Fireswirl
Technologies Inc.

Management Discussion and Analysis of
Financial Condition and Results of Operations

For the years ended December 31, 2015 and 2014

April 25, 2016

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

The following Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the Fireswirl Technologies Inc. ("Fireswirl" or the "Company") audited consolidated financial statements and the accompanying notes for the year ended December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Reference to 2015 or fiscal 2015 means the twelve months ended December 31, 2015. Likewise, reference to 2014 or fiscal 2014 refers to the twelve months ended December 31, 2014.

Additional information about the Company is available on SEDAR at (www.sedar.com) under Fireswirl Technologies Inc. and on the Company website at www.fireswirl.com.

Cautionary Note Regarding Forward Looking Statements

This MD&A contains certain forward looking statements which reflect management's expectations regarding the Company's growth, results of operations, performance and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, level of activity, performance, achievements or other future events constitute forward looking statements. Whenever possible, words such as "anticipate", "estimate", "may", "will", "could", "should", "expect", "plan", "intend", "believe", "estimate", or "potential" or similar words have been used to identify these forward looking statements.

The Company cautions that the forward-looking statements reflect the current views and/or expectations of the Company with respect to its performance, business, and future events. Investors are cautioned that all forward looking statements involve risks, uncertainties and assumptions, including, without limitations, those relating to a limited operating history, an uncertain regulatory environment, a competitive environment, internet viability and system infrastructure and reliability, dependence on key personnel and foreign exchange fluctuations. These risks may cause the Company's actual results to differ materially from those projected in the forward looking statements. The Company does not undertake any obligations to release publicly any revisions from updating any voluntary forward looking statements.

Factors which could cause results or events to differ from current expectations include among other things: the impact of government legislation; the impact of competition; the ability of the Company to retain and attract qualified professionals; the impact of rapid technological and market change; loss of business or credit risk with current and perspective major customers; general industry and market conditions; growth rates and currency rate fluctuations. The Company disclaims any intentions or obligations to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, except as required by law. No assurance can be given that actual results, performance or achievement expressed or implied by forward looking statements within this disclosure will occur; or if they do, that any benefits can be derived from them.

Past performance has been considered in drawing conclusions with respect to forward looking statements contained in this MD&A.

OVERVIEW

Fireswirl Technologies Inc. (TSX Venture: FSW, the “Company” or “Fireswirl”) was founded in 1999. In 2006, the Company became a publicly listed company through a reverse takeover and a $3.2 million equity financing accompanying its qualifying transaction.

In 2007, the Company formed its first wholly owned subsidiary in China to explore the rapidly emerging market. The Company has since increased its business presence in the country gradually.

In 2009, the Company successfully completed its acquisition of 50% of all rights and interests of Beijing Xingchang Xinda Technology Development Co., Ltd. ("XCXD"), an e-commerce outsourcing and fulfillment solution provider in China, in consideration for 6,058,673 common shares of the Company. Fireswirl has majority voting rights and majority board control over XCXD according to the agreements related to the transaction.

Fireswirl together with its subsidiaries focus on conducting e-commerce, including operating official online stores for international brands in China and reselling branded products on these online stores and technology development and deployment.

SIGNIFICANT EVENTS IN 2015

On March 25, 2015, the Company completed the sale of its Shenzhen e-commerce platform to Fung Holdings (1937) Limited ("Fung"), which includes: (i) equipment with carrying value of $24,615; and (ii) goodwill, intellectual property and customer lists and contracts with carrying amount of $nil.

The total proceeds after working capital adjustment is $6,225,000, of which $2,975,000 was received in March 2015. According to the purchase and sale agreement, the balance of $3,250,000 was received in October 2015 upon satisfaction of certain conditions, including the resignation of Mr. Tony Lau (“Mr. Lau”) as the Company’s chief executive officer and Mr. Lau joining Fung as an employee within nine months of completion of the sale (the “Payment Conditions”).

In connection with the completion of the sale, the Company repaid the principal amount of the $400,000 interest-free loan from Fung to the Company, which was granted on October 24, 2014, by way of a set-off against the proceeds received.

SUBSEQUENT TO THE YEAR OF 2015

Subsequent to the year, the Company committed to a plan to dispose of its 50% interest (51% voting right) in XCXD. A purchase and sales agreement with XCXD’s non-controlling shareholders were entered into on February 29, 2016, pursuant to which the Company has agreed to sell its controlling interest in XCXD to its non-controlling shareholders in consideration for an aggregate of 6,057,673 common shares of the Company held by the purchasers and cash in the amount of RMB5,000,000 (equivalent to $1,065,507) in exchange of full settlement of XCXD’s outstanding indebtedness to the Company and its subsidiaries.

FINANCIAL HIGHLIGHTS FOR THE YEAR OF 2015

- Total revenue decreased to $48,868,190 for the year ended December 31, 2015 compared to $51,947,758 for the year ended December 31, 2014, representing a decrease of 5.93%. The decrease was due to a decrease in both merchandise and service revenue as a result of increasing competition in online store service business.

