



**Pioneering Technology Corp.**

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

**January 28, 2019**

This Management Discussion and Analysis (“MD&A”) is prepared as at January 28, 2018 and should be read in conjunction with the audited financial statements and related notes of Pioneering Technology Corp. (the “Company”) for the three-month and twelve-month periods ended September 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 MD&A was approved by the Company’s Board of Directors on January 28, 2018. 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

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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. 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 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.

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### **Overall Performance & Strategy**

Revenue was down 54% for the twelve-month period of 2018 versus the same period in 2017. Net income for the twelve-month period declined from a profit of \$245,054 in 2017 to a loss of \$(3,305,329). Adjusted EBITDA for 2018 was \$(2,240,678) compared to Adjusted EBITDA in 2017 of \$1,961,574. On a per share basis, net income declined from \$0.00 per share in 2017 to a loss of \$(0.06) per share in 2018.

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.

Pioneering will seek an injunction against any further improper use or disclosure of Pioneering's confidential information, competitive activities or interference with Pioneering's business relationships.

This scheme significantly disrupted Pioneering's business, its new product development efforts and the momentum it had enjoyed up until the beginning of FY 2018. The Company believes that the activities of these individuals contributed to the decline in revenue it experienced in FY 2018. Now that the three individuals are no longer associated with Pioneering, the Company will focus on implementing various measures in connection with its 2019 business plan intended to re-establish normalcy in operations, improve performance, accelerate new product development activities and capitalize on Pioneering's position as North America's leader in innovative cooking fire prevention technologies and products, including retaining:

- Focus Sales Management, a proven, Toronto-based, professional B2B sales consulting firm, to assist with Pioneering's sales planning and execution which will now be led by Pioneering's President, Dan MacDonald and VP Marketing Michael Quast; and
- BDO Canada to assist Pioneering with financial advisory, daily accounting and reporting obligations.

Pioneering has initiated a search for a highly qualified engineering and manufacturing executive to help lead its current product development efforts.

The Company believes that the decline in revenue in 2018 was also partly due to the Company's recent transition from a direct sales model to a distributor model. The transition to a distributor model has resulted in some longer than normal sales cycles and time spent training and educating distributor sales teams and their customers. The Company currently has some significant customer prospects sourced by distributors that have taken longer to move forward as many of these customers require 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 remains strong. 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. The Company remains committed to this distributor model as it has recently begun to see traction with distributor sales organizations and their end customers in the form of increased product sell through, repeat purchase and a growing pipeline. This indicates an increase in sales velocity and the Company's focus will be on continuing to educate and train distributors on the cooking fire problem and SmartBurner solution while at the same time driving end customer awareness for the SmartBurner product.

Some of the decline in net income in 2018 was due in part to investments made to support the transition to a distributor sales model and long-term growth initiatives. Over the past twelve 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.

As at January 28, 2019 the Company has a strong balance sheet with no debt, approximately \$2.3 million in cash and short-term investments and total current assets of approximately \$8 million. The Company currently has significant inventory on hand, a large portion of which was purchased prior to the implementation of U.S. government tariffs. This is expected to allow the Company to meet current demand and maintain current gross profit margins.

## **2019 Strategic Objectives**

The Company has established the following strategic objectives for 2019:

- 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 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. And while the Company is focused on re-establishing normalcy, the recent departures will be addressed or refreshed on as needed bases.

**6) Pursue revenue generating acquisition targets.** Where appropriate the Company will pursue 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**

### **Twelve-months ended September 30, 2018**

Revenue for the twelve-month period ended September 30, 2018 was \$4,749,536 down approximately 54% versus \$10,287,537 for the same period a year ago.

Gross profit for the twelve-month period was down approximately 53% to \$2,448,279 as compared to gross profit of \$5,243,254 during the twelve-month period ended September 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 51% during the twelve-month period ended Sept 30, 2017.

Net loss for the twelve-month period ended September 30, 2018 was \$(3,305,329), a decrease from a profit of \$245,054 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 \$(207,759) versus a gain of \$306,507 during the twelve-month period ended September 30, 2017; \$1,228,945 of stock-based compensation expense versus \$515,338 in the twelve-month period ended September 30, 2017; and an income tax expense of \$(417,315) as compared to a recovery in 2017 of \$947,315.

Adjusted EBITDA for the period was (\$2,240,678) a decline from \$1,961,574 during the same period in the prior year. During the twelve-month period ended September 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.

### **Three-months ended September 30, 2018**

Revenue for the three-month period ended September 30, 2018 was \$780,673 down approximately 75% versus \$3,083,509 for the same period year ago.

Gross profit for the three-month period was down approximately 66% to \$376,830 as compared to gross profit of \$1,108,142 during the three-month period ended September 30, 2017. The decline in gross profit versus the same period in the prior year was driven by decreased sales volumes, the impact of volume incentives and some short-term material cost increases.

Net loss for the three-month period ended September 30, 2018 was \$(1,580,742), a decrease from \$187,620 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; \$307,236 of non-cash stock-based compensation expense; and a non-cash (\$417,315) income tax expense related to the Company's deferred tax asset compared to a \$242,375 income tax recovery in the same period year ago. Additionally, there was a small gain of \$3,656 from fair value movement of derivative liability during the quarter.

