



PIONEERING
T E C H N O L O G Y

Pioneering Technology Corp.

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

January 17, 2018

This Management Discussion and Analysis (“MD&A”) is prepared as at January 17, 2018, and should be read in conjunction with the audited financial statements and related notes of Pioneering Technology Corp. (the “Company”) for twelve months ended September 30, 2017 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 January 17, 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 GAAP 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 technology 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 or to license 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. Currently the Company has the only products available in the category to help solve this multi-billion-dollar problem. These product/technology solutions at present include:

The **Safe-T-element® (STE)** cooking system, which was engineered to help prevent stovetop cooking fires on electric coiled stoves before they start. The product is available as an aftermarket installation or pre-equipped on new ranges and is sold to multi-residential channels and institutions throughout North America. There has never been a stovetop cooking fire reported on an STE equipped stovetop.

Smart Burner™ (SB) is an easy to install 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.

The **Safe-T-sensor™ (STS)** technology 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 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 ecommerce site.

Pioneering has also partnered with Innohome OY of Finland (Innohome) to gain access to Innohome's award-winning heat sensor technology, which complements Pioneering's current portfolio of cooking fire prevention solutions. This product will be made available in the aftermarket for electric smooth top ranges. It is engineered to alert users to imminent danger via a low frequency alarm and will shut the stove off to help prevent auto-ignition from occurring. This advanced heat sensor technology measures both excessive temperatures and rate of temperature change.

New Products:

Pioneering will continue to focus 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 and margin. 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

In the year ended 2017, the Company enjoyed its best year to date with new highs achieved in revenue, gross profit and Adjusted EBITDA¹ (see Review of Operations below). Key accomplishments for the year include:

- Revenue growth of 55% for full-year 2017 versus 2016.
- Record quarterly revenues for Q4 2017 as sales exceeded \$3 million.
- 27% Adjusted EBITDA growth year over year.
- Increased cash generated from operations by \$1.6 million versus 2016.
- Strengthened balance sheet via completion of a \$6.6 million private placement and repayment of all long-term debt.

In 2017 the Company successfully achieved its stated Strategic Objectives/Goals which were as follows:

¹ Adjusted EBITDA is a non-IFRS measure. See "Non-IFRS Measures" below.

2017 Strategic Objectives

- 1.) **Build distribution and drive revenue growth via U.S. distributor relationships.** The Company continued to use its existing sales organization and new distributor relationships to grow its B2B sales of new and existing products. The Company's primary focus for building B2B distribution was in the U.S. market. The Company's objective for retail was to continue to market in Canada to gauge retail demand while modestly investing in its own website and e-commerce platform to improve sales via its online store where the Company realizes a greater gross profit margin on product sales vs traditional bricks and mortar retail.
- 2.) **Work closely with key influencers to drive support for the product(s).** The Company with the support of the fire service in the United States provided the tools and products necessary to support their cooking fire prevention efforts in the U.S. in an effort to work closely with the fire service to bring our solutions to the general public as part of the U.S. Fire Administration's "Fire is Everyone's Fight" initiative. This initiative has an emphasis on cooking fire prevention and the Company will continue to support the fire services and industry as they work toward changing codes and standards making temperature limiting control technology mandatory in the cooking appliance category.
- 3.) **Deliver the Pioneering story.** Creating awareness efficiently and effectively in both the consumer and investment communities was a strategic imperative in 2017 in an effort to create value in our products, brands and for shareholders and the company will continue those efforts in 2018
- 4.) **Invest in product development &/or acquisition.** In 2017, the Company invested 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. The Company has and continues to pursue original equipment manufacturers (OEMs) to incorporate at source or license technology(s); capitalize on current smart home trends; and/or to open up new markets outside of North America. The Company has also been investigating potential acquisition opportunities that are consistent with its existing category.

Review of Operations

Twelve Months ended September 30, 2017

Revenue for the twelve-month period ended September 30, 2017 was \$10,287,537, up approximately 55% versus \$6,644,252 for the same period year ago as market penetration, led by the SmartBurner product, increased in both Canada and the U.S.

Gross profit for the twelve-month period ended September 30, 2017 was \$5,243,254, up approximately 27% as compared to the same period in 2016 of \$4,135,119. Gross profit margin remained strong at 51.0% compared to 62.2% a year ago. The decline in gross profit margin was largely due to a combination of non-recurring expenses (including management bonuses, consulting fees and lease termination fees), preferred pricing to secure the hotel/motel channel sale, unfavourable changes in foreign currency exchange rates, a one-time inventory impairment charge, and growth in lower margin sales at retail.