- Total expenses decreased to $50,513,063 for the year ended December 31, 2015 from $53,317,170 for the year ended December 31, 2014, representing a decrease of 5.26%. The decrease was primarily due to the corresponding decrease in purchases as a result of decrease in revenue.

- Salaries and benefits decreased to $3,393,695 for the year ended December 31, 2015 compared to $3,555,719 for the same period of 2014, representing a decrease of 4.56%. The decrease in salary expenditure is due to personnel departure as the result of the completion of the sale of the Company's Shenzhen e-commerce platform.

- As of December 31, 2015, the Company had cash and cash equivalents of $3,136,307 and restricted cash of $739,995 compared to $549,112 and $586,622 respectively at December 31, 2014, representing an increase of 471.2% and an increase of 26.1% respectively. As of December 31, 2015, the Company had working capital of $4,114,332 compared to working capital deficiency of $109,798 at December 31, 2014.

- The Company reported a comprehensive income attributable to common shares of $4,419,409 for the year ended December 31, 2015 compared to a loss of $1,369,269 for the same period of 2014.

- Fully diluted income per share was $0.08 for the year ended December 31, 2015 compared to fully diluted losses of $0.03 for the same period of 2014.

SELECTED ANNUAL FINANCIAL DATA

The following is a summary of certain selected audited financial information for the last three completed fiscal years.

	2015	2014	2013
Total revenues	48,868,190	51,947,758	45,702,766
Net income (loss) for the year	4,184,615	(1,846,049)	(565,653)
Other comprehensive income	133,687	107,587	171,239
Comprehensive income (loss) for the year	4,318,302	(1,738,462)	(394,414)
Comprehensive income (loss) attributable to common shares	4,414,409	(1,369,268)	(441,824)
Basic/diluted net loss per share	0.08	(0.03)	(0.01)
Total assets	16,809,420	10,422,196	9,173,241
Total long-term financial liabilities	-	-	-
Cash dividends declared per share	-	-	-

RESULTS OF OPERATIONS

For the years ended December 31, 2015 and 2014

Revenue

Revenues for the year ended December 31, 2015 decreased to $48,868,190 compared to $51,947,758 for the prior year, representing a decrease of 5.93%. The decrease was due to a decrease in both sales and service revenue as a result of increasing competition in online store service business in China.

The breakdown of the Company's revenues by category for the twelve months ended December 31, 2015 and 2014 are as follow:

		Year ended December 31		
		2015		2014
Merchandise resale and trading	$	43,137,557	$	46,029,329
Service and software fees		5,730,633		5,918,429
Total Revenue		48,868,190		51,947,758
Purchases		37,915,843		44,573,343
Technical service fee		6,013,721		2,727,905
Delivery charges		1,044,897		701,045
Other related expense		70,787		150,496
Total Cost of Goods Sold		45,045,248		48,152,789
Gross profit	$	3,822,942	$	3,794,969

In 2015, the Company recognized $43,137,557 compares to $46,029,329 in 2014, a decrease of 6.28% from merchandise resale and trading in China.

The Company recognized $5,730,633 of revenue from service and maintenance fees in 2015 compared to $5,918,429 in 2014, a decrease of 3.17%. Service fees represent revenues from E-Commerce and software development consulting and system maintenance services.

Cost of sales incurred in 2015 and 2014 was $45,045,249 and $48,152,789 respectively, resulting in the gross profit margin of 7.8% in 2015 compared to 7.3% in 2014, which is consistent from year over year.

Operating expenses

Total operating expenses decreased to $50,513,063 for the year ended December 31, 2015 compared to $53,317,170 for the same period of 2014, representing a decrease of 5.26%. The decrease in overall operating expenses is consistent with the decrease in revenue.

Cost of Sales

Cost of sales is presented as change in inventory, delivery charges and technical service charges under operating expenses according to their nature.

The overall cost of goods sold has decreased to $45,045,249 for the year ended December 31, 2015 compared to $48,152,789 for the same period of 2014, representing a decrease of 6.45%. The decrease is mainly due to the decrease in purchases to $37,915,843 in 2015 compared to $44,573,343 in 2014 (a decrease of 14.94%) and increase of technical service fees to $6,013,721 in 2015 compared to $2,727,905 in 2014 (an increase of 120.45%) due to increase in setup and ongoing fees for customer e-commerce platforms.

Foreign Exchange gain or loss

The Company has a foreign exchange loss of $219,994 for the year ended December 31, 2015 compared to $25,726 for the same period of 2014. The increase in exchange loss is primarily a result of the depreciation of Canadian dollars against RMB. Throughout fiscal 2015 and 2014 the Company did not utilize hedges or forward contracts.

Amortization

Amortization expenses decreased to $67,373 for the year ended December 31, 2015 from $76,127 for the same period of 2014, representing a decrease of 11.5%. The decrease is due to some assets being fully amortized in 2014.

