



Pioneering Technology Corp.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

August 29, 2018

This Management Discussion and Analysis (“MD&A”) is prepared as at August 29, 2018 and should be read in conjunction with the unaudited condensed interim financial statements and related notes of Pioneering Technology Corp. (the “Company”) for the three-month and nine-month periods ended June 30, 2018, along with the audited condensed annual financial statements and related notes of the Company for the fiscal year ended September 30, 2018, each of which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”). All figures are in Canadian dollars unless stated otherwise. This discussion contains forward-looking statements that are not historical in nature and involves risks and uncertainties. This MD&A was approved by the Company’s Board of Directors on August 29, 2018. Additional information relevant to the Company’s activities can be found on the Company’s profile on SEDAR at www.sedar.com.

Certain information in the MD&A is forward-looking and is subject to important risks and uncertainties. The results of events predicted in this information may differ from actual results or events. Forward-looking statements are often, but not always, identified by the use of words such as “anticipate”, “plan”, “estimate”, “expect”, “may”, “project”, “predict”, “potential”, “could”, “might”, “should” and other similar expressions. The Company believes the expectations reflected in forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. Forward-looking statements are not guarantees as to the Company’s future results as there are inherent difficulties in predicting future results. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. These forward-looking statements speak only to the date of the MD&A. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether because of new information, future events or otherwise except as required pursuant to applicable securities laws.

Non-IFRS Measures

In addition to disclosing results in accordance with IFRS, the Corporation also provides supplementary non-IFRS measures as a method of evaluating the Corporation’s performance. Management uses Adjusted EBITDA as a measure of enterprise-wide performance. Adjusted EBITDA is defined as earnings before interest income, taxes, depreciation and amortization, impairment losses, stock-based compensation, restructuring costs included in general and administration expense, fair value movement – derivative liability and other non-recurring gains or losses including transaction costs related to acquisitions. Management believes Adjusted EBITDA is a useful measure that facilitates period-to-period operating comparisons. Adjusted EBITDA does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies. Adjusted EBITDA should not be considered in isolation or as a substitute for net income (loss) prepared in accordance with IFRS. Readers are cautioned that Adjusted EBITDA is not an alternative to measures determined in accordance with IFRS and should not, on its own, be construed as an indicator of performance, cash flow or profitability.

Corporate Overview

Vision:

To be the leader in cooking fire prevention technologies to save lives and homes.

Mission:

To be North America's leader in cooking fire prevention technologies and protect people and property from the leading cause of household fire – cooking fires - by increasing cooking fire safety awareness, boldly creating innovative technology, products and strategic partnerships that build value for stakeholders and make the world a safer place.

The Company's core business is focused on cooking fire prevention, but the Company's product innovations also help end users save energy and deliver a return on investment. All of Pioneering's intellectual property is protected by patents, patents pending or trademarks. Pioneering's business model is to sell its proprietary technologies and products through third party distribution channel partnerships and/or to license its technologies or products to original equipment manufacturers ("OEMs").

The Problem:

Cooking fires are the number one cause of household fires globally. In the United States cooking is the cause of 48% of all reported home fires. This equates to approximately 172,000 cooking related structure fires and \$1.1 billion in direct property damage annually. Indirect costs are more than \$7 billion. (*Source: National Fire Protection Association www.nfpa.org*). And these are only the cooking fires that are reported to the fire service. Of the 172,000 cooking fires reported to the fire service each year in the U.S. there are, on average, an additional 4.7 million cooking fires that go unreported. (*Source: Consumer Product Safety Commission*). Cooking fires have increased as a percentage of overall household fires from 20% in 1980 to 48% today. Cooking fires continue to be a significant problem in the U.S. and around the world.