Net income for the twelve months ended September 30, 2017 was \$245,054 versus \$1,388,962 for the same twelve-month period a year ago. Net income, excluding non-cash related items (deferred tax recovery, fair

value movement, impairments, stock issuance costs and stock-based compensation expense) was \$1,459,977 up approximately 12% vs \$1,305,756 for the same period year ago. Adjusted EBITDA for the twelve-month period was \$1,961,574 up 17% versus \$1,683,346 in the same period year ago. The Company believes it is well positioned to continue this revenue and earnings growth into 2018.

Operating expenses for the twelve-month period were \$4,251,713 versus \$3,097,590 in 2016, an increase of approximately 37%. The Company invested in sales and marketing activities and resources in Q3 and Q4 2017 to drive revenue growth and to position the Company for continued growth in 2018. The Company also incurred expenses related to the completion of its private placement, the discharge of its loan with Roynat, non-recurring expenses and stock-based compensation. Lastly, cash generated from operations for the twelve-month period ended September 30, 2017 was \$670,812 compared to a decrease in cash of (\$1,022,584) for the twelve-month period ended September 30, 2016 for a net positive change in cash generated from operations of \$1,693,396.

Three Months ended September 30, 2017

Revenue for the three-month period ended September 30, 2017 was \$3,083,509, up approximately 27% versus \$2,427,288 for the same period a year ago. Gross profit for the period was down approximately 16% to \$1,108,142 as compared to gross profit of \$1,325,962 during the three-month period ended September 30, 2016. The decline in gross profit versus the same period in the prior year was driven by a combination of non-recurring expenses, preferred pricing to secure the hotel/motel channel sale, foreign currency impacts, a one-time inventory impairment charge, and growth in lower margin sales at retail.

Net income for the three-month period ended September 30, 2017 was \$187,620 a decrease of approximately 78% from \$871,991 for the same period in the prior year. Adjusted EBITDA for the period was \$251,868 a decline of 59% from \$612,191 during the same period in the prior year. This decline includes non-recurring expenses (including management bonuses, consulting fees and lease termination fees), foreign currency impacts and increased investments in sales and marketing initiatives and human resources. Additionally, the three-month period ended September 30, 2017 and 2016 includes \$515,383 and \$586,794 (respectively) of stock based compensation.

Outlook

With its positive financial results in 2016 and 2017, a major increase in cash reserves, the full repayment of long-term debt and investments in sales and marketing efforts, human resources and product development, the Company feels it is well positioned to drive future growth and/or to consider strategic acquisitions that enhance the Company's product portfolio and its leadership position in the fire prevention space.

2017 Business Highlights

Financing and Strong Balance Sheet

In April of 2017, the Company completed a "bought deal" private placement of approximately \$6.6 million of units. Each unit consisted of one common share and one-half of one common share purchase warrant, exercisable at a price of \$1.80 per share for 24 months from the date of issuance, subject to acceleration in certain circumstances. The financing included several institutional buyers.

The Company used a portion of the proceeds of the private placement to repay all its outstanding indebtedness, including its \$1.75 million long-term loan with Roynat Capital (a division of Scotiabank) and to accelerate its business expansion by making significant additions to its management and sales teams and investing in new product development and sales and marketing activities.

The Company now has a very strong balance sheet. Together with cash generated from operations during the year the Company has \$7.5 million in cash and is well positioned for long term growth.

Recognition and Shareholder Value

In 2017, Pioneering was recognized in a number of different ways: the Company was included on the 2017 TSX Venture 50 as one of the exchange's top performers; it was also recognized as one of Canada's fastest growing companies by PROFIT magazine for the 4th time; the Company's SmartBurner™ product was acknowledged with a silver award at the 30th annual (Thomas) Edison Awards in New York City honoring the best in innovations and innovators; and the Company was recognized as a finalist in Ernst & Young's Entrepreneur of the Year awards.

While awareness in the investment community is growing and volume/liquidity is increasing, Pioneering's story is still not well known yet. Pioneering plans to continue to make this a strategic objective in 2018 to better communicate its story and growing potential as the leader in this multi-billion category it has created.

Government Activities

U.S. Federal Grants. The Company's products continued to be supported by the Federal Emergency Management Agency's (FEMA) Fire Prevention and Safety grant program with large public housing authorities and universities receiving grants from FEMA in 2017 for both the SmartBurner™ and Safe-T-sensor™ products. These competitive grant programs are administered by the U.S. Department of Homeland Security (DHS) in cooperation with the U.S. Fire Administration (USFA).

U.S. Government Expansion. In early 2017 the Company announced that its SmartBurner™ product was available for sale through US Communities, the leading national government purchasing cooperative providing government procurement resources and solutions for public agencies, educational institutions and non-profit organizations across the United States. There are approximately 55,000 public and non-profit agencies that participate in this program.