Sales and Marketing

Sales and marketing expenses decreased to $152,959 for the year ended December 31, 2015 compared to $157,314 for the same period of 2014, representing a decrease of 2.77% due to a decrease in travel expenses of headquarter staff to Asia.

General and Administrative

General and Administrative expenses increased to $1,481,626 for the year ended December 31, 2015 from $1,330,912 for the same period of 2014 (see detailed breakdown), representing an increase of 11.32%. The increase is mainly due to increase in professional fees for legal expenses concerning the sale of Shenzhen e-commerce platform to Fung completed in 2015, professional advice on tax issues and filing, and other office and miscellaneous expenses offsetting with the decrease in bank charges and loan application fees.

	2015	2014
Bank charges and loan application fees	$ 100,289	$ 195,503
Insurance	21,560	20,089
Office and miscellaneous expenses	217,353	139,018
Professional fees	573,615	363,609
Listing and filing	19,191	15,825
Rent, utilities, and maintenance	514,149	547,509
Telephone	35,469	49,359
Total	$ 1,481,626	$ 1,330,912

Salaries and Benefits

Salaries and benefits expenses decreased to $3,393,695 for the year ended December 31, 2015 from $3,555,719 for the same period of 2014, representing a decrease of 4.56%. The decrease in salary expenditures is due to personnel departure as the result of the completion of the sale of the Company's Shenzhen e-commerce platform.

Gain on sale of Assets

The Company had a $6,199,967 gain from disposal of assets for the year ended December 31, 2015 compared to nil for the same period of 2014. This was a result of disposition of Shenzhen e-commerce platform to Fung completed during the year ended December 31, 2015.

Finance Income

The Company recorded $27,100 of interest income for the year ended December 31, 2015 compared to $13,331 for the same period of 2014. The interest income was mainly earned on the XCXD RMB3.5 million restricted cash held as deposit for short-loan collateral for the years ended December 31, 2015 and 2014.

Finance Expense

The Company recorded $390,224 of interest expense for the year ended December 31, 2015 compared to $476,544 for the same period of 2014. This interest expense was incurred because of the short-term loans drawn down by XCXD during the years ended December 31, 2015 and 2014. For the year ended December 31, 2015, this amount had been offset by $213,101 (RMB1,000,000) (2014 – 71,775), a government subsidy received for business on interest expense incurred.

Provision for Income Taxes

The Company has not made any provisions for future tax benefits which arise from loss carry-forward and future deductions of deferred development costs. The valuation of tax assets is based on the amount of tax benefits available combined with the determination as to when the tax benefits will be realized and the tax rate in effect at that time.

The Company's foreign subsidiaries in China recognized income tax expenses of $7,355 in 2015 compared to $13,424 for the same period of 2014.

Net Income /Loss

The Company reported net income attributable to the common shares of $4,267,949 for the year ended December 31, 2015 compared to a loss of $1,452,936 for the same period of 2014. The increase was mainly a result from the $6.2 million gain recognized from the disposition of Shenzhen e-commerce platform. Without the $6.2 million gain recognized from the disposition of Shenzhen e-commerce platform, the Company would have reported a net loss of $2,015,352 for the year ended December 31, 2015.

Basic and diluted income per share was $0.08 for the year ended December 31, 2015 compared to a basic and diluted loss per share of $0.03 in the same period of 2014.

Non-Controlling Interest

The Company's foreign subsidiary XCXD realized a net loss of $166,669 for the year ended December 31, 2015 compared to net loss of $786,227 for the year ended December 31, 2014. Based on the Company's ownership in XCXD of 50%, the remaining 50% of XCXD's net loss in the amount of $83,334 (2014 - $393,113) was deducted from the consolidated net income (2014 – add back to the consolidated net loss) before non-controlling interest.

CASH FLOW STATEMENT FOR THE YEAR

Operating activities

Cash flow used by operating activities was $3,264,527 for the year ended December 31, 2015 compared to $2,345,197 used for the year ended December 31, 2014, representing an increase of 39.2% in operating cash outflow. This was mainly due to increase in prepayments and deposits and trade and other receivable net of decrease from due from a related party and inventory.

Investing activities

Cash inflow from investing activities was $6,033,625 for the year ended December 31, 2015 compared to cash outflow of $87,678 for the year ended December 31, 2014, represented by an increase in cash inflow of $6,126,303. The increase in cash inflow from investing activities was mainly from the $6.2 million disposition proceeds received from the sale of Shenzhen e-commerce platform offset by the investment in Empower Environmental Solutions Ltd. in the amount of $150,000.

Financing activities

Cash outflow used for financing activities was $221,100 for the year ended December 31, 2015 compared to cash inflow of $2,634,660 for the same period of 2014, representing a decrease in cash inflow of $2,855,761. During the year ended December 31, 2015, the Company increased its short term loan drawdown net of the loans payment in the amount $435,355. This amount was offset with the increase in restricted cash in the amount of $67,905 and repayment of shareholder loans in the amount of $588,550.

