



## **Pioneering Technology Corp.**

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

**August 29, 2019**

This Management Discussion and Analysis (“MD&A”) is prepared as at August 29, 2019 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 period ended June 30, 2019, along with the audited 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 MD&A was approved by the Company’s Board of Directors on August 29, 2019. Additional information relevant to the Company’s activities can be found on the Company’s profile on SEDAR at [www.sedar.com](http://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.

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## **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. To date, the STE 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. 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 available for sale online 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 product solutions to its channel partners that will 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.

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**Overall Performance & Strategy**

Revenue was up 20% for the three-month period ended June 30, 2019 versus June 30, 2018. Net Income for the three-month period improved to a loss of (\$747,328) during the period from a loss of (\$1,105,202) for the same period a year ago. Adjusted EBITDA for Q3 2019 was \$(348,112) an improvement from Adjusted EBITDA of \$(765,666) in Q3 2018. The Company experienced a (\$0.01) loss per share during the period (see Results of Operations for more detail).

After experiencing profitability and 50% year-over-year revenue growth in three consecutive fiscal years (2015, 2016 and 2017), the Company's financial performance declined in fiscal 2018 and the start of fiscal 2019 due to a number of factors, including: longer than normal sales cycles related to its transition from a direct sales model to a distributor model; investments in people, research and marketing; and the impact of activities by former executives/contractors of the Company whose employment was terminated in January 2019 as a result of the Company's discovery of a plan to create a competitive business that began as early as October 2017 (see Pioneering press release dated January 23, 2019).

The Company is addressing these recent challenges head on to help stabilize the business and improve its financial results. During the first three quarters of 2019, revenue increased 7%, expenses decreased by 21% and the net loss has improved 41% vs. the previous three quarters. Adjusted EBITDA is also trending in the right direction with a 45% improvement vs. the previous three quarters.

The Company currently has approximately \$4.4 million in fully paid inventory available on hand; sales of this inventory will accordingly positively impact short term cash flow. As revenue continues to recover behind investments in sales and marketing and building our distribution network, the Company intends to continue to manage its expenses with a view to returning to profitability as soon as possible.

## 2019 Strategic Objectives

The Company's strategic objectives for 2019 are as follows:

- 1. Create a differentiation strategy for SmartBurner products.** Due to changes in UL858 60A that will be effective April 2019 and will require all new electric coil original equipment manufacturer (OEM) stoves to pass a minimum oil ignition test in order to be sold in North America, the Company will focus on increasing SmartBurner market awareness to establish SmartBurner as a necessary solution for the aftermarket. Currently, SmartBurner is the only aftermarket product that meets this new standard. The Company intends to repackage SmartBurner to clearly communicate its fire prevention capabilities, pursue a retail B2C strategy, execute a digital brand awareness building and B2B/B2C sales lead generation campaign, increase its market intelligence on competitive OEM offerings and pursue product enhancements as required in order to capitalize on the SmartBurner's proven success as the best aftermarket solution.
- 2. Increase the effectiveness of the Company's sales organization and 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 with improved structure, tools, training, focus and leadership in order to improve sales effectiveness and drive revenue growth. The Company's retail objectives include developing its retail offering, expanding its retail distribution driven from 2018 consumer research learnings and investing in its own e-commerce platform to improve sales and brand awareness.
- 3. Expand the Company's product portfolio and intellectual property to help prevent fires for all cooking appliances.** In 2019, the Company intends to continue to invest in existing products to further penetrate current channels while also investing in new product development and technology solutions for stove and microwave platforms that the Company's current products do not address.
- 4. Continue to pursue OEM opportunities for the Company's products as the best solution for the multi-residential market.** With the changes to UL 858, the Company will continue to pursue OEM opportunities that would include having its TLC technology incorporated into appliances at source. Given the Company's demonstrated ability to meet the new standard, its OEM product testing learnings, and its success in developing and selling robust and proven UL 858 compliant products for the multi-residential market, the Company believes its technology should be the solution of choice in the industry. 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.
- 5. Solidify the Company's business structure and operational fundamentals.** As the Company continues to grow, the Company intends to invest in intellectual property, create a robust supply chain, formalize processes and invest in tools to increase decision making and operational results. The Company will also seek to reduce operating expenses without affecting revenue generating opportunities.
- 6. Pursue revenue generating acquisition targets.** Where appropriate the Company will pursue business opportunities or acquisition targets that fit with the Company's business strategy, enhance the Company's current product portfolio, provide accretive revenue and enable greater scale in dealing with distributors and end customers in its current sales channels.

## Results of Operations

### Three-Months ended June 30, 2019 compared to Three-Months ended June 30, 2018

Revenue for the three-month period ended June 30, 2019 was \$1,013,362, up approximately 20% versus \$844,706 for the same period a year ago. The Company believes that its decline in revenues over the past 18 to 24 months was in large part the result of (i) the plans and activities of the three terminated executives/contractor to establish a business in competition with the Company, (ii) the Company's ongoing pursuit of a legal claim against them for an injunction and damages, and (iii) the re-engineering of our sales organization to transition from a direct sales to a distributor model. The improvement in revenue in Q3 vs same period prior year is an encouraging sign and the Company will continue to focus on growing revenue, with its SmartBurner, SmartRange and Safe-T-Sensor products, while continuing to control expenses in selective areas.

