



PIONEERING
T E C H N O L O G Y

Pioneering Technology Corporation

Unaudited Condensed Interim Financial Statements

For the six-month period ending March 31, 2017

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim consolidated statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of Pioneering Technology Corporation (the Company) have been prepared by and are the responsibility of the Company's management. The unaudited condensed consolidated interim financial statements are prepared in accordance with accounting principles generally accepted in Canada (these statements are prepared under the International Financial Reporting Standards (IFRS)) and reflect management's best estimates and judgment based on information currently available. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Pioneering Technology Corporation
Condensed Interim Balance Sheet
As at March 31, 2017 and September 30, 2016

(Unaudited, Expressed in Canadian Dollars, unless otherwise stated)

	March 31 2017	September 30 2016
	\$	\$
Assets		
Current assets		
Cash	9,462,827	1,209,491
Short-term investments	-	27,033
Trade and other receivables (note 4)	735,848	2,397,132
Inventories (note 5)	2,227,049	881,667
Prepaid expenses and deposits	244,864	119,608
	12,670,588	4,634,931
Non-current assets		
Property and equipment (note 6)	69,989	73,513
Patents (note 7)	12,666	14,901
Accumulated other comprehensive income (note 2.2)	141,547	-
Deferred tax asset	995,000	670,000
Total Assets	13,889,790	5,393,345
Liabilities		
Current liabilities		
Line of credit (note 8)	-	-
Trade payables and accrued liabilities (note 9)	896,599	905,203
Current portion of long term debt (note 11)	449,468	174,960
Derivative liability (note 2.2)	2,266,573	1,832,854
	3,612,640	2,913,017
Long term debt (note 11)	1,300,532	1,575,040
	4,913,172	4,488,057
Shareholders' Equity		
Share capital (note 12)	14,006,568	7,051,121
Warrants (note 12.7)	1,929,319	-
Preferred shares	1	1
Contributed surplus (note 12.3)	2,745,385	2,255,968
Accumulated other comprehensive income	141,467	28,213
Deficit	(9,846,121)	(8,429,802)
Total Shareholders' Equity	8,976,618	905,501
Total Liabilities and Shareholders' Equity	13,889,790	5,393,558

The accompanying notes are an integral part of these condensed interim financial statements.

These condensed interim financial statements are authorized for issue by the board of directors on May 30, 2017.

"Kevin Callahan"

Director

"Richard Adair"

Director

Pioneering Technology Corporation
Condensed Interim Statement of Operations
For the three and six months period ending March 31, 2016 and March 31, 2017

(Unaudited, Expressed in Canadian Dollars, unless otherwise stated)

	Six Months Ended		Three Months Ended	
	March 31		March 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenues	4,636,518	2,593,205	2,255,757	1,256,656
Cost of goods sold	1,888,572	986,300	959,042	433,760
Gross Profit	2,747,945	1,606,905	1,296,714	822,896
Expenses				
Warehousing, distribution and warranty costs	102,744	314	96,334	1,895
Administration	866,225	383,844	357,472	221,217
Sales and marketing	643,285	370,353	358,431	195,726
Research & Development Costs	131,987	118,935	64,161	62,269
Amortization of property and equipment (note 6)	12,989	14,756	6,495	7,378
Amortization of product development costs and patents (note 7)	2,235	3,728	1,117	1,864
Foreign exchange loss (Gain)	(292,654)	286,345	(336,162)	167,776
	1,466,810	1,181,875	547,847	658,124
Income from operations	1,281,135	425,030	748,867	164,772
Net finance charge and interest expense	(106,017)	(148,710)	(52,949)	(79,711)
Income before income tax	1,175,118	276,320	-	85,061
Income tax expense (recovery)	325,000	-	50,000	-
Net profit	1,500,118	276,320	-	85,061
Other comprehensive income				
Fair value movement of derivative liability (note 2.2)	(2,606,358)	-	(791,284)	-
Total comprehensive income (loss) for the period	(1,106,240)	276,320	#	85,061
Income (Loss) and comprehensive Income (loss) per share - Basic	(0.02)	0.01	(0.00)	0.00
Income (Loss) and comprehensive Income (loss) per share - Diluted	\$ (0.03)	\$ 0.01	\$ (0.00)	\$ 0.00
Weighted average # of common shares outstanding -Basic	44,206,392	40,648,155	45,173,809	40,648,155
Weighted average # of common shares outstanding -Diluted	56,242,185	29,089,248	56,242,185	29,089,248

The accompanying notes are an integral part of these condensed interim financial statements.