During the year ended December 31, 2014, the Company increased its short term loan drawdown net of the loans payment in the amount $1,938,080. In 2014, the Company's restricted cash was decreased in the amount of $265,437 and it received net proceeds in the amount of $619,595 from a private placement and exercise of stock options. In 2014, the Company also repaid shareholder loans in the amount of $188,452.

SELECTED QUARTERLY FINANCIAL DATA

The following table sets out selected unaudited financial information of the Company on a consolidated basis for the last eight quarters.

	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1
Operating revenue								
Sales revenue	11,951,956	11,767,723	10,731,903	8,685,975	11,863,193	14,178,004	10,710,765	9,277,366
Advertising revenue	-	-	-	-	-	-	-	-
Service revenue	2,022,935	1,126,465	923,842	1,657,391	1,780,605	1,557,731	1,720,197	859,896
	13,974,891	12,894,188	11,655,745	10,343,366	13,643,798	15,735,735	12,430,962	10,137,262
Other operating income	-	-	-		-			
Total operating income	13,974,891	12,894,188	11,655,745	10,343,366	13,643,798	15,735,735	12,430,962	10,137,262
Operating expenses								
Purchases	11,099,200	10,011,196	9,451,185	7,354,262	11,649,931	13,852,784	10,698,497	8,372,131
Delivery charges	429,660	212,571	235,345	167,321	223,166	189,472	181,110	107,297
Technical service charge	1,839,144	1,683,275	1,186,063	1,305,239	1,014,223	667,187	512,321	534,174
General administration	434,053	419,705	336,693	291,175	386,639	380,609	279,668	283,997
Salaries and benefits	734,334	653,881	641,201	1,364,279	928,584	860,413	891,170	875,552
Other related expense	6,677	2,583	35,684	25,843	13,239	35,188	70,012	32,056
Foreign exchange (gain)loss	1,393	3,978	16,614	198,009	17,916	1,643	1,337	4,829
Depreciation and amortization	3,677	26,879	18,508	18,309	17,883	19,839	16,897	21,507
Sales and marketing	61,721	21,380	31,168	38,690	42,940	33,205	33,525	47,643
Bad debt expense	132,322	-	-	-	-	-	-	-
Share-based compensation	2,195	1,100	16,551	-	-	-	-	-
Loss on disposal of assets	-	-	-	-	18,583	-	-	-
Total Operating Expense	14,744,376	13,036,548	11,969,012	10,763,127	14,313,104	16,040,340	12,684,537	10,279,186
Operating loss for the year	(769,485)	(142,360)	(313,267)	(419,761)	(669,306)	(304,605)	(253,575)	(141,923)
Gain on sale of e-Commerce platform	-	3,250,000	(418)	2,950,385	-	-	-	-
Interest and other income	20,311	2,380	852	3,557	3,044	3,176	2,799	4,310
Finance costs	79,802	(223,353)	(120,275)	(126,398)	(119,616)	(139,579)	(76,888)	(140,461)
Income (loss) before income tax	(669,372)	2,886,667	(433,108)	2,407,783	(785,878)	(441,008)	(327,664)	(278,074)
Income tax expenses	(196)	-	(7,159)	-	772	(2,693)	(8,934)	(2,569)
Net income (loss) for the period	(669,568)	2,886,667	(440,267)	2,407,783	(785,106)	(443,701)	(336,597)	(280,643)
Other comprehensive income								
Currency translation adjustment, net of tax of $nil	(25,755)	16,368	(24,558)	167,632	48,929	157,759	(91,463)	(7,638)
Share of loss of equity investment					-	-	-	-
Net comprehensive income (loss)	(695,323)	2,903,035	(464,825)	2,575,415	(736,177)	(285,942)	(428,061)	(288,281)
Net income (loss) attribute to:								
Shareholders of the Company	(551,851)	2,930,943	(372,547)	2,261,404	(619,876)	(238,087)	(324,145)	(270,827)
Non-controlling interest	(117,717)	(44,276)	(67,720)	146,379	(165,230)	(205,614)	(12,453)	(9,816)
	(669,568)	2,886,667	(440,267)	2,407,783	(785,106)	(443,701)	(336,598)	(280,643)
Comprehensive income (loss) attributable to:								
Shareholders of the Company	(554,679)	2,955,043	(398,671)	2,412,716	(584,437)	(122,398)	(393,902)	(268,532)
Non-controlling interest	(140,644)	(52,008)	(66,154)	162,699	(151,740)	(163,544)	(34,159)	(19,749)
	(695,323)	2,903,035	(464,825)	2,575,415	(736,177)	(285,942)	(428,061)	(288,281)
Income (loss) per share								
Basic and diluted	$ (0.01)	$ 0.05	$ (0.01)	$ 0.04	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)

QUARTERLY RESULTS

Comparison of the three months ended December 31, 2015 and 2014

Revenue

The Company reported gross operating revenues of $13,974,891 for the three months ended December 31, 2015 compared to $13,643,798 for the same period of 2014, representing an increase of 2.43%.

Operating Expenses

Total operating expenses increased to $14,744,376 for the three months ended December 31, 2015 compared to $14,313,104 for the same period of 2014, representing an increase of 5.16% due to increase in operating costs as a result of higher competition in business.