The Solutions:

Pioneering's product solutions help reduce cooking fires and false alarms by helping prevent these types of fires from beginning. They also reduce energy consumption and deliver a proven return on investment. The Company has created awareness for this significant societal problem and has developed and commercialized viable, effective technologies and product solutions to help address it. The Company has created the product category of "**cooking fire prevention**". Its two primary products - SmartBurner and Safe-T-element - use patented "temperature limiting control" (TLC) technology. This technology has been recognized by the fire prevention community as the only technology currently able to help prevent cooking fires and help to solve this multi-billion-dollar problem. These product/technology solutions at present include:

The **Safe-T-element® (STE)** cooking system, engineered to help prevent stovetop cooking fires on electric coiled stoves before they start due to its "temperature limiting control" (TLC) technology. The product is available as a professionally installed aftermarket solution or pre-equipped on new ranges and is sold to multi-residential channels and institutions throughout North America. The STE, to date, has been installed on over 100,000 stovetops throughout North America and around the world. There has never been a stovetop cooking fire reported on a STE equipped stovetop.

Smart Burner™ (SB) is an easy to install (plug and play) version of the STE that delivers all the benefits of the STE but doesn't require a professional installation. As a result, the SB is growing exponentially in both B2B multi-residential channels and in the B2C market. Since its introduction in early 2015 approximately 200,000 units of the SmartBurner have been sold.

The **Safe-T-sensor™ (STS)** technology designed for microwave ovens is the only technology solution of its kind to help prevent microwave fires and false alarms. This product is most relevant in high volume environments where a microwave smoke alarm related evacuation results in a dangerous situation, a significant cost and/or a loss of productivity. The STS is currently being sold to university, seniors, health care and office channels and delivers a significant and proven return on investment.

RangeMinder™ (RM) is an easy to install consumer electronic product for gas and electric smooth top ranges, engineered to help prevent unattended cooking, the number one cause of cooking fires. The RangeMinder was commercialized in 2015 and is currently only available for sale on line via Pioneering's e-commerce site.

SmartRange™ (SR) Pioneering has partnered with Innohome OY of Finland to gain access to Innohome's award-winning heat sensor technology, which complements Pioneering's current portfolio of cooking fire prevention solutions. This product is now available in the aftermarket for electric smooth top ranges. It is engineered to help alert users to imminent danger via a low frequency alarm and if not addressed will shut the stove off to help prevent auto-ignition from occurring. This advanced heat sensor technology measures both excessive/ambient temperatures and rate of temperature change.

New Products:

Pioneering is focused on developing and commercializing new product opportunities to help broaden its product portfolio and bring relevant product solutions to its channel partners that will help drive incremental revenue. The Company's goal is to deliver a cooking fire prevention solution for both the OEM and the aftermarket for all stovetop cooking platforms (electric coil, ceramic glass top, induction, gas) and microwave ovens.

Overall Performance & Strategy

Revenue was down 67% in Q3 versus the same quarter year ago and is down 45% for the first nine-months in 2018 versus the same period last year. Net income for the nine-month period declined from a profit of \$57,435 in 2017 to a loss of \$(1,724,587) year to date and on a per share basis declined year to date from \$0.00 per share in 2017 to a loss of \$(0.03) per share (see Results of Operations for more detail).

After delivering three consecutive years of over 50% year-over-year revenue growth and profitability, the Company has been experiencing revenue declines and no longer expects that 2018 revenue will exceed 2017 revenue. 2018 has been a year of transition. After completing its private placement in 2017 the Company began implementing plans to help accelerate its long-term growth. At present the Company has a strong balance sheet with no debt, almost \$6 million in cash and short-term investments and total current assets of close to \$10 million. Year to date the Company has invested in people, research and development, new products and sales and marketing activities to support its growing distributor network and its plans to make the SmartBurner available to retail consumers in the United States.

The Company believes that the decline in revenue in 2018 is primarily due to the Company's recent transition from a direct sales model to a distributor model. In the short-term this transition has resulted in some longer than usual sales cycles and time spent training and educating distributor sales teams and their customers. Under the distributor model the Company has less direct contact with the end customer and therefore less ability to directly control the pace of sales/installation activities. In addition, the Company currently has some significant customer prospects sourced by distributors that take longer to move forward as some of these customers require running pilot programs to evaluate the Company's products before making portfolio wide purchasing decisions. Although longer sales cycles are associated with these types of customers they offer the long-term benefit of large, steady and repeat sales volume. The Company's current sales pipeline is deep, active and remains strong, validating the Company's decision to move to a distributor sales model, but requires more time to mature into revenue generating activity than was previously the case under the Company's direct sales approach.