Pioneering Technology Corporation
Condensed Interim Statement of Change in Equity
As at March 31, 2017

(Unaudited, Expressed in Canadian Dollars, unless otherwise stated)

	Common shares		Preferred shares		Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Equity
	#	\$	#	\$					
Balance, October 1, 2016	41,908,352	\$ 7,051,121	20,533,133	\$ 1		\$ 2,255,755	\$ 28,213	\$(8,429,802)	\$ 905,288
Private Placement (note 12.6)	5,668,631	6,093,393				179,553			\$ 6,272,946
Warrants (note 12.7)		(1,929,319)			1,929,319				\$ -
Warrants and stock options exercised (note 12.3)	4,237,917	1,018,679							\$ 1,018,679
Share issuance costs						310,077		(310,077)	\$ -
Stock-based compensation expenses (note 12.4)		1,772,693							\$ 1,772,693
Change in functional currency (note 2.2)							113,254		\$ 113,254
Comprehensive Income for the period								(1,106,240)	(1,106,240)
Balance, March 31, 2017	51,814,900	\$ 14,006,568	20,533,133	\$ 1	\$ 1,929,319	\$ 2,745,385	\$ 141,467	\$(9,846,119)	\$ 8,976,618

	Common shares		Preferred shares		Warrants	Contributed Surplus	Accumulated other comprehensive income	Deficit	Equity
	#	\$	#	\$					
Balance, October 1, 2015	28,648,155	\$ 5,752,278	20,533,133	\$ 1		\$ 1,700,281	\$ -	\$(8,366,006)	\$ (913,447)
Shares and warrants issued	12,000,000	1,050,920				389,000			\$ 1,439,920
Warrants and stock options exercised								\$ -	\$ -
Stock-based compensation expenses						7,552			\$ 7,552
Change in functional currency								\$ -	\$ -
Comprehensive Income for the period								- 276,320	\$ 276,320
Balance, March 31, 2016	40,648,155	\$ 6,803,198	20,533,133	\$ 1		\$ 2,096,833	\$ -	\$(8,089,686)	\$ 810,345

The accompanying notes are an integral part of these condensed interim financial statements.

Pioneering Technology Corporation
Condensed Interim Statement of Cashflows
For the three and six months period ending March 31, 2016 and March 31, 2017

(Unaudited, Expressed in Canadian Dollars, unless otherwise stated)

	Six Months Ended		Three Months Ended	
	March 31		March 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Operating activities				
Net Income (loss) and comprehensive income (loss) for the period	(1,106,240)	276,320	(45,366)	85,061
Items not affecting cash:				
Amortization of property and equipment	12,989	14,756	6,495	7,378
Amortization of product development costs and patents	2,235	3,728	1,117	1,864
Income tax recovery	(325,000)	-	(50,000)	-
Unrealized foreign exchange loss	128,208	43,508	(171,717)	-
Derivative Liability	2,606,358	-	791,284	-
Stock based compensation expense (note 12.4)	179,553	7,552	-	3,350
	<u>1,498,103</u>	<u>302,356</u>	<u>531,813</u>	<u>97,653</u>
Net change in non-cash working capital balances:				
Trade and other receivables	1,661,284	(411,446)	1,192,297	(184,392)
Inventories	(1,345,382)	(117,354)	(1,193,697)	(163,541)
Prepaid expenses and deposits	(125,256)	(4,792)	(96,161)	(18,655)
Trade payables and accrued liabilities	(8,604)	(467,746)	(19,916)	(621,558)
Cash flows from operating activities	<u>1,680,145</u>	<u>(698,982)</u>	<u>414,336</u>	<u>(890,493)</u>
Investing activities				
Purchase of property and equipment	(9,465)	(23,988)	(9,465)	-
Cash flows (used in) investing activities	<u>(9,465)</u>	<u>(23,988)</u>	<u>(9,465)</u>	<u>-</u>
Financing activities				
Proceeds on exercise of warrants	1,018,679	-	492,325	-
Short term loans payable	274,508	(771,486)	-	(554,117)
Long-Term debt (note 11)	(274,508)	500,000	-	500,000
Shares and warrants issued for cash, net of issuance costs	5,633,870	1,439,920	5,633,870	-
Increase (decrease) in line of credit	-	1,113	-	60
Cash flows from financing activities	<u>6,652,549</u>	<u>1,169,547</u>	<u>6,126,195</u>	<u>(54,057)</u>
Increase (decrease) in cash during the period	8,323,230	446,577	6,531,066	(944,550)
Cash, beginning of period	1,209,491	90,518	2,541,661	65,713
Cash, End of period	<u>9,462,827</u>	<u>537,095</u>	<u>9,462,827</u>	<u>(878,837)</u>