Foreign Exchange gain or loss

The Company had a foreign exchange loss of $1,393 for the three months ended December 31, 2015 compared to a foreign exchange loss of $17,916 for the same period of 2014. Throughout fiscal year 2015 and 2014, the Company did not utilize hedges or forward contracts.

Depreciation and Amortization

The Company reported depreciation and amortization expenses of $3,677 for the three months ended December 31, 2015 compared to $17,883 for the same period of 2014, representing a decrease of 79.44% mainly due to some assets being fully amortized in this period and a write off of leasehold improvement of XCXD in 2014.

Sales and Marketing

Sales and marketing expenses increased to $61,721 for the three months ended December 31, 2015 compared to $42,940 for the same period of 2014, representing an increase of 43.74%.

General and Administrative

General administration expenses increased to $434,053 for the three months ended December 31, 2015 compared to $386,639 for the same period of 2014 representing an increase of 12.26%. The increase was mainly due to the professional fees incurred to identify additional business opportunities.

Salaries and Benefits

Salaries and benefits expenses decreased to $734,334 for the three months ended December 31, 2015 compared to $928,584 for the same period of 2014, representing a decrease of 20.92%.

Finance Income

The Company recorded $20,311 of interest income for the three month ended December 31, 2015 compared to $3,044 for the same period of 2014. This interest income was mainly earned on the XCXD restricted cash held as deposit.

Finance Expense

The Company recorded $133,299 of interest expense for the three month ended December 31, 2015 compared to $119,616 for the same period of 2014. This interest expense was incurred as a result of the short term loans drawn down by XCXD for the years ended December 31, 2015 and 2014. In November 2015, the Company received $213,101 (RMB1,000,000) government subsidy for interest expenses (2014 – 71,775). After this offset, the Company recorded $79,802 interest recovery for the three month periods ended December 31, 2015.

Provision for Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Current income taxes are recognized as a result of estimated income taxes payable for the current period. Future income tax assets from the benefit of losses available to be carried forward to future years for tax purposes are recognized only if it is more likely than not that they can be realized.

The Company's foreign subsidiaries in China have recognized $196 income tax expenses for the three months ended December 31, 2015 and $772 recovery for the same period of 2014.

Non-Controlling Interest

The Company recorded a comprehensive loss attributable to non-controlling interest of $140,644 for the three months ended December 31, 2015 compared to a net comprehensive loss of $151,740 for the same period of 2014.

Comprehensive Income/Loss

The Company reported a comprehensive loss attributable to common shares of $554,679 for the three months ended December 31, 2015 compared to a net comprehensive loss of $584,437 for the same period of 2014. This is mainly due to the goodwill impairment recognized and the increase in technical service fees.

Basic and diluted loss per share was $0.01 for the three months ended December 31, 2015 compared to a basic and diluted loss of $0.01 in the same period of 2014.

CASH FLOW STATEMENT DURING Q4

Operating Activities

Cash outflow used for operating activities was $1,086,977 for the three months ended December 31, 2015 compared to cash outflow from operation of $631,066 for the same period of 2014.

Investing activities

Cash inflow from investing activities was $3,247,645 for the three months ended December 31, 2015 compared to cash outflow from investing activities of $13,128 for the same period of 2014.

Financing Activities

Cash inflow provided from financing activities was $694,587 for the three months ended December 31, 2015 compared to cash inflow from financing activities of $815,167 for the same period of 2014.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2015, the Company had $nil long term debt, $9,475,896 in short term loan, $3,136,307 in cash and working capital (defined as current assets less current liabilities) of $4,114,332. Recent dramatic change in the global economic environment has resulted in increased uncertainty regarding future revenue and customer commitments, both in terms of timing and magnitude for such future sales. Contractual commitments in future years are summarized in "Contractual Obligations" section of this MD&A. To the extent the Company is unable to cover its ongoing cash requirements through operation, the Company expects to raise additional equity financing to cover any shortfall. There can be no assurance that such financing and profitability will occur in the amounts and with terms expected. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying value and classification of assets and liabilities should the Company be unable to continue as a going concern.

The Company does not have commitments for capital expenditures as of December 31, 2015. The Company's capital resources consist of common share issuances.