To support our distributor network, we have engaged in business development activities and recently announced new partnerships with large buying groups and insurers in the multi-residential world to provide distributor customers with even greater incentives to purchase and an even bigger return on their investment. The Company remains committed to this distributor model and believes that these longer than normal sales cycles are temporary growing pains and that it will achieve faster sales conversions over time as the Company deepens its relationships with distributors and end customers.

Some of the recent declines in net income is also due in part to recent investments made year to date to support the transition to a distributor sales model and long-term growth initiatives. Over the past nine months the Company has invested in: strengthening its management team (CFO and VP Marketing) and sales and marketing support/activities; educating its distributor network; building buying group relationships, research and development (by developing new complementary products and existing product enhancements); preparing SmartBurner for an anticipated US retail market launch; strengthening overseas

partnerships; increasing its operational capabilities; and moving to a new facility all in an effort to help manage and prepare for future growth. Additionally, the Company is looking at potential acquisition opportunities that are consistent with the Company's mandate of 'protecting people and property'.

2018 Strategic Objectives

The Company's plan remains focused on the following objectives for 2018:

- 1) Expand the Company's product portfolio to help prevent fires for all cooking appliances.** In 2018, the Company intends to continue to invest in existing products to further penetrate current channels while also investing in new product development on technology solutions for stove platforms that the Company's current revenue generating products do not address.
- 2) Solidify the Company's business structure and operational fundamentals.** As the Company continues to grow, bring new products to market and expand operations. The Company will invest in intellectual property and create a robust supply chain to help manage growth.
- 3) Leverage and expand the Company's distribution network.** The Company will continue to use its existing sales organization and distributor relationships to grow its B2B sales of new and existing products. The Company plans to invest in its sales organization and structure it to further align with distributor sales organizations and the key channel verticals where Pioneering's products are relevant. The Company's retail distribution objective is to develop its retail offering, expanding its distributor base and investing in its own e-commerce platform to improve sales and brand awareness.
- 4) Create revenue streams from changes to industry standard UL 858.** With the changes to UL 858 scheduled to take effect in April 2019, the Company will pursue working with OEMs to have its technology incorporated into appliances at source. Given the Company's demonstrated ability to meet the new standard and its success in developing and selling UL 858 compliant technology and products to date, the Company believes its technology should be the solution of choice in the industry to meet the new UL 858 standard. The Company will also invest in creating awareness for the new standard among end-users to help drive after-market revenue opportunities associated with the standard change.

Results of Operations

Three-months ended June 30, 2018

Revenue for the three-month period ended June 30, 2018 was \$844,706 down approximately 67% versus \$2,567,510 for the same period year ago. *(Please see Overall Performance and Strategy for more info)*

Gross profit for the three-month period was down approximately 69% to \$427,802 as compared to gross profit of \$1,387,166 during the three-month period ended June 30, 2018. The decline in gross profit versus the same period in the prior year was driven by decreased sales volumes, the impact of volume incentives, some short-term material cost increases and a negative impact from foreign exchange. Gross profit margin was strong at 51% as compared to 54% during the three-month period ended June 30, 2017.

Net loss for the three-month period ended June 30, 2018 was \$(1,105,202), a decrease in profit from \$1,163,675 for the same period in the prior year. Net loss during the period was impacted by: declines in sales volumes, increases in salaries, consultant fees and related expenses due to the Company's investment in marketing and sales efforts; a foreign exchange loss of \$(143,999) versus a gain of \$214,526 during the three-month period ended June 30, 2017; \$307,236 of stock-based compensation expense versus no stock-based compensation expense for the three-month period ended June 30, 2017. Additionally, there was a small gain of \$544 from fair value movement of derivative liability and no gains from income tax recovery for the three-month period ended June 30, 2018, while Pioneering experienced a gain of \$272,683 from the fair value movement of derivative liability and \$380,000 in income tax recovery for the three-month period ended June 30, 2017.

Adjusted EBITDA for the period was \$(766,600) a decline from \$374,500 during the same period in the prior year. During the three-month period ended June 30, 2018, Adjusted EBITDA was most significantly impacted by reduced sales volumes, short-term material cost increases, the negative impact from foreign exchange and increases in salaries and other costs relating to the investment in marketing and sales efforts.