The accompanying notes are an integral part of these condensed interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Pioneering Technology Corporation (“Pioneering” or the “Company”) is an “Energy Smart” technology and consumer goods company and is North America’s leader in cooking fire prevention technologies. The Company is committed to improving the lives of its end customers by engineering solutions that make appliances safer, and more energy efficient. 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 and trademarks. Pioneering’s business model is to market/sell its proprietary technologies and/or products directly to end customers, through third party distribution channel partnerships or licensing/supplying technologies, product components or end products to original equipment manufacturers (“OEMs”).

Pioneering is a public company listed on the Toronto Venture Stock Exchange (TSX-V: PTE). The Company’s principal place of business is located at 220 Britannia Road East, Mississauga, Ontario, Canada. The Company’s website is www.pioneeringtech.com.

2. BASIS OF PREPARATION AND CHANGE IN ACCOUNTING POLICY

The financial statements have been prepared on the historical cost basis except for certain current and non-current financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

2.1 Statement of compliance

These unaudited condensed interim financial statements have been prepared in accordance with requirements of IAS 34, International Financial Reporting Standards (IFRS) and do not include all the information required for full annual financial statements. Accordingly, certain information and footnotes as required in the full annual financial statements have been omitted or condensed and as such these interim financial statements should be read in conjunction with the Company’s annual financial statements for the year ended September 30, 2016.

2.2 Change in functional currency

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 on adoption is U.S. \$1 equals to Canadian \$1.2843. The warrants issued in the Company’s 2016 private placement have been reclassified as financial liabilities on the statement of financial position because the Company’s warrants, that were issued to subscribers as part of the private placement, do not meet the criteria in IAS 32, Financial Instruments: Presentation (“IAS 32”) for classification as equity. Upon the change in functional currency, the derivative liability was recognized at fair value, which resulted in an increase in deficit of \$791,284 in Q2 2017 and has also resulted in an increase in deficit to \$2,606,358 for six months’ period ending March 31, 2017. The fair value movement derivative liability is a **non-cash** accounting adjustment related to the change in functional currency. The fair value movement in future reporting periods are to be recognized in the statement of income and comprehensive income.

2. BASIS OF PREPARATION AND CHANGE IN ACCOUNTING POLICY

2.2 Change in functional currency (cont'd)

Foreign currency transactions are translated into the functional currency using exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate in effect at the measurement date. Non-monetary assets and liabilities denominated in foreign currencies are translated using the historical exchange rate or the exchange rate in effect at the measurement date for items recognized at fair value through profit or loss ("FVTPL"). Gains and losses arising from foreign exchange are included in the statement of income and comprehensive income. The accumulated other comprehensive asset adjustment is related to the functional currency adjustment for non-monetary assets.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are outlined below. Actual results may differ from those estimates.

Judgments made by management in the on-going application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed below:

- Inventory valuation – the provision for obsolescence of inventory and the estimated net realizable value;
- Trade receivable valuation –recoverability of trade receivables through the allowance for doubtful accounts (refer to note 15);
- Functional currency – Judgment is required in determining the Company's functional currency based on the economic environment in which it primarily generates and expends cash.
- Stock-based compensation – the inputs used in valuing stock options; and
- Recovery of deferred income tax assets – assessing whether the realization of tax losses against future taxable income is probable.

3.2 The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its financial statements for the year ended September 30, 2016.