## **Outlook**

Management believes that, notwithstanding its recent challenges, it has taken a number of steps to position the Company for long-term success including increasing distributor awareness for the cooking fire problem and SmartBurner solution, investing in training and tools for the sales organization, investing in marketing to increase end-customer awareness of Pioneering's products and investing in new product development to bring new products to market. While management is disappointed with recent revenue results and the need to terminate for cause two of its executives, and its engagement with its Controller, the Company will focus on implementing various measures in connection with its 2019 business plan intended to improve performance and capitalize on Pioneering's position as North America's leader in innovative cooking fire prevention technologies and products.

### **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 has a very strong balance sheet. As at Jan 28, 2019, the Company had approximately \$2.3 million in cash and short-term investments, \$8.0 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 Groups.*** In Q3 2018, the Company announced a strategic partnership with HPN Select. The partnership consists of HPN Select and Pioneering working together to promote Pioneering's SmartBurner product 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.

In Q4 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 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.

**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. The rebate program allows Miller’s customers who purchase SmartBurner and install it in all units of a property to earn a reduction in their insurance premium. 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.

**First North American Sales 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.

	<b>Year Ended September 30 2018</b>	<b>Year Ended September 30 2017</b>
Net (loss) income	(3,305,329)	245,054
Deferred Tax Expense (Recovery)	417,315	(947,315)
Fair value movement	(673,105)	1,367,862
Amortization of tangible assets	61,551	28,521
Amortization of intangible assets	4,924	4,470
Stock based compensation	1,228,945	515,338
Cost of share issuance	-	159,626
Inventory impairment loss	-	78,212
Non-recurring expenses	-	282,175
Unrealized foreign exchange loss	1,944	41,200
Interest and guarantee fee	23,077	186,431
<b>Adjusted EBITDA</b>	<b>(2,240,678)</b>	<b>1,961,574</b>

## Selected Quarterly Results

For the Quarters Ended (\$'000's)											
	Fiscal 2018				Fiscal 2017				Fiscal 2016		
	Sep 30 2018	June 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	June 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	June 30 2016	Mar 31 2016
Revenues	780.7	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
Gross Profit	376.8	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
Expenses*	1,570.4	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
Interest & other Expenses	26.5	(9.2)	(246.0)	(450.5)	167.1	52.8	52.9	53.1	(581.0)	70.0	90.0
Income (loss)	(1,580.7)	(1,105.2)	(681.6)	63.7	187.6	1,163.7	(45.3)	(1,060.9)	900.2	240.6	85.1
Earnings (loss) per share (basic)	(0.03)	(0.02)	(0.01)	0.00	0.00	0.03	(0.00)	(0.02)	0.03	0.01	0.00
Earnings (loss) per share (diluted)	(0.03)	(0.02)	(0.01)	0.00	0.00	0.02	(0.00)	(0.03)	0.03	0.01	0.00

## 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 2019 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 January 28, 2019.

<b>Description</b>	<b>Number</b>
<b>Common Shares:</b>	
Balance at the beginning of the year	55,701,746
Issued in Fiscal 2018	340,000
Common Shares Outstanding Balance	56,041,746
<b>Warrants:</b>	
Balance at the beginning of the year	2,997,815
Issued in Fiscal 2018	-
Exercised in Fiscal 2018	-
Warrants Outstanding Balance	2,997,815
<b>Stock Options:</b>	
Balance at the beginning of the year	5,879,000
Issued in Fiscal 2018	-
Exercised in Fiscal 2018	(340,000)
Forfeited in Fiscal 2018	(700,000)
Stock Options Outstanding Balance	4,839,000

### **Contingencies and Commitments**

As at January 28, 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 September 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 September 30, 2018 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:

	<b>2018</b>	2017
	\$	\$
Type of payment:		
Key management salaries and contingent compensation	<b>539,562</b>	844,443
Value of key management stock options	<b>405,291</b>	63,651
Value of director stock options	<b>157,341</b>	183,994
Key management compensation	<b>1,102,194</b>	1,092,088
Amounts due from related parties at year end	-	162,500
Amounts due to related parties at year end	<b>5,750</b>	30,455

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:

<b>Issuance Date</b>	<b>Expiry Date</b>	<b>Exercise Price \$</b>	<b>September 30 2018 Number Outstanding</b>
September 2009	September 2019	\$0.15	755,000
April 2016	April 2021	\$0.22	1,490,000
August 2017	August 2022	\$1.07	650,000
			<u>2,895,000</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 year-ended September 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.

In January 2019, the Company announced that it had terminated its Vice-President of Sales, Director of Engineering and Manufacturing and corporate controller for cause due to 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. The Company believes that its performance in FY2018 was adversely affected by this scheme. Although the Company has taken steps to protect its interests following its discovery of the scheme, including by terminating the individuals and commencing litigation against them, the full extent of their activities and the potential impact of those activities on the Company is not yet fully known and the scheme may have negative impacts on the Company's relationships with customers and suppliers.

In addition, in December 2018, the Company announced that its Chief Financial Officer had resigned to pursue a new career opportunity. As a result of this departure and the for-cause terminations, the Company has lost three senior executives and its corporate controller in the last few months. The Company intends to replace these individuals with a combination of new hires (in the case of the Director of Manufacturing and Engineering) and existing internal resources and third-party service providers (in the case of the Vice-President of Sales and corporate controller) and believes that it can do so without any significant disruption to ongoing operations. However, there can be no assurance that the Company will be able to successfully replace the recent departures in a timely manner or without it negatively affecting operations.

**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. With the changes to UL 858, OEM's will be required, by April 2019, to enable stoves that meet a new minimum cooking oil ignition test. This presents a significant opportunity for Pioneering in the aftermarket as SmartBurner and Safe-T-element are the only after-market products that meet this new standard.

**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.