Fireswirl
Technologies Inc.

Management Discussion and Analysis of
Financial Condition and Results of Operations

For the three months ended March 31, 2016

May 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 Fireswirl Technologies Inc.'s ("Fireswirl" or the "Company") interim consolidated financial statements and the accompanying notes for the three months ended March 31, 2016 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.

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.

Special 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 for 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 changes, 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 the 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 the forward looking statements contained in this MD&A.

OVERVIEW

Fireswirl Technologies Inc. (TSX Venture: FSW;"the Company") was founded in 1999 and operated as a software development and project management company specializing in payment platforms and online gaming software for the internet. In 2006, the Company became a publically 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 China 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.

In 2015, the Company completed the sale of its Shenzhen e-commerce platform for $6,225,000 net of the working capital adjustment. The Shenzhen e-commerce platform includes: (i) equipment with carrying value of $24,615; and (ii) goodwill, intellectual property, and customer lists and contracts with carrying value of $nil. In conjunction with this transaction, the Company's then current chief executive officer, Mr. Tony Lau ("Mr. Lau") was required to resign and join the purchaser as an employee.

Fireswirl, together with its subsidiaries, focuses 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.

FIRST QUARTER HIGHLIGHTS

- On February 29, 2016, The Company entered into a purchase and sale agreement, pursuant to which the Company 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 for a full settlement of XCXD's outstanding indebtedness to the Company and its subsidiaries. On April 5, 2016, an amendment to the purchase and sale agreement was signed to extend the closing date of sale of all of XCXD's equity interest held by the Company to December 31, 2016. The assets and liabilities of XCXD have been classified as held for sale as at March 31, 2016. The operation results of XCXD have been presented as a discontinued operation for the three months ended March 31, 2016.

  The sale of XCXD is consistent with the Company's strategic plan for its future development. XCXD has not generated significant operating profit since it was acquired in October 2009. Management has decided to divert its focus from XCXD and is working on identifying and developing other suitable business for the Company.

- For the three months ended March 31, 2016, total operating revenue from continuing operations was $88,890 compared to $365,689 for the same period in 2015. Net loss from continuing operations was $407,236 compared to $2,115,025 of net income for the same period in 2015. The net income for Q1 2015 was a result from the gain recognized on the sale of the Shenzhen e-commerce platform in an amount of $2,950,385. If the gain from disposition on the sale of the Shenzhen e-Commerce Platform were excluded, the Company would have had a net loss of $835,360 for the three months ended March 31, 2015.

- For the three months ended March 31, 2016, the Company had a net loss from discontinued operations of $489,350 compared to net income of $292,759 for the same period in 2015.

- For the three months ended March 31, 2016, the Company had a net loss from continuing operations attributable to shareholders of the Company of $407,236 compared to $2,115,025 net income for the same period in 2015. For the three months ended March 31, 2016, the Company had a total loss attributable to shareholders of the Company of $786,711 compared to a total income of $2,261,405 for the same period in 2015.

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. XCXD's operating results have been represented as a discontinued operation in prior quarters.

	2016 Q1 $	2015 Q4 Re-presented $	2015 Q2 Re-presented $	2015 Q2 Re-presented $	2015 Q1 Re-presented $	2014 Q4 Re-presented $	2014 Q3 Re-presented $	2014 Q2 Re-presented $
Operating revenue								
Sales Revenue	80,879	99,423	10,944	-	2,630	-	-	-
Service Revenue	8,011	-	56,453	-	363,059	102,602	404,965	81,276
Total operating revenue	88,890	99,423	67,398	-	365,689	102,602	393,188	73,706
Net income (loss) from continuing operations	(407,236)	(434,134)	2,975,217	(304,825)	2,115,024	(454,646)	(32,473)	(311,691)
Discontinued operations, net of tax	(489,350)	(235,436)	(88,550)	(135,442)	292,759	(330,460)	(411,229)	(24,906)
Net income (loss) for the period	(896,586)	(669,569)	2,886,667	(440,267)	2,407,783	(785,106)	(443,701)	(336,597)
Net income (loss) from continuing operations attributable to:								
Shareholders of the Company	(407,236)	(434,134)	2,975,217	(304,825)	2,115,024	(454,646)	(32,473)	(311,691)
Net income (loss) attribute to:								
Shareholders of the Company	(786,711)	(551,852)	2,930,943	(372,547)	2,261,404	(619,876)	(443,701)	(336,597)
Basic and diluted per share of								
Net income (loss) from continuing operations	(0.01)	(0.01)	0.06	(0.01)	0.04	(0.01)	(0.00)	(0.01)
Net income (loss) from discontinued operations	(0.02)	(0.01)	0.05	(0.01)	0.04	(0.01)	(0.01)	(0.01)
Weighted number of shares outstanding	53,571,285	53,571,285	53,571,285	53,571,285	53,571,285	53,571,285	53,571,285	53,526,230