4. TRADE AND OTHER RECEIVABLES

	March 31 2017	September 30 2016
	\$	\$
Sales taxes recoverable	29,840	23,094
Trade accounts receivable, net of allowance	706,007	2,374,038
	<u>735,847</u>	<u>2,397,132</u>

	March 31 2017	September 30 2016
	\$	\$
Less than 1 month	518,799	560,126
31-60 days	104,244	1,635,919
61-90 days	31,403	84,114
Over 90 days	54,857	121,973
Total trade accounts receivable	709,304	2,402,132
Less: Allowance for doubtful accounts	3,296	5,000
Net trade accounts receivable	<u>706,007</u>	<u>2,397,132</u>

5. INVENTORIES

Inventories are comprised of the following:

	March 31 2017	September 30 2016
	\$	\$
Raw Materials	2,326	45,238
Work-in-process	-	57,774
Finished goods	2,224,723	778,655
Total Inventory	<u>2,227,049</u>	<u>881,667</u>

6. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	Computer hardware and software	Equipment small tools and moulds	Fixtures and fittings	Automobiles	Leasehold improvements	Total
Cost	\$	\$	\$	\$	\$	\$
October 1, 2015	45,577	225,721	11,136	11,287	5,110	298,831
Additions	33,583	-	-	-	-	33,583
Disposals	(31,678)	-	-	-	-	(31,678)
March 31, 2016	69,565	225,721	11,136	11,287	5,110	322,819
September 30, 2016	45,577	225,721	11,136	11,287	5,110	298,831
Additions	1,905			9,465		11,370
Disposals						
March 31, 2017	47,482	225,721	11,136	20,752	5,110	310,201

	Computer hardware and software	Equipment small tools and moulds	Fixtures and fittings	Automobiles	Leasehold improvements	Total
Accumulated Amortization	\$	\$	\$	\$	\$	\$
October 1, 2015	44,397	163,597	10,048	8,994	3,227	230,263
Amortization	8,737	18,638	326	688	377	28,766
Disposals	(31,806)	-	-	-	-	(31,806)
March 31, 2016	44,881	176,910	10,280	9,486	3,463	245,019
September 30, 2016	21,328	182,235	10,374	9,682	3,604	227,223
Amortization	5,885	6,643	114	120	226	12,989
March 31, 2017	27,213	188,878	10,488	9,802	3,830	240,212

	Computer hardware and software	Equipment small tools and moulds	Fixtures and fittings	Automobiles	Leasehold improvements	Total
Carrying value	\$	\$	\$	\$	\$	\$
October 1, 2015	1,180	62,124	1,088	2,293	1,883	68,568
March 31, 2016	24,684	48,811	856	1,801	1,647	77,800
September 30, 2016	26,154	43,486	762	1,605	1,506	73,513
March 31, 2017	20,269	36,843	648	10,949	1,280	69,989

7. PATENTS

Patents are comprised of the following:

	Safe-T-Sensor (a)	Patents	Total
Cost	\$	\$	\$
October 1, 2015	66,681	45,689	112,370
March 31, 2016	66,681	45,688	112,369
September 30 2016	66,681	45,688	112,369
March 31, 2017	66,681	45,689	112,370

	Safe-T-Sensor (a)	Patents	Total
Accumulated amortization	\$	\$	\$
October 1, 2015	66,681	23,332	90,013
Amortization	-	7,456	7,456
March 31, 2016	66,681	27,059	93,740
September 30 2016	66,681	30,788	97,469
December 31, 2016	-	1,118	1,118
March 31, 2017	-	1,118	1,118
March 31, 2017	66,681	33,023	99,704

	Safe-T-Sensor (a)	Patents	Total
Carrying value	\$	\$	\$
October 1, 2015	-	22,357	22,357
March 31, 2016	-	18,629	18,629
September 30, 2016	-	13,784	13,784
March 31, 2017	-	12,666	12,666

8. LINE OF CREDIT

The Company secured an operating line with its bank for \$500,000. The line of as at the period end had a \$NIL balance (2016 NIL). The line of credit has an interest rate of Prime (2.7%) plus 2.0% per annum and is secured by current assets.