Industry Developments

Pioneering has disrupted the multi-billion-dollar cooking appliance industry in North America. The UL standard change for electric coil stoves has been finalized and published and will become a requirement of sale as of April 2019. This new standard change will require all electric coil stoves sold in North America to pass an oil ignition test. To the best of the Company's knowledge, Pioneering's SmartBurner™ with its Temperature Limiting Control™ (TLC) technology is the only product currently available that meets this new standard for electric coil stoves – the stove type of choice in multi-residential housing.

Pioneering created this cooking fire prevention category and led the efforts that resulted in this new industry standard. Pioneering is currently working on developing new products that will help prevent cooking fires on ALL stove platforms which could result in additional standard changes in future.

Sales Activities of Note

Expansion in Core Channels. The Company continued to increase its penetration into the multi-family social housing and rental housing channels, the university and college channel, the U.S. military and the retail channel. Through its new and growing distributor relationships in both the U.S. and Canada, the Company significantly increased sales of its products in these channels in 2017, but believes that there are significant opportunities for further expansion. Pioneering expects that additional sales opportunities with its current large housing customers will help it to achieve its 2018 objectives and believes its growing relationships with its distribution partners will help fuel deeper penetration in 2018 and in the years to come.

Hotel/Motel Channel Validation. In 2017, Pioneering received follow-on purchase orders from one of its distribution channel partners for one of North America's largest suite style hotel chains to equip its remaining electric coiled stove properties with Pioneering's SmartBurner product. This hotel chain has now ordered and installed SmartBurner™ in approximately 74,000 hotel rooms in more than 600 of its hotel properties over the past two years validating the effectiveness of Pioneering's product with this customer and its relevance in this new channel.

Hotel/Motel Channel Expansion. During the year Pioneering announced that another major suite style hotel chain in North America began equipping their approximately 5,700 hotel rooms with Pioneering's SmartBurner™ product. The Company expects to announce further hotel opportunities soon. There are over 3,200 major suite style hotel chain properties (with kitchens) in North America and approximately 320,000 hotel units.

Insurance Premium Reductions. Ontario's Housing Services Corporation (HSC) now provides an annual discount of 4% off the property insurance premiums to all Ontario social housing operators in its insurance program who install either the SmartBurner or Safe-T-element products in their properties. HSC delivers services to over 100,000 housing units in Ontario. HSC's insurance program is one of the largest group programs in North America.

Pioneering's SmartBurner Added to HD Supply's U.S. National Distribution Program. During the year, Pioneering announced a new national distribution program in the United States with HD Supply Corporation of Atlanta, GA, one of the largest industrial and facility distributors in the U.S. This program included HD Supply purchasing inventory to stock 12 distribution centers nationwide, inclusion in HD Supply's 2017 catalogue and a sales and marketing program to drive awareness/support for SmartBurner.

Finalized Distribution Partnership with Innohome. In June 2017, the Company announced that it had finalized a definitive partnership agreement with Innohome 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. Both companies view each other's technology and products as complementary and potentially accretive to their revenue, gross profit and net income. The new product is a strategic fit for Pioneering and will be branded in North America as a Pioneering product offering, complementing its current family of cooking fire prevention solutions and will be available as an aftermarket application for electric smooth top ranges. Pioneering has executed an initial trial installation of the technology at Princeton University.

Selected Financial Information

These financial highlights have been prepared in accordance with IFRS. For further information, please refer to the audited financial statements for the twelve months ended September 30, 2017 and 2016. The following table shows selected financial information for the twelve months ended September 30, 2017, 2016 and 2015.

	Year Ended September 30 2017	Year Ended September 30 2016	Year Ended September 30 2015
Revenue	10,287,537	6,644,252	4,393,534
Net Income	245,054	1,388,962	140,976
Earnings (loss) per share (basic)	0.01	0.04	0.00
Earnings (loss) per share (diluted)	0.00	0.03	0.00
Total assets	13,186,464	5,393,345	1,825,538
Total liabilities	1,605,746	4,488,057	2,738,983

Income Tax Recovery

Due to the positive business performance in 2015, 2016 and 2017, the Company is now able to utilize its tax loss carryforwards. As a result, the Company recognized \$1,617,315 of deferred tax assets as at September 30, 2017 (\$670,000 – September 30, 2016). The company expects that this tax deferred tax asset will be utilized to offset future income taxes expense, which effectively reduces the anticipated cash requirement on income tax expense in future periods.

Adjusted EBITDA

The Company has provided a reconciliation of Adjusted EBITDA to IFRS 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.