Gross profit for the three-month period was up approximately 28% to \$545,700 as compared to gross profit of \$427,802 during the three-month period ended June 30, 2018, and gross margins were strong, improving to 54% as compared to 51% during the three-month period ended June 30, 2018.

Net income (loss) for the three-month period ended June 30, 2019 was \$(747,328), an improvement from a loss of \$(1,105,202) for the same period in the prior year. During the three-month period ended June 30, 2019, investments continued to be made to support the transition to a distributor sales model, to invest in sales and marketing support/activities; build and educate the distributor network; build buying group relationships, research and development focused on developing new complementary products and existing product enhancements.

Expenses decreased approximately 17% during the quarter to \$1,287,976 from \$1,542,162 during the same period in 2018. The Company incurred significant legal costs in the quarter associated with the termination of three ex-employees. These one-time expenses totalled approximately \$300,000 in the quarter and without these one-time costs, expenses would have been \$987,976 down \$554,186 from Q3 2018, approximately a 36% decline. The Company will continue to invest judiciously in sales and marketing to help grow revenue in the B2B channel via its distributor network, will control expenses in other areas in order to preserve cash, and will continue to aggressively protect its business, when and as required, against the scheme of the three terminated employees.

Lastly, Adjusted EBITDA for the period was \$(348,112), an improvement of \$417,554 or 55% vs Adjusted EBITDA of \$(765,666) during the same period in the prior year.

### Nine Months ended June 30, 2019 compared to Nine Months ended June 2018

Revenue for the nine-month period ended June 30, 2019 was \$3,201,780 down approximately 19% versus \$3,968,863 for the same period a year ago. Gross profit for the nine-month period was down approximately 14% to \$1,785,213 as compared to gross profit of \$2,071,449 during the nine-month period ended June 30, 2018. Gross profit margin was strong at 56% as compared to 52% during the nine-month period ended June 30, 2018.

Net loss for the nine-month period ended June 30, 2019 was \$(1,974,472), as compared to a loss of \$(1,724,587) for the same period in the prior year. The Net Loss for nine-month period YTD includes approximately \$472,979 in one-time legal fees associated with the termination of the three employees. Adjusted EBITDA for the 9-month period was \$(1,184,219) an improvement of \$205,310 or 15% vs. \$(1,389,529) during the same period in the prior year.

## Q3 2019 Business Highlights

**Strong Balance Sheet:** As at June 30, 2019, the Company had no debt, approximately \$2.5 million in cash and short-term investments and total current assets of approximately \$7.4 million. The Company currently has significant fully paid inventory on hand, most of which was purchased prior to the implementation of U.S. government tariffs. The Company expects that this inventory will allow it to meet current demand for the next several months and maintain current gross profit margins.

**Focused Strategic Sales Management Activities:** In working with Focus Sales Mgmt., (a professional B2B sales consultancy) to support its distributor network, the Company has simplified its sales organization structure to align the sales team with specific distributors and territories. This change allows the sales team to engage with distributors more consistently in order to cultivate relationships and identify major sales opportunities with their customer base, which the Company expects will drive revenue growth. The Company is also currently completing an executive search a new Vice-President, Sales and expects to have the new person in place for the beginning of its new fiscal year or shortly thereafter. The Company believes the addition of a seasoned sales professional in the VP Sales role will significantly increase the effectiveness of its sales organization and distributor network.

**Distributor Partnership Activities:** As part of its strategy to engage with distributors more frequently, the Company participates in HD Supply's "Maintenance Mania" event and will continue to do so in 2020. This event gives the Company's sales organization direct access to key senior sales personnel at HD Supply across the U.S. who can facilitate product introductions to their key customers and enable trials and demonstrations of the Company's products. The Company has also begun participating in annual catalogues and sales conferences at HD Supply, Home Depot Pro and Chadwell. It expects that these relationships will further drive product awareness and end-customer sales opportunities. The Company is negotiating two new significant distributor relationships and expects to make a further announcement on these two new relationships shortly.

**Current Marketing and Advertising Activities:** The Company has invested in B2B advertising and awareness building to drive end-customer awareness for the SmartBurner, SmartRange and Safe-T-sensor products. The Company expects this investment to increase commercial traffic to its web site and increase B2B sales leads. This advertising investment targets customers in the Company's key B2B channels and is coordinated with the Company's other awareness building and lead generation activities.

**Retail After Market Applications:** The Company is tactically investing in the consumer retail channel to better understand how to effectively and cost efficiently build awareness and drive sales in this channel. Retail sales at Best Buy USA to date have shown promise and the Company will continue to invest with Best Buy to build awareness and drive consumers to point of purchase. Once required sales thresholds are met the Company will pursue increasing its points of distribution for the SmartBurner product. The Company is currently pursuing other larger retail opportunities for the aftermarket.

