanced understanding of its results and related trends, and increases transparency and clarity. Gross margin before amortization of intangible assets is an important measure of operating performance as it allows management, investors and others to evaluate and compare the Company's core operating results, including its return on capital and operating efficiencies, from period to period, by removing the impact of non-operating items not requiring cash outlays.

Cost of Sales and Services before the cost of amortization of intangible assets increased 69% to $814,323, in 2015-Q1 as compared to $483,141 posted in 2014-Q1.

The type of contracts being executed and the nature of project activity during any given quarter has 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 services, as the mix between labour and materials and equipment may be significantly different.

A key development impacting gross margins in the first quarter of fiscal 2015 was the utilization of many of the Company's engineering and research & development resources on accelerating the development and implementation of projects that would have otherwise been committed to advancing the implementation of current live projects. Although this has significantly increased Cost of Goods Sold in the current quarter, management believes that these resources accelerated the progress of certain projects, and that gross margins upon completion of these projects will be in line with previous estimates, and will be more reflective of recent trends.

The number of projects/contracts the Company is currently executing, and has under development, has increased significantly. The company has continued to invest in reducing fixed manufacturing costs and streamlining its operating procedures, and management firmly believes that the Company is well positioned to address this higher business volume. All manufacturing overhead costs are fully applied against Cost of Sales and Services.

The amortization of intangible assets of $349,268 in fiscal 2015-Q1 ($349,268 in 2014-Q1) relates to 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.

Given the additional cost of resources applied to specific implementation projects, the Company posted reasonably strong Gross Margins before amortization of intangible assets of 27.1% in fiscal 2015-Q1. 2015-Q1 Gross Margins before amortization of intangible assets was $302,154 (27.1% of revenues), as compared to a Gross Margin of $323,284 (40.1% of revenues) for 2014-Q1. As previously noted, it is important to note that despite the Company's initiatives to improve gross margins, these may fluctuate due to the innovative nature of these projects, as well as one-time events which may positively or negatively impact gross margins in any given quarter, or fiscal year.

Selling, General and Administrative Expenses

	Three months ended Mar 31, 2015	2014	% Change 2015vs2014
Employee compensation	$ 435,177	$ 519,671	-16%
Professional fees	354,439	165,435	114%
Office and general	114,217	80,190	42%
Travel	49,937	39,365	27%
Depreciation on property and equipment	40,086	41,907	-4%
Government grants	(17,071)	-	#DIV/0!
Other expenses	65,280	50,350	30%
Sub-total before Share-based payments	1,042,065	896,918	16%
Share-based payments	149,451	50,000	199%
Total selling, general and administrative	$ 1,191,516	$ 946,918	26%

Selling, general and administrative expenses ("SG&A") for 2015-Q1 were $1,191,516, an increase of 26% as compared to $946,918 reported during the same quarter of the prior fiscal year. The costs associated with share-based compensation (a non-cash item in which options vest over a four year period) commenced in 2011-Q3 when the stock option plan was put in place. SG&A before share based payments increased by 16% in 2015-Q1 as compared to the same quarter of the prior fiscal year.

Within SG&A are costs associated with corporate administration, business development, proposals, operations administration, investor relations and employee training.

Of note, during 2013, management decided to dedicate business development resources to other high value niche markets other than those within the US military. It is expected that there will be a natural lag between incurring business development related expenses and the resulting increase in revenues. This commitment has resulted in record levels of signed backlog at year-end which have continued through the first quarter of fiscal 2015.

Total SG&A expenses before share based payments increased 16% to $1,042,065 for 2015-Q1 as compared to $896,918 for 2014-Q1:

- Employee compensation decreased 16%, this was due to the departure of two senior employees within the administrative function of the Company.
- Professional fees increased 114% due to increased levels of external investor relations services and business development services.
- Travel costs increased 27%, due to increased Business Development activities, as well as increased travel expenses related to Investor Relations activities.
- Government grants & other expenses decreased 4%

Separately, share based payments increased 199% as a result of the vesting structure of the stock option plan. New options were issued in Q1 2015 of which $142,601 has been expensed when options were granted.