	Year Ended September 30 2017	Year Ended September 30 2016
Net Income (loss)	245,054	1,388,962
Deferred tax recovery	(947,315)	(670,000)
Fair value movement	1,367,862	-
Amortization of tangible assets	28,521	27,967
Amortization of intangible assets	4,470	7,456
Stock based compensation	515,338	586,794
Cost of share issuance	159,626	-
Inventory impairment loss	78,212	-
Non-recurring expenses	282,175	-
Unrealized foreign exchange loss	41,200	23,600
Interest and guarantee fee	186,431	318,567
Adjusted EBITDA	1,961,574	1,683,346

Selected Quarterly Results

For the Quarters Ended (\$'000's)								
	Fiscal 2017				Fiscal 2016			
	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015
Revenues	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	1,108.1	1,387.2	1,296.7	1,451.2	1,326.0	1,080.0	822.7	906.4
Expenses*	1,961.5	823.4	547.8	919.0	1,034.5	769.4	647.6	646.1
Interest & other Expenses	167.1	52.8	52.9	53.1	(581.0)	70.0	90.0	69.0
Income (loss)	187.6	1,163.7	(45.3)	(1,060.9)	900.2	240.6	85.1	191.3
Earnings (loss) per share (basic)	0.00	0.03	(0.00)	(0.02)	0.03	0.01	0.00	0.01
Earnings (loss) per share (diluted)	0.00	0.02	(0.00)	(0.03)	0.03	0.01	0.00	0.01

**FY 2017 and 2016 expenses include \$515,383 and \$586,794 (respectively) of stock based compensation*

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 issued in 2016 were exercised.

Liquidity, Capital Management

The Company's plans for 2017 were 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 to fund its capital requirements. On March 22, 2017 and April 20, 2017, the Company completed a private placement of 5,995,631 units for total gross proceeds of \$6,595,194. Each unit consisted of one common share and one-half of a warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$1.80 for a period of 24 months following the date of issuance, provided that if, at any time after 12 months following the issuance of the warrant, the volume weighted average trading price of the Company's common shares on the TSXV over any 15 consecutive trading day period is at least \$2.50, the Company will have the right to accelerate the expiry date of the warrants to a date that is 15 calendar days after the date on which the Company issues a press release announcing the accelerated expiry date.

Upon completion of the private placement, the Company used some of the proceeds to repay all outstanding long-term Roynat debt totaling \$1,750,000. The Company's working capital ratio including the derivative liability is 7.2 (2016 - 1.6). Excluding the non-cash, derivative liability the Company's working capital ratio is 12.4 (2016 - 4.3)

During the year, the Company obtained a \$500,000 revolving demand facility with a Canadian chartered bank bearing interest at the lender's prime rate plus 2% per annum. No amounts have been drawn on the facility at year-end.

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 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. The Company is subject to externally imposed capital requirements as it relates to its line of credit.

Disclosure of Outstanding Share Information

The following table sets forth information concerning the issued securities of the Company as at September 30, 2017.

Description	Number
Common Shares:	
Balance at the beginning of the year	41,908,352
Issued in Fiscal 2017	13,793,394
Common Shares Outstanding as at September 30, 2017	55,701,746
Warrants:	
Balance at the beginning of the year	5,422,763
Issued in Fiscal 2017	2,997,816
Exercised in Fiscal 2017	(5,422,763)
Warrants Outstanding as at September 30, 2017	2,997,816
Stock Options:	
Balance at the beginning of the year	6,229,000
Issued in Fiscal 2017	2,025,000
Exercised in Fiscal 2017	(2,375,000)
Stock Options Outstanding as at September 30, 2017	5,879,000

Contingencies and Commitments

As at January 12, 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 September 30, 2017. 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 2016, a former supplier has commenced an action against the Company relating to a contractual dispute. The Company intends to vigorously defend itself against such claim. As at year end, no provision has been recorded regarding this claim.

Related Party Transactions

Related party transactions and balances are as follows:

	2017	2016
	\$	\$
Type of payment:		
Key management salaries and contingent compensation	844,443	373,500
Value of key management stock options	63,651	241,267
Value of director stock options	183,994	-
Key management compensation	1,092,088	614,767
Financing expenses	-	84,186
Amounts due from related parties at year end	162,500	-
Amounts due to related parties at year end	30,455	153,677

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

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	September 30 2017 Number Outstanding
September 2009	September 2019	\$0.15	755,000
April 2016	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 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 audited financial statements and related notes for the year ended September 30, 2017 and 2016.

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, 2016, had assessed its functional currency as the Canadian dollar. Up until the change in functional currency to USD on September 6, 2016, 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 88% of its sales are in USD, the Company realizes the benefit of a partial natural hedge against this risk.