Contractual Obligations

The Company's future minimum annual payments under operating leases are the following:

2016	$ 412,112
2017	$ 419,659
2018	$ 350,855
2019	$ 60,378

RELATED PARTY TRANSACTIONS

a) Due from related parties

		December. 31, 2015		December 31, 2014
Due from Yatan	$	-	$	1,448,182

XCXD and a related company, Yatan Technology Development Ltd. ("Yatan"), signed an e-commerce collaboration agreement on January 6, 2014. Yatan's senior management is one of the shareholders of XCXD. XCXD provided funding to Yatan to purchase inventory and in return, XCXD will be entitled to a commission based on the revenue after Yatan sells its inventory. XCXD's president and the non-controlling shareholder are the guarantors for this arrangement. The guarantors are responsible for the balance due from Yatan if it is not able to pay back the balance. During the year ended December 31, 2015, Yatan repaid all outstanding balance to XCXD. As at December 31, 2015, XCXD had a payable of $110,834 owing to (December 31, 2014 - $1,448,182 receivable from) Yatan. XCXD had not generated any revenue in connection with this arrangement.

b) Due to related parties

		December 31, 2015		December 31, 2014
Due to the Company's shareholders	$	29,977	$	532,247
Due to a shareholder of XCXD		-		34,782
Due to Yatan (see (a) above)		110,834		-
		140,811		567,029
Amounts due to related parties included in accounts payable		35,244		52,231
Total	$	176,055	$	619,260

Due to related parties are unsecured, non-interest bearing and have no specific repayment date.

c) Key management compensation

Key management includes directors (executive and non-executive) and senior officers of the Company. The compensation paid or payable to key management personnel during the years ended December 31, 2015 and 2014 is as follows:

		For the year ended 2015		2014
Salaries and fees				
- Salaries & Consulting Fees	$	413,657	$	253,154
- Director fees		76,000		16,000
		489,657		269,154
Share-based compensation		15,031		-
Total	$	504,688	$	269,154

All of the above transactions were in the normal course of operations and are measured and recorded at the exchange amount of consideration established and agreed to by the related parties.

CHANGES IN ACCOUNTING POLICIES

The Company did not adopt any new accounting standard changes or amendments effective January 1, 2015 that had a material impact on these consolidated financial statements.

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Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these consolidated financial statements. The following pronouncements are those that the Company considers most significant and are not intended to be a complete list of new pronouncements that effect the financial statements.

a) IFRS 9 Financial Instruments ("IFRS 9")

In November 2009, the IASB issued IFRS 9 as the first step in its project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. On July 24, 2014 the IASB issued the complete IFRS 9. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flows of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument.

IFRS 9 amends some of the requirements of IFRS 7, *Financial Instruments: Disclosures*, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on the measurement of financial liabilities and de-recognition of financial instruments. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 with early adoption permitted, and must be applied retrospectively with some exemptions permitted. The Company does not expect the adoption of IFRS 9 to have a material effect on its consolidated financial statements.

b) IFRS 15 Revenue from contracts with customers

The standards on revenue from contracts with customers was issued on May 28, 2014 and is effectively for annual reporting periods beginning on or after January 1, 2018 for public entities with early adoption permitted. Entities have the option of using either full retrospective or modified retrospective approach to adopt the guidance. The Company is assessing the impact of this standard.

c) Amendments to IAS 1, Presentation of Financial Statements ("IAS 1")

On December 18, 2014, the IASB issued amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The changes clarify that materiality considerations apply to all parts of the financial statements and the aggregation and disaggregation of line items within the financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

d) IFRS 16, Leases ("IFRS 16")

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, *Leases*, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is evaluating the impact of adopting this standard on its consolidated financial statements. The Company has not yet applied the following new standards, interpretations or amendments to standards that have been issued as at December 31, 2014 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations and intends to adopt those standards when they become effective. The Company does not expect the impact of such changes on the financial statements to be material, unless otherwise stated.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

a) **Critical judgements in applying accounting policies**

Critical judgements that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statement are limited to management's assessment of the Company's ability to continue as a going concern.

b) **Key sources of estimation uncertainty**

(i) Impairment of long lived assets

Determining the amount of impairment of long lived assets requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many of factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments in the Company' long term assets such as investments or property and equipment. Refer to Note 11 of the Consolidated Financial Statements for more information relating to impairment of goodwill as at December 31, 2015.

(ii) Sales returns

The Company allows sales returns of merchandises purchased on line within 7-14 days of purchases. Sales returns are recorded as a reduction of revenue when the related revenue is recognized. At each reporting period the Company estimated allowance required for expected return using a combination of historical experience and current market conditions. These estimates are reviewed periodically against actual results and any adjustments are recorded at that time as an increase or decrease to net sales. During the year ended December 31, 2015, there have been no material adjustments to the Company's estimates made in prior years.

(iii) Allowance for doubtful accounts

The Company's allowance for doubtful accounts is based on management's assessment of the business environment, customers' financial condition, historical collection experience, accounts receivable aging, customer disputes and the collectability of specific customer accounts. Major customers' accounts are monitored on an ongoing basis; more in depth reviews are performed based on changes in customer's financial condition and/or the level of credit being extended. When a significant event occurs, such as a bankruptcy filing by a specific customer, and on a quarterly basis, the allowance is reviewed for adequacy and the balance or provision rate is adjusted to reflect current risk prospects.

Estimates used to determine amount of allowance required involve uncertainties. If there were a deterioration of a major customer's creditworthiness, or actual defaults were higher than the Company's historical experience, estimates of the recoverability of amounts due could be overstated, which could have an adverse impact on operating results.