Nine-months ended June 30, 2018

Revenue for the nine-month period ended June 30, 2018 was \$3,968,863, down approximately 45% versus \$7,204,028 for the same period a year ago. *(Please see Overall Performance and Strategy for more info)*

Gross profit for the nine-month period was down approximately 50% to \$2,071,449 as compared to gross profit of \$4,135,112 during the nine-month period ended June 30, 2017. The decline in gross profit versus the same period in the prior year was driven by decreased sales volumes, volume incentives, some short-term material cost increases and a negative impact from foreign exchange. Gross profit margin was strong at 52% as compared to 57% during the nine-month period ended June 30, 2017.

Net loss for the nine-month period ended June 30, 2018 was \$(1,724,587), a decrease from a profit of \$57,435 for the same period in the prior year. Net loss during the period was impacted by: increases in salaries, consultant fees and related expenses due to the Company's investment in marketing and sales efforts; a foreign exchange loss of \$(295,985) versus a gain of \$507,180 during the nine-month period ended June 30, 2017, \$921,708 of stock-based compensation expense versus \$179,553 in the nine-month period ended June 30, 2017; and a gain from the fair value movement of its derivative liability of \$669,229 as compared to a loss of \$(2,333,675) (which was partially offset by income tax recovery of \$705,000) during the nine-month period ended June 30, 2017.

Adjusted EBITDA for the period was \$(1,389,500) a decline from \$1,709,700 during the same period in the prior year. During the nine-month period ended June 30, 2018, Adjusted EBITDA was impacted by similar factors that affected Adjusted EBITDA for the three-month period: reduced sales volumes, short-term material cost increases, the negative impact from foreign exchange and increases in salaries and other costs relating to the investment in marketing and sales efforts.

Outlook

The Company believes that, notwithstanding its recent challenges, it has taken a number of steps in the year to date to position the it for long-term success. While management is disappointed with recent revenue results, it believes that these results are a temporary phenomenon and is confident that the Company will resume its growth trajectory going forward.

Q3 2018 Business Highlights

Strong Balance Sheet. As a result of the \$6.6 million private placement completed in April 2017, the subsequent repayment of all third-party indebtedness and cash generated from ongoing operations, the Company now has a very strong balance sheet. As at June 30, 2018, the Company had approximately \$5.8 million in cash and short-term investments, \$9.8 million in current assets and is well positioned for growth.

Expansion in Core Channels. The Company continued to focus on increasing its penetration into the multi-family public and affordable housing and rental housing channels, the university and college channel, the U.S. military and the retail channel. Through its growing distributor relationships, the Company has established large customer opportunities that will help deliver expansion and growth going forward with new and existing large customers. The Company believes its growing relationships with its distribution partners and the realignment of its sales resources to create greater focus on its distributor network will help fuel broader reach and deeper penetration going forward.

Partnership with Leading Buying Group. In Q3, the Company announced a strategic partnership with HPN Select. The partnership consists of HPN Select and Pioneering working together to promote Pioneering's best-selling SmartBurner to HPN Select's affordable, multi-family housing membership. HPN Select is a strategic purchasing alliance created in 2015 by 19 Housing Partnership Network (HPN) members representing a collaborative of 100 of the leading affordable housing developers and property managers in the U.S. HPN Select's mission is to provide competitively priced, high quality procurement solutions for its members in the affordable housing sector. HPN Select is also partnered with Neighborworks America, a network that includes 240 of the nation's best community development organizations. As part of the new partnership, HPN Select will actively promote the SmartBurner through targeted marketing campaigns and during property site visits focused on risk and/or operating cost reduction.

Introduction of SmartRange Product: In June 2017, the Company finalized a definitive partnership agreement with Innohome OY, a leading European cooking fire prevention company, with the objective of generating incremental revenue and profit by enabling sales of each company's products in the other's markets while reducing duplication of effort in R&D, sales/marketing, manufacturing and logistics. Pioneering executed an initial trial of the Innohome product, SmartRange (a new aftermarket product for glass top stoves), at Princeton University in Q4 2017. In Q1 2018, the Company initiated additional trial

installations at prominent schools in upstate New York, Utah and Michigan. The results have been very positive. The Company is receiving strong interest for this new product and expects to initiate more installations in the remainder of 2018, and in August 2018 announced the first North American sale of SmartRange (see “Subsequent Events” below). This new product provides another cooking fire solution for Pioneering to offer to its customers that have glass cooktops.