## 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, 2019	Three months ended June 30, 2018	Nine months ended June 30, 2019	Nine months ended June 30, 2018
Net (loss) income	(747,328)	(1,105,202)	(1,974,472)	(1,724,587)
Fair value movement	(1,079)	(544)	(615)	(669,449)
Amortization of tangible assets	37,133	23,223	110,740	33,933
Amortization of intangible assets	6,659	782	19,741	2,347
Stock based compensation	50,372	307,236	168,632	921,709
Cost of share issuance	-	-	-	26,019
Unrealized foreign exchange (gain) loss	-	2,586	-	2,610
Interest and guarantee fees	6,131	6,253	18,776	17,890
Litigation expense	300,000	-	472,979	-
<b>Adjusted EBITDA</b>	<b>(348,112)</b>	<b>(765,666)</b>	<b>(1,184,219)</b>	<b>(1,389,529)</b>

## Selected Quarterly Results

For the Quarters Ended (\$'000's)									
	Fiscal 2019			Fiscal 2018				Fiscal 2017	
	Jun 30 2019	Mar 31 2019	Dec 31 2018	Sep 30 2018	June 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017
Revenues	1,013.4	914.5	1,273.9	780.7	844.7	1,362.1	1,762.1	3,083.5	2,567.5
Gross Profit	545.7	533.1	707.0	376.8	427.8	706.1	937.6	1,108.1	1,387.2
Expenses*	1,288.0	997.4	1,456.1	1,570.4	1,542.2	1,633.6	1,324.4	1,961.5	823.4
Interest & other Expenses	5.1	6.6	(6.5)	26.5	(9.2)	(246.0)	(450.5)	167.1	52.8
Income (loss)	(747.3)	(470.9)	(756.2)	(1,580.7)	(1,105.2)	(681.6)	63.7	187.6	1,163.7
Earnings (loss) per share (basic)	(0.01)	(0.01)	(0.01)	(0.03)	(0.02)	(0.01)	0.00	0.00	0.03
Earnings (loss) per share (diluted)	(0.01)	(0.01)	(0.01)	(0.03)	(0.02)	(0.01)	0.00	0.00	0.02

## **Liquidity, Capital Management**

In 2019, the Company has been working actively to grow a strong sales pipeline for its existing products and to successfully grow awareness and distribution for its new products which it anticipates will generate additional operating cash flow. 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 fiscal 2020 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 August 29, 2019.

<b>Description</b>	<b>Number</b>
<b>Common Shares:</b>	
Balance at the beginning of the year	56,041,746
Issued in Fiscal 2019	-
Common Shares Outstanding Balance	56,041,746
<b>Warrants:</b>	
Balance at the beginning of the year	2,997,815
Issued in Fiscal 2019	-
Exercised in Fiscal 2019	-
Warrants Outstanding Balance	2,997,815
<b>Stock Options:</b>	
Balance at the beginning of the year	5,539,000
Issued in Fiscal 2019	-
Exercised in Fiscal 2019	-
Forfeited in Fiscal 2019	(700,000)
Stock Options Outstanding Balance	4,839,000

## Contingencies and Commitments

On January 23, 2019, the Company announced that it had terminated the employment of Laird Comber, Vice-President of Sales, and Wayne Zu, Director of Engineering and Manufacturing on January 9, 2019. The Company also terminated the engagement of Steph Cooper as the Company's controller on the same day. Mr. Comber, Mr. Zu and Ms. Cooper were terminated for cause as a result of their participation in a scheme aimed at competing directly with Pioneering in the cooking fire prevention market in North America using Pioneering's confidential information, intellectual property, trade secrets, and know how. Upon discovery of this scheme, Pioneering acted promptly to protect its interests, including by terminating the employment or engagement of each of the individuals for cause and by initiating litigation against the three individuals in the Ontario Superior Court of Justice seeking appropriate remedies including damages. The litigation process is ongoing with respect to this matter.

As at August 29, 2019, 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, 2019. 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.

The Company has an operating lease for its current head office and warehousing facilities at \$14,000 per month expiring in July 2028.

## Related Party Transactions

Related party transactions and balances are as follows:

	June 30, 2019	June 30, 2018
	\$	\$
Type of payment:		
Key management salaries and contingent compensation	<b>97,250</b>	404,812
Director's fees	<b>3,250</b>	15,500
Value of key management stock options	<b>17,518</b>	305,698
Value of director stock options	-	118,006
Key management compensation	<b>118,018</b>	844,016
Amounts due to related parties at quarter end	<b>12,522</b>	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, COO and its Board of Directors.

Stock options held by related parties and the 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 2019 Number Outstanding
September 2009	September 2019	\$0.15	755,000
April 2016	April 2021	\$0.22	1,410,000
August 2017	August 2022	\$1.07	<u>650,000</u>
			<u><u>2,815,000</u></u>

### **Management’s Responsibility for Financial Information**

The unaudited condensed interim financial statements (“financial statement”) 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 audited financial statements and related notes for the year-ended September 30, 2018.