QUARTERLY RESULTS

The sale of XCXD represents a discontinued operation. Therefore, the operating results of XCXD have been presented as discontinued operations for the three months ended March 31, 2016 and the comparative results have been re-presented.

Comparison of the continuing operation results for Q1 2016 and 2015:

Revenue

The Company reported total operating revenue of $88,890 for the three months ended March 31, 2016 compared to $365,689 for the same period in 2015, representing a decrease of 75.69% due to a decrease in service revenue.

During the three months ended March 31, 2016, the Company recognized revenue of $80,879 (same period in 2015: $2,630) from merchandise resale and trading in China.

During the three months ended March 31, 2016, the Company recognized revenue of $8,011 (same period 2015: $363,059) from service and maintenance fees.

The cost of goods sold incurred in relation to these sales was $75,679 (same period 2015: $143,407), resulting in a gross profit margin of 14.86% (same period 2015: 60.78%).

OPERATING EXPENSES

Total operating expenses increased to $503,064 for the three months ended March 31, 2016 compared to $1,192,808 for the same period of 2015, representing a decrease of 57.83%. The decrease in overall operating expenses is consistent with the decrease in revenue.

Cost of Goods Sold

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

The overall cost of goods sold has decreased to $75,679 for the three months ended March 31, 2016 compared to $143,407 for the same period of 2015, representing a decrease of 47.23%.

Foreign Exchange gain or loss

The Company had a foreign exchange loss of $1,640 for the three months ended March 31, 2016 compared to $198,009 for the same period of 2015. The foreign exchange loss for the three months ended March 31, 2015 was mainly from the repayment of shareholder loan in its original currency. Throughout the three months ended 2016 and 2015, the Company did not utilize any hedges or forward contracts.

Sales and Marketing

Sales and marketing expenses increased to $30,057 for the three months ended March 31, 2016 compared to $984 for the same period of 2015. This increase is a result from activities for developing and reviewing new business for the Company.

General and Administrative

General and administrative expenses increased to $330,768 for the three months ended March 31, 2016 compared to $167,404 for the same period of 2015, representing an increase of 97.59%. The increase was due to an increase in legal fees relating to the sale of XCXD.

Salaries and Benefits

Salaries and benefits expenses decreased to $62,253 for the three months ended March 31, 2016 compared to $679,829 for the same period of 2015, representing a decrease of 90.84%. The Company paid severance fees of $223,708 and special bonuses of $130,000 to employees involved in the sale of the Shenzhen e-Commerce platform.

Gain on Sale of e-Commerce Platform

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

The total proceeds after working capital adjustment are $6,225,000, of which $2,975,000 was received in March 2015 and the balance of $3,250,000 was received in October 2015. In connection with the completion of the sale, the Company repaid the principal amount of the $400,000 interest-free loan provided by the vendor on October 24, 2014, by way of set-off against the proceeds received.

Net Income (Loss) from Continuing Operations

The Company reported a net loss from continuing operations attributable to the shareholders of the Company of $407,236 for the three months ended March 31, 2016 compared to a net income from continuing operations attributable to the shareholders of the Company of $2,115,025 for the same period of 2015. The net income for the three months ended March 31, 2015 was mainly a result of the gain from disposition of the Shenzhen e-commerce platform.