(iv) Reserve for inventory obsolescence

In determining the lower of cost or net realizable value of inventory, the provision for inventory obsolescence is estimated based upon a consideration of quantities on hand, actual and projected sales volume, anticipated product selling prices and product lines planned to be discontinued. Management estimates are monitored on a quarterly basis and an adjustment to reduce inventory to its net realizable value is recorded as an increase to cost of sales. If there is a subsequent increase in the value of inventory on hand, reversals of previous write-downs to net realizable value are made.

Failure to accurately predict and respond to consumer demand could result in the Company under stocking popular items or over stocking less popular items and impact management's estimates in establishing its inventory provision. Unforeseen changes in these factors could result in additional inventory provisions, or reversals of previous provisions, be required. Refer to Note 8 of the Consolidated Financial Statements for more information.

(v) Share-based compensation

The Company uses the fair value method of valuing compensation expense associated with the Company's share-based compensation plan. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant.

Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measurement of the fair value of the Company's stock options.

(vi) Income taxes

The Company is subject to income taxes in Canada and in China. Management has estimated the income tax provision and deferred tax balances in accordance with its interpretation of the various income tax laws and regulations, and has estimated the recoverability of deferred tax balances. It is possible, due to complexity inherent in estimating income taxes that the tax provision and deferred tax balances could change.

SUBSEQUENT EVENT

On February 29, 2016 the Company entered into a purchase and sale agreement, pursuant to which the Company has agreed to sell its controlling interest in XCXD to its non-controlling shareholders in consideration for an aggregate of 6,057,673 common shares of the Company held by the purchasers and cash in the amount of RMB5,000,000 in exchange of full settlement of XCXD's outstanding indebtedness to the Company and its subsidiaries. The financial effect of the disposal of XCXD on the Company's consolidated financial statements cannot be made as it depends on a number of variables including effective closing date of the transaction, share price of the Company and RMB exchange rate on the closing date, and financial result of XCXD and intercompany transactions, if any, during the period from January 1, 2016 to the closing date.

The Completion of the transaction is subject to a number of customary closing conditions, as well as acceptance by the TSX Venture Exchange and the Company's shareholders' approval.

OFF BALANCE SHEET ARRANGMENT

As at December 31, 2015 the Company has not entered into any off balance sheet arrangements.

FINANCIAL INSTRUMENTS

a) Fair value

Fair value is the amount at which a financial instrument could be exchanged between willing parties based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on present value and other valuation techniques using rates that reflect those that the Company could currently obtain, on the market, for financial instruments with similar terms, conditions and maturities.

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the observable inputs used to value the instrument:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The Company's financial assets include (i) cash and cash equivalents, restricted cash, trade and other receivables, and due from a related party which are classified as loans and receivable and (ii) investment which is classified as available for sale. The Company's financial liabilities include accounts payable and accrued liabilities, due to related parties, and short term loans which are all classified as financial liabilities at amortized cost.

The fair values of cash and cash equivalents, restricted cash, trade and other receivables, accounts payable and accrued liabilities, short term loans and due to related parties approximate their carrying values due to the short-term nature of these instruments. The interest rates applied to shorter term loans are not considered to be materially different from market rates, thus the carrying value of the short term loans approximates fair value. The investment in EMP is measured at the cost which approximates its fair value. As at December 31, 2015 and 2014, the Company did not have financial instruments measured at fair value on a recurring basis.

b) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalent, restricted cash, trade and other receivable and due from a related party.

The Company limits its exposure to credit risk on cash and cash equivalents and restricted cash by depositing only with reputable financial institutions. Credit risk is primarily associated with trade receivables as the Company grants credit to its customers in the normal course of business. Credit risk on trade receivables is minimized by performing credit reviews, ongoing credit evaluation and account monitoring procedures. All trade receivables have been reviewed for indicators of impairment and the financial statements take into account an allowance for bad debts. Maximum credit risk relates to trade receivables amounted to $3,170,068 at December 31, 2015 (December 31, 2014 - $550,277).

There were no overdue trade receivables outstanding as at December 31, 2015 and collection was reasonably assured. As at December 31, 2015, there were three customers' receivable balance exceeding 10% of the total accounts receivable balance and the sum represented 55% of the total trade receivables balance. As at December 31, 2014, there was one customer's receivable balance presenting more than 10% of the total accounts receivable balance.

c) Currency risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company uses the Canadian dollar as its reporting currency for these consolidated financial statements. The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. The Company currently does not use derivative instruments to hedge its exposure to those risks. As at December 31, 2015, the exposure of the Company's financial assets and financial liabilities to foreign exchange risk is summarized as follows:

	Chinese RMB in CAD	US dollar in CAD	HK dollar in CAD
Cash	$ 187,426	$ 4,936	$ 802
Restricted cash	739,995	-	-
Trade and other receivables	3,720,961	13,469	9,098
Accounts payable and accrued liabilities	(2,173,782)	-	-
Short term loans	(9,475,896)	-	-
Due to related parties	(29,834)	-	-
Net financial assets (liabilities)	$ (7,031,130)	$ 18,405	$ 9,900

The following table details the Company's sensitivity as at December 31, 2015, with other variables unchanged, a 1% strengthening of the Chinese RMB, US dollar and HK dollar, against the Canadian dollar. For a 1% weakening against the Canadian dollar, there would be an equal and opposite impact on net comprehensive income (loss).