Research and Development ("R&D") Costs

In 2013 management made the strategic decision to increase the level of R&D funding, and to account and disclose the net costs incurred on these projects as a separate line item in the Statement of Comprehensive Loss. Management believes that internally funded R&D projects will potentially become a significant source of new business opportunities, and as such, this new reporting reflects management's commitment to such. Prior to 2013, all of the Company's R&D work was done as part of contract research services as well as with externally client funded projects, some of which were R&D tax credit expenditure eligible. However, in the current quarter, many of the resources that would customarily work on current implementation projects were engaged with the delivery of certain customer orders as the Company deals with record levels of order backlog. It is expected that these resources will remain on implementation of specific client orders through the first half of fiscal 2015.

Internal R&D Project Costs

	Three months ended Mar 31, 2015	2014	% Change 2015vs2014
Employee compensation	**$ 26,837**	$ 122,420	-78%
Subcontracting	**9,000**	8,500	6%
Materials and equipment	**2,025**	15,686	-87%
Other expenses	**850**	1,062	-20%
Sub-total before government grants	**38,712**	147,668	-74%
Government grants	**(9,588)**	(48,067)	-80%
Total net R&D costs	**$ 29,124**	$ 99,601	-71%

During the first quarter of fiscal 2015, the Company incurred $29,124 in costs, net of grants, on internal R&D projects as compared to $99,601 for the same quarter of the prior fiscal year, a decrease of 71% year-over-year.

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 were applied against Cost of Sales and Services (see below).

Investment Tax Credits

	Three months ended Mar 31, 2015	2014	% Change 2015vs2014
Investment tax credits	**$ 56,434**	$ 18,156	211%

Investment tax credits of $56,434 were accrued in the first quarter of fiscal 2015 as compared to $18,156 for the same quarter of the prior fiscal year, an increase of 211% year-over-year. The increased level of investment tax credits in 2015 is in line with the level of qualifying costs on external R&D projects.

The Company continues to make investments in research and development projects incorporating strategic partners and government bodies.

Financing Charges

	Three months ended Mar 31, 2015	2014	% Change 2015vs2014
Financing charges	**$ 11,524**	$ 92,259	-88%

Financing charges for the first quarter of fiscal year 2015 were $11,524 as compared to $92,259 for the same period of the prior fiscal year, a decrease of 88% year-over-year. Financing charges relate to the interest component of the Company's debt, due to a related party, that was paid during the period.

Financing charges decreased significantly in 2015-Q1 due to the conversion of $6,000,000 of debt to equity which took place in May 2014 (see note 15(i) of the 2014 Audited Financial Statements).

Depreciation on Property and Equipment

	Three months ended Mar 31, 2015	2014	% Change 2015vs2014
Depreciation on property and equipment	**$ 40,086**	$ 41,907	-4%

Depreciation on property and equipment decreased by 4% to $40,086 in 2015-Q1, as compared to $41,907 for 2014-Q1. This decrease is primarily a result of decreased investments in machinery and equipment since 2010 when major acquisitions were made.

Comprehensive Loss

	Three months ended Mar 31, 2015	2014	% Change 2015vs2014
Loss from operations	**$ (1,279,278)**	$ (1,164,763)	10%
Comprehensive loss	**$ (1,279,089)**	$ (1,164,728)	10%

The Loss from operations for the first quarter of fiscal year 2015 was $1,279,278 as compared to a Loss of $1,164,763 in the same quarter of the prior fiscal year, an increase of 10% year-over-year.

The total Comprehensive loss for 2015-Q1 was $1,279,089 as compared to a Comprehensive loss of $1,164,728 in 2014-Q1, an increase of 10% year-over-year.

The 10% increase in the Comprehensive loss in 2015-Q1 as compared to 2014-Q1 is primarily a result of: (i) acceleration of project development in the quarter which resulted in significant increases in Cost of Goods Sold; (ii) increase in professional services costs within SG&A as a result of additional PR work, and investments in our internal and external reporting structure; and (iii) an increase in travel expenses associated to increased sales and marketing activities.