Subsequent Events

Insurance Premium Reductions. In July 2018 the Company finalized an insurance rebate program with Millers Capital Insurance Company, a regional property and casualty insurer serving commercial policy holders in Pennsylvania, Delaware, Maryland, Ohio, Virginia and Washington D.C. through a network of independent agents. Millers is focused on multifamily housing & dwellings and affordable housing. Millers is now marketing the rebate program to its customers to create awareness for the SmartBurner™ and the associated insurance benefits – a key focus for the Company’s product/ROI story going forward.

Agreement with Leading Buying Groups. In August 2018, the Company announced a strategic partnership with Buyers Access of Denver Colorado. Buyers Access is the leading provider of purchasing optimization services and customized purchasing solutions to the multifamily industry in the United States, serving more than 600,000 housing units nationwide. As part of this partnership, Buyers Access will deliver targeted marketing programs centered around cooking fire awareness and work directly with Buyers Access member owners and operators to promote Pioneering’s SmartBurner as a cooking fire prevention solution. Buyers Access is the leading Group Purchasing Organization (GPO) in the multifamily housing market and therefore a perfect partner. Buyers Access has recognized our industry leading cooking fire prevention product solutions to help better protect their member’s residents and properties while also delivering a return on investment. The Company is committed to growing awareness of its product portfolio by working strategically with Buyers Access and other leading GPO’s.

First North American Sale of SmartRange™: The Company announced on August 15, 2018 the first North American sale of its new SmartRange aftermarket product for electric ranges with glass cooktops to a prominent U.S. college. This college has on-campus housing that offers its students apartment style suites with electric glass cooktop ranges. It recently experienced a cooking fire in one of its residences and was looking for a cooking fire prevention solution for glass cooktop ranges to help protect its students and properties while delivering peace of mind for parents, faculty and administrators.

Pioneering has spent the last six months conducting pilot projects for SmartRange. Pioneering has been very pleased with the results and feedback from these pilot installations and has used the learning to develop a marketing program for this new product to drive additional sales opportunities going forward.

Adjusted EBITDA

The Company has provided a reconciliation of Adjusted EBITDA to IFRS net income in the following table. Adjusted EBITDA is defined as earnings before interest income, taxes, depreciation and amortization, impairment losses, stock-based compensation, restructuring costs included in general and administration expense, fair value movement – derivative liability and other non-recurring gains and losses including transaction costs related to acquisition. Management believes that Adjusted EBITDA is a useful measure that facilitates period to period operating comparisons.

	Three months ended June 30, 2018	Three months ended June 30, 2017	Nine months ended June 30, 2018	Nine months ended June 30, 2017
Net Income (loss)	(1,105,202)	1,163,675	(1,724,587)	57,435
Fair value movement	(544)	(272,683)	(669,449)	2,333,675
Deferred tax recovery	-	(380,000)	-	(705,000)
Cost of share issuance	-	-	26,019	-
Stock based compensation	307,236	-	921,708	179,600
Interest and guarantee fees	6,253	54,439	17,890	160,456
Amortization of tangible & intangible assets	24,005	9,446	36,280	24,670
Unrealized foreign exchange (gain) loss	2,586	(200,364)	2,610	(341,082)
Adjusted EBITDA	(765,666)	374,513	(1,389,529)	1,709,754