Basic and diluted loss per share from continuing operations was $0.01 for the three months ended March 31, 2016 compared to basic and diluted earnings per share of $0.04 in the same period of 2015.

Non-Controlling Interest

The Company's foreign subsidiary, XCXD realized a net loss of $489,350 for the three months ended March 31, 2016 compared to a net gain of $292,759 for the same period of 2015. Non-controlling interest share of loss was $109,875 for the three months ended March 31, 2016. The Company did not allocate the loss to non-controlling interest after the non-controlling interest balance became nil.

Comparison of the discontinued operation results for Q1 2016 and 2015:

The operating results of XCXD are presented as discontinued operations.

	For the three months ended March 31, 2016	2015
Operating revenue		
Sales revenue	$ 13,867,967	$ 8,683,345
Service revenue	386,950	1,294,332
Total operating revenue	14,254,917	9,977,677
Operating expenses		
Purchases	11,812,300	7,352,280
Delivery charges	177,201	167,321
Technical service charges	1,828,186	1,183,739
Other related expense	6,008	5,918
Depreciation and amortization	17,852	15,134
Sales and marketing	11,728	37,706
General administration	169,095	123,771
Salaries and benefits	622,917	684,450
	14,645,287	9,570,319
Operating loss before below items	(390,370)	407,358
Interest and other income	1,356	3,339
Finance costs	(100,336)	(117,938)
Income (loss) before income taxes from discontinued operations	(489,350)	292,759
Income tax expenses	-	-
Net income (loss) from discontinued operations	$ (489,350)	$ 292,759
Net income (loss) from discontinued operations attributable to:		
Shareholders of the Company	$ (379,475)	$ 146,380
Non-controlling interest	(109,875)	146,379
	$ (489,350)	$ 292,759
Basic and diluted earnings (loss) per share	$ (0.01)	$ 0.01

Revenue

XCXD reported total operating revenue of $14,254,917 for the three months ended March 31, 2016 compared to $9,977,677 for the same period of 2015, representing an increase of 42.87% due to an increase of merchandise sales.

During the three months ended March 31, 2016, XCXD recognized revenue of $13,867,967 (same period of 2015: $8,683,345) from merchandise resale and trading in China, representing an increase of 59.71%.

During the three months ended March 31, 2016, XCXD recognized revenue of $386,950 (same period 2015: $31,294,332) from service and maintenance fees, representing a decrease of 70.10%. The decrease was a result of increase competition in online store service businesses in China.

The cost of goods sold in relation to these sales was $13,823,695 (same period of 2015: $8,709,258), resulting in a gross profit margin of 3.03% (same period 2015: 12.71%). The decrease of profit margin is due to increase competition in online store service businesses in China.

OPERATING EXPENSES

Total operating expenses increased to $14,645,287 for the three months ended March 31, 2016 compared to $9,570,319 for the same period of 2015, representing an increase of 53.03%. The increase in overall operating expenses is consistent with the increase in gross revenue.

Cost of Goods Sold

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

The overall cost of goods sold has increased to $13,823,695 for the three months ended March 31, 2016 compared to $8,709,258 for the same period of 2015, representing an increase of 58.72%.

Sales and Marketing

Sales and marketing expenses decreased to $11,728 for the three months ended March 31, 2016 compared to $37,706 for the same period of 2015.

General and Administrative

General and administrative expenses increased to $169,095 for the three months ended March 31, 2016 compared to $123,771 for the same period of 2015, representing an increase of 36.62%. The increase is due to an increase of office expenses.

Salaries and Benefits

Salaries and benefits expenses decreased to $622,917 for the three months ended March 31, 2016 compared to $684,450 for the same period of 2015, representing a decrease of 8.99%.

Net Income (Loss) from Discontinued Operations

The Company reported a net loss from discontinued operations attributable to the shareholders of the Company of $379,475 for the three months ended March 31, 2016 compared to a net income from discontinued operations attributable to the shareholders of the Company of $146,380 for the same period of 2015.