9. TRADE PAYABLES AND ACCRUED LIABILITIES

Trade and other payables are principally comprised of amounts outstanding for trade purchases relating to products sold and for amounts relating to operating activities. The following comprises trade and accrued liabilities:

	March 31 2017	September 30 2016
	\$	\$
Trade payables	794,460	811,840
Other accrued liabilities	102,139	93,363
	<u>896,599</u>	<u>905,203</u>
Less than 1 month	851,446	791,040
31-60 days	45,154	112,164
61-90 days	-	-
Over 90 days	-	-
Total trade accounts receivable	<u>896,599</u>	<u>903,203</u>

The standard maturity terms of the Company's trade and other payables are 30 to 60 days.

10. FINANCIAL INSTRUMENTS

Financial Instruments, by classification, comprise the following:

	Fair value hierarchy	March 31, 2017	September 30, 2016
		\$	\$
Financial assets:			
<i>Fair value through profit or loss, measured at fair value</i>			
Cash	Level 1	9,462,827	1,209,491
Short-term investment	Level 1	-	27,033
<i>Loans and receivables, recorded at amortized cost</i>			
Trade receivables		735,847	2,397,132
Financial liabilities:			
<i>Fair value through profit or loss, measured at fair value</i>			
Derivative liability	Level 2	2,266,573	1,832,854
<i>Other financial liabilities, measured at amortized cost</i>			
Trade payables and accrued liabilities		926,255	905,203
Long-term debt payable		1,750,000	1,750,000

A summary of the Company's risk exposures as it relates to financial instruments is reflected below:

10.1 Credit risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss to the Company. The Company is exposed to credit risk from its operating activities (primarily from trade receivable) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

10. FINANCIAL INSTRUMENTS (CONT'D)

10.1 Credit risk (cont'd)

Credit risk relates to cash, cash equivalents and accounts receivable, and arises from the possibility that any counterparty to an instrument fails to perform. The Company has adopted a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment terms and conditions are offered. The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. All of the Company's customers are located in either Canada or the United States. When available, the Company reviews credit bureau ratings, bank accounts and financial information for each new customer. As at March 31, 2017 and September 30, 2016 the Company's maximum exposure to credit risk was the carrying value of cash and accounts receivable.

Trade and other receivable

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. The allowance for doubtful accounts was \$3,296 and \$5,000 as at March 31, 2017 and September 30, 2016, respectively.

The Company's accounts receivable is concentrated among customers in the distribution and retail industry, which may be affected by adverse economic factors impacting that industry. As at March 31, 2017, three customers accounted for greater than 10% of the Company's accounts receivable balance. In total, these customers accounted for 67% of the Company's accounts receivable balance as at March 31, 2017 (2016 – 35%).

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's treasury function in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counter party.

10.2 Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. The Company is growing and in order to meet its short and longer-term working capital requirements, the Company will attempt, if necessary, to secure further financing to ensure that those obligations are properly discharged.

Operationally, the Company manages its liquidity by continuously monitoring forecasted and actual gross profit, expenses, and cash flows from operations.

10. FINANCIAL INSTRUMENTS (CONT'D)

10.3 Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk). Market risks material to Pioneering include:

10.4 Foreign currency risk

Prior to the change in functional currency as described in note 2.2, the Company was exposed to foreign currency risk as a material portion of its transacting is carried out in US dollars ("USD") and maintained USD denominated bank accounts.

Up until the change in functional currency, 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. Subsequent to the change in functional currency, the Company is exposed to foreign currency risk on its Canadian dollar (CAD) denominated transactions and balances.

At present the Company has no plans in place to hedge its foreign exchange exposures. As the Company has expenditures and sales in both USD and CAD, the Company realizes the benefit of a partial natural hedge against this risk. A sensitivity analysis is presented below on its exposure to foreign currency risk on the CAD.

10.5 Interest rate risk

The Company invests cash, surplus to its operational needs, in investment grade short term deposit certificates issued by the Canadian chartered bank where it keeps its operating accounts. The Company is exposed to interest rate risk arising from fluctuations in the bank's prime rate related to its bank indebtedness. With all other factors held constant, a 1% fluctuation in the bank's prime rate would yield a change of +/- \$17,500 (2015 - +/- \$2,500) in earnings.