EBITDA

	Three months ended Mar 31, 2015	2014	% Change 2015vs2014
Comprehensive loss	**$ (1,279,089)**	$ (1,164,728)	10%
Depreciation on property and equipment	**40,086**	41,907	
Amortization of intangible assets	**349,268**	349,269	
Financing charges	**11,524**	92,259	
EBITDA (loss)	**$ (878,211)**	$ (681,293)	29%
Other non-cash items:			
Share-based payments	**149,451**	50,000	
Adjusted EBITDA (loss)	**$ (728,760)**	$ (631,293)	15%

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 payment 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 a Company's performance. Management believes that providing certain non-GAAP performance measures, in addition to IFRS measures provides users of the Company's financial statements with an enhanced understanding of its results and related trends and increases transparency and clarity. Management believes Adjusted EBITDA is an important measure of operating performance because it allows management, investors and others to evaluate and compare the Company's operating results, including its return on capital and operating efficiencies, from period-to-period by removing the impact of the capital structure (interest expense to service 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 the Company's Adjusted EBITDA may not be comparable to similarly titled measures of other companies.

EBITDA (loss) for 2015-Q1 was ($878,211) as compared to a loss of ($681,293) for the same period of the prior fiscal year, a decrease of 29%. The decrease in the EBITDA (loss) in the quarter is due primarily to lower gross margins in 2015-Q1. EBITDA in 2015-Q1 was also negatively impacted by the increased investment in PR work, and additional spend on business development with the goal to increase backlog and future revenues.

SUMMARY OF QUARTERLY RESULTS

	2015	2014				2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	**$ 1,116,477**	$ 1,784,676	$ 1,215,261	$ 1,958,534	$ 806,425	$ 1,878,793	$ 1,394,255	$ 1,341,818
Gross margin before amortization of intangible assets	**302,154**	1,132,635	492,401	1,124,834	323,284	991,486	575,462	544,689
gross margin %	**27.1%**	63.5%	40.5%	57.4%	40.1%	52.8%	41.3%	40.6%
Loss from operations	**(1,279,278)**	(703,083)	(995,742)	(418,219)	(1,164,763)	(561,696)	(916,604)	(976,894)
Comprehensive loss	**(1,279,278)**	(701,034)	(995,695)	(417,153)	(1,164,728)	(1,143,309)	(915,156)	(975,473)
Net loss per share - basic and diluted	**(0.02)**	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.01)	(0.02)

Although the revenues and losses from operations have varied from quarter to quarter, the trend has been towards increasing revenues, sustained strong gross margin before amortization of intangible assets, and lower losses. Revenues are recognized based on a percentage of completion basis, and are dependent on the timing of project initiation and execution, including project engineering, manufacturing, and testing.

LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of fiscal year 2015, the primary sources of funding for the Company have been cash generated from projects and private placements. In March 2015, the Company completed a private placement which resulted in the net proceeds (gross proceeds minus cash commissions and convertible debentures issue costs) of $3,006,000. The proceeds from these offerings have been used to fund operations and strengthen the Company's working capital position.

At March 31, 2015, the Company had cash on hand of $2,841,734 and positive working capital of $3,217,262 (cash balance of $362,183 and positive working capital of $1,502,802 at December 31, 2014).

Although the Company has significantly increased its backlog of new projects, this will not impact cash flow until the 2nd half of 2015; the active projects in 2015-Q1 were not producing sufficient positive cash flow to fund operations. Based on current backlog and known pipeline of prospective new projects, cash flows from operations are expected to be positive in the near future.

On March 30, 2015, the Company raised an additional $4 million through an issuance of convertible debentures which mature in 3 years from the date of issuance and bear interest at 7.5% per annum. As part of this offering, $755,000 of existing debt was converted to convertible debentures, thereby further strengthening the balance sheet.

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 announced that it has signed a $12.5 million contract with a major international manufacturer to supply ten plasma-based, powder production systems for 3D printing. Work is currently underway; this contract will be executed over the next 15 months.

In April of 2015, the Company substantially completed 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 at 2015-Q1. At May 30, 2015, the current backlog of signed contracts stands at $16,369,601.