Basic and diluted loss per share from discontinued operations was $0.01 for the three months ended March 31, 2016 compared to basic and diluted earnings per share of $0.01 in the same period of 2015.

CASH FLOW STATEMENT FOR Q1 2016 and 2015

Comparison of cash flows from continuing operations for Q1 2016 and 2015:

Operating Activities

Cash outflow used in operating activities was $275,180 for the three months ended March 31, 2016 compared to cash outflow used in operating activities of $790,697 for the same period of 2015, representing a decrease in outflow of 65.20%. The decrease of cash outflows from operating activities is mainly a result of a decrease in operating loss. If the gain recognized from the disposition of the Shenzhen e-commerce platform was excluded, the Company would have had a net operating loss of $542,601 in Q1 2015.

Investing Activities

Cash inflow generated from investing activities was $Nil for the three months ended March 31, 2016 compared to cash inflow of $2,975,000 for the same period of 2015. The cash inflow in Q1 2015 was due to the proceeds received from the disposition of the Shenzhen e-commerce platform.

Financing Activities

Cash used in financing activities was $Nil for the three months ended March 31, 2016 compared to $528,810 of cash used for the same period of 2015. The cash outflow in 2015 was mainly due to repayment of shareholder loans in Q1 2015.

Comparison of cash flows from discontinued operations for Q1 2016 and 2015:

	For the three months ended March 31,	
	2016	2015
Operating activities		
Income (loss) from discontinued operations	$ (489,350)	$ 292,759
Income tax expenses	-	-
Income (loss) before income tax from continuing operations	(489,350)	292,759
Add (deduct) items not affecting cash:		
Depreciation and amortization	17,852	15,134
Finance costs	100,337	126,398
Changes in non-cash working capital items:		
Trade and other receivables	2,266,524	80,510
Due from/to a related party	1,759,540	(754,020)
Deposits and prepayments	(1,712,732)	193,125
Inventory	(1,564,881)	2,001,299
Accounts payable and accrued liabilities	302,024	(276,388)
	679,314	1,678,817
Interest paid	(100,337)	(126,398)
Net cash provided by operating activities of discontinued operations	$ 578,977	$ 1,552,419
Investing activities		
Acquisition of property and equipment	$ (8,628)	$ (3,295)
Net cash used in investing activities of discontinued operations	$ (8,628)	$ (3,295)
Financing activities		
Proceeds from short term loans	$ -	$ 31,078
Repayment of short term loans	(601,367)	(2,807,201)
Change in restricted cash	-	226,600
Net cash used in investing activities of discontinued operations	$ (601,367)	$ (2,549,523)

Operating Activities

Cash inflow from operating activities was $578,977 for the three months ended March 31, 2016 compared to a cash inflow from operation activities of $1,552,419 for the same period of 2015, representing a decrease of 62.70% inflow. The decrease in cash inflows from operating activities was mainly a result from a decrease of XCXD's operating results in Q1 2016.

Investing Activities

Cash outflow for investing activities was $8,628 for the three months ended March 31, 2016 compared to cash outflow of $3,296 for the same period of 2015.

Financing Activities

Cash used in financing activities was $601,367 for the three months ended March 31, 2016 compared to $2,549,523 cash used for the same period of 2015. The cash outflow in 2015 was mainly due to repayments of short term loans in Q1 2015 offset with the release of the restricted cash used as the collateral for the short-term loans.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2016, the Company had $nil long term debt and $12,983,011 current liabilities (of which $12,203,772 is directly related to the assets held for sale). The Company had $2,624,814 in cash and cash equivalents, working capital (defined as current assets less current liabilities) of $3,559,032. The recent dramatic decline in the global economic environment results in increasing uncertainty regarding future revenue and customer commitments, both in terms of timing and magnitude for such future sales. Contractual commitments are summarized in the "Contractual Obligations" section of this MD&A. To the extent the Company is unable to cover its ongoing cash requirements through operations, 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 condensed consolidated interim 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 March 31, 2016. 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	272,940
2017	401,140
2018	343,880
2018	63,680
Total	$ 1,081,640

Related Party Transactions

a) Due to Related Parties

		March 31, 2016		December 31, 2015
Due to the Company's shareholders	$	-	$	29,977
Due to Yatan (see note below)		1,862,188		110,834
		1,862,188		140,811
Amounts due to related parties included in accounts payable		8,000		35,244
Total	$	1,870,188	$	176,055

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 is 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 Yatan is not able to pay back the balance. During the year ended December 31, 2015, Yatan repaid all outstanding balances to XCXD. As at March 31, 2016, XCXD had a payable of $1,862,188 (December 31, 2015 - $110,834) owing to Yatan. XCXD had not generated any revenue in connection with this arrangement.