Selected Quarterly Results

For the Quarters Ended (\$'000's)											
	Fiscal 2018			Fiscal 2017				Fiscal 2016			
	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015
Revenues	844.7	1,362.1	1,762.1	3,083.5	2,567.5	2,255.8	2,380.8	2,427.3	1,623.8	1,256.7	1,336.5
Gross Profit	427.8	706.1	937.6	1,108.1	1,387.2	1,296.7	1,451.2	1,326.0	1,080.0	822.7	906.4
Expenses*	1,542.2	1,633.6	1,324.4	1,961.5	823.4	547.8	919.0	1,034.5	769.4	647.6	646.1
Interest & other Expenses	(9.2)	(246.0)	(450.5)	167.1	52.8	52.9	53.1	(581.0)	70.0	90.0	69.0
Income (loss)	(1,105.2)	(681.6)	63.7	187.6	1,163.7	(45.3)	(1,060.9)	900.2	240.6	85.1	191.3
Earnings (loss) per share (basic)	(0.02)	(0.01)	0.00	0.00	0.03	(0.00)	(0.02)	0.03	0.01	0.00	0.01
Earnings (loss) per share (diluted)	(0.02)	(0.01)	0.00	0.00	0.02	(0.00)	(0.03)	0.03	0.01	0.00	0.01

**Stock-based compensation of \$921,708 for the first nine-months of 2018 versus FY 2017 of \$515,383 and FY 2016 of \$586,794.*

Change in Accounting policies

During the fourth quarter of fiscal 2016, the Company changed its functional currency to U.S. dollars given the increasing prevalence of U.S. dollar-denominated activities of the Company over time. The change in functional currency from Canadian dollars to U.S. dollars is accounted for prospectively from September 6, 2016. The exchange rate used to translate the balance sheet to reflect the change in functional currency is \$1 US = \$1.2843 CDN.

This change resulted in a change in the accounting for the warrants that were outstanding as at September 6, 2016. The warrants have been reclassified from equity to liability prospectively because they did not meet the requirements of being presented as equity on the statement of financial position. Upon the change in functional currency the warrant liability is recognized at fair value and fair value is subsequently updated at each reporting date until the warrants have been exercised or expired. The difference between the initial amount recognized within equity and the fair value of the warrant liability at the date of reclassification has been recorded within equity. The fair value movement in future reporting periods are to be recognized as "Fair value movement – derivative liability" in the statement of income. The settlement mechanism of the warrant has not changed. The reclassification of the warrants from equity to liability has no impact to the Canadian dollar proceeds that the Company will receive from the exercise of these warrants. As of September 21, 2017, all outstanding warrants expiring in 2017 were exercised.

Liquidity, Capital Management

The Company's plans for 2018 are to grow a strong sales pipeline for its existing products and to successfully grow awareness and distribution for its new products which will help to generate incremental operating cash flow going forward. Operationally, the Company manages its liquidity by continuously monitoring forecasted and actual gross profit, expenses, and cash flows from operations.

The Company manages its capital structure and adjusts it, based on the funds available to the Company, to support the growth and development of its operations and brings new products to market and to ensure it continues as a going concern. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company will continue to assess new opportunities and seek to acquire an interest in growth situations if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

The Company has historically relied on equity and debt financing as well as cash generated by ongoing operations to fund its capital requirements.

The Company expects that its existing cash on hand, together with cash generated from operations and availability under its existing revolving demand facility, will be sufficient to fund its working capital requirements for the coming year and to fund future planned growth and development activities.

Management reviews its approach to capital management on an ongoing basis and believes that its approach, given the relative size of the Company and the current state of the development stage of its products, is reasonable.

There were no changes in the Company's approach to capital management during the year.

Disclosure of Outstanding Share Information

The following table sets forth information concerning the issued securities of the Company as at June 30, 2018.

Description	Number
Common Shares:	
Balance at th beginning of the year	55,701,746
Issued in fiscal 2018	340,000
Common shares outstanding as at June 30, 2018	56,041,746
Warrants:	
Balance at the beginning of the year	2,997,816
Exercised in fiscal 2018	-
Warrants outstanding as at June 30, 2018	2,997,816
Stock Options:	
Balance at th beginning of the year	5,879,000
Exercised in fiscal 2018	(340,000)
Stock Options outstanding as at June 30, 2018	5,539,000

Contingencies and Commitments

As at August 29, 2018, management is not aware of any material liabilities, contingent or otherwise, that have not been recorded in financial statements of the Company as at June 30, 2018. In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. During 2017, a former supplier commenced an action against the Company relating to a contractual dispute. The Company is in the process of vigorously defending itself against such claim. As at June 30th, no provision has been recorded regarding this claim.