SUMMARY OF CASH FLOWS

	Three months ended Mar 31, 2015	2014
Cash provided by (used in) operating activities	$ 24,781	$ (1,106,929)
Cash provided by (used in) investing actiities	(12,207)	(22,947)
Cash provided by (used in) financing activities	2,466,977	(706)
Increase (decrease) in cash	2,479,551	(1,130,582)
Cash - end of period	2,841,734	52,253

For the three months ended March 31, 2015, cash flows from operating activities resulted in a net cash provided of $24,781 compared to a net use of cash from operating activities of $1,106,929 for the same period in the prior year. Despite the increase in the Comprehensive loss in 2015-Q1 versus 2014-Q1 (an increase of $114,361), 2015-Q1 had an adjusted net use of cash from operating activities of $740,284, plus a positive net change in non-cash operating working capital items of $765,065.

The cash flows used in operating activities were positively impacted by the following items:

- Decrease in Accounts receivable, Sales tax receivable, Investment tax credits receivable, and Prepaid expenses and Deposits of $992,548 (decrease of $1,028,349 in 2015-Q1 versus an decrease of $35,801 in 2014-Q1).
- Increase in Costs and profits in excess of billings on uncompleted contracts of $306,118 (increase of $430,212 in 2015-Q1 versus an increase of $124,094 in 2014-Q1).
- Increase in Billings in excess of costs and profits on uncompleted contracts of $498,801 (increase of $106,984 in 2015-Q1 versus a decrease of $391,817 in 2014-Q1).

Investing activities in 2015-Q1 resulted in use of cash of $12,207 as compared to $22,947 in the same period of the prior fiscal year. Cash used for investment activities in 2015-Q1 was related to property and equipment. It was required to upgrade computer hardware and software used in the operations of the Company.

Financing activities in 2015-Q1 resulted in a source of funds of $2,466,977 as compared to cash used in financing activities of $706 in the same period of the prior fiscal year. In March 2015, the Company completed private placements through which gross proceeds of $3,006,000 was raised for general working capital purposes.

The details of these variances in cash flows from financing activities are outlined in detail in Note 15 of the Company's 2015-Q1 Unaudited Financial Statements.

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, 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. 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 became immediately due and payable on the closing date of the financing.

On December 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 December 31, 2014 is completely deferred until June 30, 2016. However, 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 significant financial development, any and all amounts outstanding will become immediately due and payable on the date of the material change.

On December 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 December 31, 2014 is completely deferred until June 30, 2016. These deferrals of payment have been granted in order to provide the Company with additional short-term financing.

For the three month period ended March 31, 2015, the net cash position of the Company increased by $2,479,551 as compared to a decrease of $1,130,582 for the same period in the prior year.

Over the last two fiscal years the Company has stabilized its revenues and significantly reduced losses from operations, increased gross margins, and improved its cash position through private placements and tightly managed cash flows on project and corporate expenditures. These initiatives have been critical in providing needed working capital in 2014 and first quarter of 2015.

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.

CAPITAL STOCK INFORMATION

The Authorized share capital of the Company consists of an unlimited number of Class A common shares without par value. As at March 31, 2015 and at May 30, 2015 PCI had 84,831,729 Class A common shares issued. As at March 31, 2015 and at May 30, 2015, PCI had 9,604,655 warrants. As at March 31, 2015, PCI had 6,291,000 outstanding

options issued and 4,001,100 exercisable options and at May 30, 2015 had 6,012,000 outstanding options issued and 3,752,100 exercisable options.

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 flows from operations and meet current cash requirements, the level of business must exceed that recorded at March 31st 2015. Management expects that the benefits of previously announced steps to reduce fixed operating expenses, increase revenues and improve gross margins, will continue to improve the Company's cash position, and recent investments in business development activities will continue to improve the Company's 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 and convertible debenture. There is no certainty that the Company will continue to be able to raise additional financing or expand its sales to fund its operations, although management is confident that it will be able to do so.

The March 31, 2015 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

On March 30, 2015, the Company closed a private placement of $4,000,000 principal amount unsecured subordinated convertible debentures of the Company ("the Debentures"). As part of the private placement of $4,000,000, $755,000 of the Debentures were purchased from the settlement of $755,000 of the carrying value of a loan made by a related party (the Balance of Sale).