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

b) 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 three months ended March 31, 2016 and 2015 is as follows:

	For the Three months ended March 31	
	2016	**2015**
Salaries and fees		
- Salaries and consulting fees	$ 75,000	$ 186,228
- Director fees	8,000	34,000
	83,000	220,228
Share-based compensation	2,172	-
Total	$ 85,172	$ 220,228

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 relevant parties.

CHANGES IN ACCOUNTING POLICIES

The Company did not adopt any new accounting standard changes or amendments effective January 1, 2016 that had a material impact on these consolidated financial statements.

Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as at March 31, 2016, and have not been applied in preparing the Company’s condensed interim 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) 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.

SUBSEQUENT EVENT

On April 5, 2016, an amendment to the purchase and sale agreement was signed to extend the closing date of sale of all of XCXD's equity interest held by the Company to December 31, 2016.

OFF BALANCE SHEET ARRANGEMENT

As at March 31, 2016 and the date of this report 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 which 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 short 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 March 31, 2016 and December 31, 2015, 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 equivalents, restricted cash and trade and other receivables.

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 related to trade receivables amounted to $665,977, of which $646,430 is included in the discontinued operations (Note 3) (December 31, 2015 - $3,170,068) at March 31, 2016.

There were no overdue trade receivables outstanding as at March 31, 2016 and collection is reasonably assured. As at March 31, 2016, including the discontinued operations, there are two customers’ receivable balances exceeding 10% of the total trade receivable balance, representing 62% of the total trade receivable balance. As at December 31, 2015, there were three customers’ receivable balances exceeding 10% of the total trade receivable balance, representing 55% of the total trade 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 March 31, 2016, including the discontinued operations, 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	$ 302,398	$ 4,494	$ 632
Restricted cash	698,313	-	-
Accounts receivable	648,103	-	-
Accounts payable and accrued liabilities	(2,468,949)	-	-
Short term loans	(8,351,502)	-	-
Net financial assets (liabilities)	$ (9,171,637)	$ 4,494	$ 632

The following table details the Company's sensitivity as at March 31, 2016, 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)	$	(91,716)	$	45	$	6

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 are included in the discontinued operations (see Note 3) and bear a fixed interest rate except for the loan from Standard Chartered Bank in the amount of $3,015,384 as at March 31, 2016 which bears a variable rate plus 2% per annum. For the three months ended March 31, 2016, an increase (decrease) of the interest rate of 1 basis point would have increased (decreased) net loss before income taxes by approximately $7,600.

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 cash flows from operations and short term debt financing.

As at March 31, 2016, the Company had total debt in the amount of $12,983,011 due within 12 months (December 31, 2015 - $12,096,576). As at March 31, 2016including the discontinued operations, the Company held cash and cash equivalents of $2,803,684 (December 31, 2015 - $3,136,307), restricted cash of $698,313 (December 31, 2015 - $739,995), and trade and other receivables of $1,232,398 (December 31, 2015 - $3,761,221).

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 the 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 that 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 any 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 refer to the financial instruments section for the analysis of the financial risks factor.

OUTSTANDING SHARE CAPITAL

The Company had 53,571,285 common shares, 1,420,000 stock options outstanding, and 1,270,000 stock options exercisable as at March 31, 2016. If all of the Company's exercisable options were exercised, the Company would have 54,841,285 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 condensed interim consolidated financial statements for the three months ended March 31, 2016 and this accompanying MD&A (together, the "Interim 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 Interim Filings on SEDAR at www.sedar.com.