10.6 Sensitivity analysis – foreign exchange risk

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a one-year period.

The Company's operating activities are substantially denominated in both Canadian and US dollars. The Company's funds are kept in CAD and USD with a major Canadian Financial Institution. Until September 6, 2016, (see Note 2.2) the Company's functional currency was the CAD and major purchases were transacted in Canadian and US dollars, with 19% of the sales contracted in Canadian dollars.

The table below summarizes the effects on foreign exchange gains and losses as a result of a 1% change in the value of the foreign currencies against the CAD where the Company has significant exposure. The analysis assumes that other variables remain constant.

	Loss effect of a 1% increase in foreign exchange rates on translation of CAD monetary balances	Income effect of a 1% decrease in foreign exchange rates on translation of CAD monetary balances
CAD	\$18,652	\$ (18,652)

11. LONG TERM DEBT

The Company has secured a long-term financing agreement for up to \$1,750,000 from a third-party lender. The loan is at a variable interest rate of 5% per annum over the bank's floating base rate and is repayable in equal monthly installments of principal, beginning April 15, 2017 with a final lump sum principal payment of \$379,480 on March 15, 2021. The loan is secured by a first ranking fixed and specific charge on all intangible personal and real property of the Company. The loan includes working capital and debt service coverage covenants. The Company can make prepayments on the loan subjected to certain terms and conditions.

Pioneering is committed to making the following minimum principal repayments on its' long term debt:

	\$
2017	262,440
2018	349,920
2019	349,920
2020	349,920
2021	437,800
	1,750,000

12. SHARE CAPITAL

12.1 Authorized

Unlimited number of voting common shares and non-voting series 1 preferred shares that are issuable in series. The series 1 preferred shares can be redeemed, at the sole discretion of the company, upon payment to the holder of \$0.06 per preferred share (a maximum aggregate redemption price of \$1,231,988) and are not entitled to dividends. The statement of changes in equity details the number and value of the common shares and series 1 preferred shares outstanding as at the reporting date.

12.2 Stock option plan

The Company has a stock option plan in place under which the Board of Directors may grant options to acquire common shares of the Company to qualified directors, officers, employees and other service providers. The stock options vest according to the provisions of the underlying directors' resolution approving the issuance and have a maximum life of five years. The plan allows for the issuance of up to 20% of the number of issued and outstanding common shares of the Company, at the date of the most recent shareholder approval, on a non-diluted basis, being stock options at September 30, 2016 of 8,381,670 (2015 – 5,426,631). At September 30, 2016, the Company had 2,152,670 (2015 – 1,592,631) stock options available for issuance.

12. SHARE CAPITAL (CONT'D)

12.3 Contributed surplus

Contributed surplus is comprised of the following:

	March 31 2017	September 30 2016
	\$	\$
Stock Options	2,411,628	2,232,075
Warrants	23,680	23,680
	2,435,308	2,255,755

Stock option activity for the quarters ended March 31, 2017 and September 30, 2016 were as follows:

Exercise Price	March 31 2017			September 30 2016		
	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Exercisable	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Number of Exercisable
\$0.15	1,214,000	2.50	1,214,000	1,344,000	3.00	1,344,000
\$0.25	590,000	0.07	590,000	1,440,000	0.57	1,440,000
\$0.15-\$0.25	-	-	-	500,000	2.60	500,000
\$0.22	2,160,000	4.00	2,160,000	2,445,000	4.50	1,630,000
\$0.29-\$0.33	500,000	4.25	500,000	500,000	4.75	400,000
	4,464,000	\$ 3.10	4,464,000	6,229,000	\$ 3.14	5,314,000

For stock options granted during the quarters ended December 31, 2016 and September 30, 2016, the fair value has been determined using the Black-Scholes option pricing model and the following weighted average assumptions:

	December 31 2016	September 30 2016
Risk-free interest rate	0.61%	0.61%
Estimated life of options (years)	5.00	5.00
Expected volatility	168%	168%
Expected dividends	\$ -	\$ -
Market price of shares at date of issuance	\$ 0.24	\$ 0.24
Exercise price of options	\$ 0.24	\$ 0.24
Dividend yield	0%	0%