In 2014, the Company completed a share for debt transaction by issuing 7,500,000 common shares at a deemed price of $0.80 per common share to settle $6,000,000 of the carrying value of the Balance of Sale, being the last two-hundred and eight-five and a half monthly payments owed by the Company under the purchase agreement. Note 15 (i) and Note 19 of the Company's December 31, 2014 Audited Financial Statement, more fully describe the nature of this conversion as well as the related party involved.

Office rent was charged by a trust beneficially owned by a shareholder of the Company in the amount of $43,740 (Q1 2014 - $27,228). A balance due of $33,682 (December 31, 2014 - $16,609) is included in accounts payable and accrued liabilities. The lease term is ending January 31, 2017.

Interest on amounts payable was charged by a trust beneficially owned by a shareholder of the Company in the amount of $Nil (Q1 2014 - $5,731). The balance of interest that has not been paid of $Nil (December 31, 2014 - $125,384) is included in loans - other. On March 31, 2015, the Company's management agreed to make these payments early resulting in a payment of $405,467 to a trust beneficially owned by a shareholder. The loan is now fully paid.

Interest on balance of sale was charged by a company under common control in the amount of $11,524 (Q1 2014 – $86,528). An unpaid amount of interest was added to the Balance of Sale in the amount of $Nil (December 31, 2014 - $115,105). Balance of sale – company under common control ("Balance of Sale") arose from the purchase of the intangible assets in March 2011. It bears an implicit interest rate of 4.753% per annum. The implicit rate of interest was based on the present value of cash flows having the same value as the intangible assets at the time of sale. All payments have been completely deferred until June 30, 2016. Although instalment payments were to begin in June 2016, management agreed, prior to this date, to make instalment payments during the three month ended March 31, 2015 for a total amount of $160,000.

Fees of $31,000 were charged for services rendered by the independent directors who are members of the Company's Board of Directors (Q1 2014 - $30,000). A balance of $21,000 (December 31, 2014 - $Nil) is included in accounts payable and accrued liabilities.

Total compensation to key management consisted of salaries of $124,110 (Q1 2014 - $204,123), pension contributions of $1,938 (Q1 2014 - $2,115) and other benefits of $10,253 (Q1 2014 - $1,411). A balance of $16,004 (December 31, 2014 - $164,782) is included in accounts payable and accrued liabilities.

OUTLOOK

Q1 of Fiscal 2015 was a strong quarter for the Company with continuation of the Company's initiatives and continued support by investors in the strategy of the Company. The Balance Sheet was further strengthened through the successful completion of a private placement, and the Company continued taking positive strides towards the execution of the Company's key initiatives. These key initiatives are:

- Continued investment in Business Development – a healthy pipeline of new business ensures the Company's ability to continue to grow top-line revenue and create critical mass in its key sectors of operation. The Company continues to implement measures to strengthen and focus its business development department, which includes, amongst other measures, hiring additional strategically focused professionals.

- Diversification by sector – over 21 months ago the Company began to strategically explore the applicability of its patented technology to sectors outside of defense, and which had not yet had the opportunity to consider plasma as an option to current procedures. This sector diversification has been successful to date with new clients and signed contracts in the metallurgical, mining, advanced materials (including 3D printing), and oil & gas industries.

- Diversification by geography – traditionally the Company focused on sales in the North American market; this exposed the Company to the market volatility of North America without the offsetting benefit of more robust markets in other parts of the world. The Company has now launched business development initiatives in Europe and Asia, and has successfully signed contracts in these markets.

- Improved order structure – In prior years, the Company's sales were exclusively one-off systems that required significant engineering resources that were specific to that order. Currently, the Company has moved to orders of multiple systems for the same client which allows for more efficient and cost effective manufacturing to be applied, thereby reducing resources necessary and improving margins.

Reaffirming the initiatives of the previous year, the Company continues to de-risk its business model by including recurring revenue features within sales agreements, which will result in a solid base of reliable revenue with a strong mix of new business revenue. This initiative will remove the inherent lumpiness in revenues the Company has previously experienced while providing clients with a reliable support system for the large investments made in Pyrogenesis products.

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 thus far been successful and will continue to execute against this plan as the Company achieves its stated initiatives in the coming years.

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