On February 20, 2018, the Company signed a new lease agreement for a 10-year lease of a new facility for the purposes of relocating their current head office and warehousing facilities.

Related Party Transactions

Related party transactions and balances are as follows:

	June 30, 2018	June 30, 2017
	\$	\$
Type of payment:		
Key management salaries and contingent compensation	404,812	309,000
Director's fees	15,500	1,500
Value of key management stock options	305,698	-
Value of director stock options	118,006	-
Key management compensation	844,016	310,500
Amounts due to related parties at quarter end	6,250	-

The amounts due to related parties are included in the trade payables and accrued liabilities. The Company defines key management as its CEO, CFO, President and its Board of Directors. Since the beginning of the

fiscal year ended September 30, 2017 and up to the date hereof, no director, executive officer or employee or former executive officer, director or employee of the Corporation or any of its subsidiaries has been indebted to the Corporation except that, as of September 30, 2017, Mr. Callahan, the Corporation's Chief Executive Officer, was indebted to the Corporation in the amount of \$162,500, representing the outstanding principal amount of loans that the Corporation advanced to Mr. Callahan in the fourth quarter of the year ended September 30, 2017, which Mr. Callahan used to fund the exercise of options and warrants to purchase Common Shares concurrently with his receipt of such funds. As of March 31, 2018, this indebtedness was fully repaid to the Corporation by Mr. Callahan.

Stock options held by related parties and Board of Directors under the stock option plan to purchase ordinary shares have the following expiry dates and exercise prices:

Issuance Date	Expiry Date	Exercise Price	June 30 2018 Number Outstanding
		\$	
September 2009	September 2019	\$0.15	755,000
April 2017	April 2021	\$0.22	1,865,000
August 2017	August 2022	\$1.07	<u>950,000</u>
			<u>3,570,000</u>

Management's Responsibility for Financial Information

The financial statements of the Company and all the information in this report are the responsibility of management and the Board of Directors.

The financial statements have been prepared by management in accordance with IFRS. Under these principles, management has made certain estimates and assumptions that are reflected in the financial statements. Management believes that these financial statements fairly present the Company's financial position, results of operations and cash flows.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The board carries out this responsibility principally through the Audit Committee which consists of three independent directors appointed by the Board.

The Audit Committee meets periodically with management as well as with the independent external auditors to discuss auditing matters and financial reporting issues. The Audit Committee reviews the financial statements and external auditors' report thereon and reports its findings to the board for consideration when the Board approves the financial statements for issuance to the Company's shareholders. The Committee also considers, for review by the Board and approval by shareholders, the engagement or reappointment of the external auditors. The external auditors have full and free access to the Audit Committee.

Risks and Uncertainties

Readers should consider the risks and other information included in the Company's unaudited financial statements and related notes for the quarter ended June 30, 2018 and 2017.

As with most businesses, the Company is subject to several market place, industry and economic related business risks, which could have some material impact on its' operating results. The risks include:

Key Personnel

The Company is dependent on the experience and industry knowledge of its executive officers and other key employees to execute its business plan. If the Company were to experience a substantial turnover in its leadership or other key employees, business results from operations and financial condition could be materially adversely affected.

Competition

The Company is bringing to market new technologies. As with any new technology, existing competitor responses to the technology could materially impact the success and ability of the Company to commercialize the products. At present the Company does not have any direct competition to its products but that could change over time.

Credit Risk

Although the Company has historically incurred a very low bad debt expense, an adverse change in economic climate or in the specific financial health of one or more of its customers could result in a material adverse impact.

Foreign Exchange

The Company is exposed to foreign currency risk as a material portion of its transactions is carried out in US dollars ("USD"). The Company maintains USD denominated bank accounts but, up to September 6, 2017, had assessed its functional currency as the Canadian dollar. Up until the change in functional currency to USD on September 6, 2017, unfavorable changes in the exchange rate of the USD may have resulted in a significant effect on the foreign exchange gain or loss in the statement of income and comprehensive income. At present the Company has no plans in place to hedge its foreign exchange exposures. As the Company purchases substantially of all inventories in USD and a greater than 81% of its sales are in USD, the Company realizes the benefit of a partial natural hedge against this risk.