12. SHARE CAPITAL (CONT'D)

12.4 Stock based compensation expense

Stock-based compensation expense was allocated to the financial statements as follows:

Stock Based Compensation Expense

	Six Months Ended March 31, 2017	Six Months Ended March 31, 2016	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Administration	127,967	-	-	-
Sales and Marketing	25,919	7,552	-	3,350
Research and Development	25,667	-	-	-
	179,553	7,552	-	3,350

12.5 Related party compensation expense

Type of payment	Six Months Ended March 31, 2017	Six Months Ended March 31, 2016	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Key Management Salaries	309,000	144,000	137,000	72,000
Directors Fees	1,500	4,750	1,250	4,500
Total Payments	310,500	222,590	138,250	108,433

The amounts due to related parties are included in the trade payables and accrued liabilities.

The Company defines Key Management as its CEO and its COO.

Related parties directors

Interest	-	73,840	-	31,933
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Short term loans payable were paid back in the third quarter of 2016 and the Company no longer intends to use those facilities. The Company repaid a note payable of \$400,000 from McAllister Holdings Ltd, on March 29, 2016. This note had borne interest at 25% per annum.

The Company paid interest on the short term loan of \$NIL for the six months ended March 31, 2017 (2016 \$73,840).

12.6 Private placement

On March 22, 2017, the Company completed a private placement of 5,668,631 common shares and 2,834,315 warrants for gross proceeds of \$6,595,194. Each Warrant entitles the holder to purchase one Common Share at a price of \$1.80 for a period of 24 months following closing of the Offering, provided that if, at any time after 12 months following the closing date of the Offering, the volume weighted average trading price of the 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.

The Underwriter received (i) a cash commission equal to 7.0% of the gross proceeds raised in the Offering, and (ii) non-transferrable broker warrants ("**Broker Warrants**") equal to 7.0% of the aggregate number of Units issued pursuant to the Offering. Each Broker Warrant is exercisable into one Unit at the Issue Price for a period of 24 months following closing of the Offering.

The net proceeds of the Offering will be used to repay existing indebtedness, fund business expansion, invest in product development and sales & marketing and for general corporate and working capital purposes. The securities issued in connection with the Offering are subject to a hold period which expires on July 23, 2017.

12. SHARE CAPITAL (CONT'D)

12.7 Warrants

In March 2017 Warrants issued in this private placement, the fair value has been determined as \$1,929,319 using the Black Scholes warrants pricing model and the following weighted average assumptions:

The Company adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The proceeds of \$6,595,194 was allocated between common shares and warrants, with the warrants being measured first, at fair value, and the residual being applied to common shares

	2017
Risk-free interest rate	0.58%
Estimated life of warrants (years)	5.00
Expected volatility	87.25%
Expected dividends	\$ -
Market price of shares at date of issuance	\$ 1.25
Exercise price of warrants	\$ 1.80
Dividend yield	0%

13. COMMITMENTS AND CONTINGENCIES

	\$
2017	34,167
2018	70,833
2019	72,500
2020	48,334
	<u>225,834</u>

Under the terms of the lease, the Company is also responsible for its proportionate share of common area maintenance costs, including realty taxes

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 the year, 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 in connection with this claim.

14. SEGMENTED INFORMATION

	Six Months Ended March 31, 2017	Six Months Ended March 31, 2016
Canada	973,670	417,795
United States	3,662,849	1,189,110
	<u>4,636,519</u>	<u>1,606,905</u>

15. CAPITAL MANAGEMENT

The Company defines capital as total shareholders' equity and long-term debt. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the growth and development of its operations and to bring new products to market. 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.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the quarter ended March 31, 2017. The Company is subject to capital requirements as described in Note 9. The Company was compliant with its debt covenant obligations to date.

16. SUBSEQUENT EVENT

On April 20, 2017, following Q2 end and the closing date of the Offering and pursuant to an overallotment clause in the Underwriting Agreement between the Company and Echelon Wealth Partners Inc., an additional 327,000 Common Shares and 163,500 Warrants were issued under the same terms and conditions as the original Offering. As a result, between the Offering and the overallotment, 5,995,631 Common Shares and 2,997,815 Warrants of the Company were issued for gross proceeds of \$6,595,194.