	Chinese RMB in CAD	US dollar in CAD	HK dollar in CAD
Net comprehensive income (loss)	$ (70,311)	$ 184	$ 99

d) Interest risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on the utilized portion of its credit facilities and does not currently hold any financial instruments that mitigate this risk. All of the Company's short term loans bear a fixed interest rate except for the loan from Standard Chartered Bank in the amount of $3,196,435 as at December 31, 2015 which bears a variable rate plus 2% per annum. For the year ended December 31, 2015, an increase (decrease) of the interest rate of 5% would have increased (decreased) net income before income taxes by approximately $30,700.

e) Liquidity risk

The purpose of liquidity risk management is to maintain a sufficient amount of cash and cash equivalents. Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company's operation is financed through a combination of the cash flows from operations and short term debt financing.

As at December 31, 2015, the Company had total debt in the amount of $12,096,576 due within 12 months (December 31, 2014 - $10,047,500). As at December 31, 2015, the Company held cash and cash equivalents of $3,136,307 (December 31, 2014 - $549,112), restricted cash of $739,995 (December 31, 2014 - $586,622), and trade and other receivables of $3,761,221 (December 31, 2014 - $897,238).

RISKS AND UNCERTAINTIES

Important risks factors that could cause actual results, performance or achievements to be materially different than past performance or those implied by forward looking statements include:

Execution of the Business Plan

Although management of the Company has developed a business plan, there can be no assurance that the business plan will succeed in whole or in part. The Company continues to plan to undertake expansion of its business by way of acquisitions. There can be no assurance that the Company will be able to complete the planned expansion within the expected timeframe or for the estimated costs set out in the Feasibility Study.

Future Capital Requirements

The development of the business of the Company will require substantial additional financing. The Company's future capital requirements will depend upon many factors, including maintenance, plant and product expansion and expansion of its sales and marketing efforts. Failure to obtain sufficient financing may result in delaying, scaling back, elimination, or indefinite postponement of, future programs. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. Lending may be obtained from Chinese banks, government organizations, major shareholders or other debt markets; however, there can be no assurance such loans will be obtained. In addition, there can be no assurance that the Company's business will generate sufficient cash flow from operations in the future to make necessary capital expenditures, in which case the Company may seek additional financing.

Competition

The Company expects to encounter competition from other entities having a business objective similar to its own. Many of these entities are well established and have extensive experience in connection with identifying and affecting business acquisitions directly or through affiliates. Competitors may introduce technological innovation in the Company's business, resulting in increased competitive pressures. Although the Company's projections assume that the industry will generate competition, there can be no assurances on how any level of competition may impact the future revenues of the Company. China can be a fiercely competitive market and small price differentials between otherwise competitive goods and services can make an enormous difference to the consumer.

Foreign Operations

Currently, the Company's operations are conducted in the PRC and it is anticipated that this will continue to be the case. As such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to: currency exchange rates; high rates of inflation; labour unrest; renegotiation or nullification of existing concessions, licenses, permits and contracts; changes in taxation policies; restrictions on foreign exchange; government corruption; changing political conditions; currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Changes, if any, in investment policies or shifts in political attitudes in China may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, environmental legislation, land use, land claims of local people and water use. Any events resulting in an adverse impact on the Chinese economy will likely have an adverse effect on the Company's profitability and prospects. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's business, financial condition and results of operations.

Marketing and Distribution Expertise

Achieving market success will require substantial marketing efforts and the expenditure of significant funds to inform potential customers of the distinctive characteristics and benefits of The Company's products and services. The Company's long-term success may also depend, to a significant extent, on its ability to expand its present internal marketing organization. The Company will, among other things, have to attract and retain experienced marketing and sales personnel. No assurance can be given that the Company will be able to attract and retain qualified or experienced marketing and sales personnel or that any efforts undertaken by such personnel will be successful.

Protection of Intellectual Property Rights

Intellectual property rights in China are still developing and there are uncertainties involved in intellectual property rights protection and the enforcement of such protection. The Company will need to pay special attention to protecting its intellectual property and trade secrets. Failure to do so could lead to the loss of a competitive advantage that could not be compensated by a damages award.

In addition, please refers to the financial instruments section for the analysis of the financial risks factor.

OUTSTANDING SHARE CAPITAL

The Company had 53,571,285 common shares, 1,520,000 stock options outstanding, and 1,320,000 stock options exercisable at December 31, 2015. If all of the Company's exercisable options were exercised, the Company would have 54,891,285 common shares outstanding.

DISCLOSURE CONTROLS AND PROCEDURES

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the consolidated financial statements for the year ended December 31, 2015 and this accompanying MD&A (together, the "Annual Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Annual Filings on SEDAR at www.sedar.com.