Fireswirl Technologies Inc.

Management Discussion and Analysis of Financial Condition and Results of Operations

For the three and six months ended June 30, 2016

August 22, 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") unaudited condensed interim consolidated financial statements and the accompanying notes for the three and six months ended June 30, 2016 and the accompanying notes to the audited financial statements for the year ended December 31, 2015. These unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. 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 activities, performances, 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", "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.

SECOND 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 the non-controlling shareholders of XCXD 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 June 30, 2016. The operational results of XCXD have been presented as a discontinued operation for the three and six months ended June 30, 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 and six months ended June 30, 2016, total operating revenue from continuing operations was $156,449 and $245,339, respectively compared to $Nil and $365,689 for the same period in 2015. Net loss from continuing operations was $471,104 and $878,340 for the three and six months ended June 30, 2016, respectively compared to a net loss of $304,828 and a net income of $1,810,196 for the same period in 2015. The net income for the six months ended June 30, 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 the disposition of the Shenzhen e-Commerce Platform was excluded, the Company would have had a net loss of $1,140,189 for the six months ended June 30, 2015.

- For the three and six months ended June 30, 2016, the Company had a net loss from continuing operations attributable to shareholders of the Company of $471,104 and $878,340, respectively compared to a net loss of $304,828 and a net income of $1,810,196 for the same period in 2015.

- For the three and six months ended June 30, 2016, the Company had a net loss from discontinued operations of $699,703 and $1,189,053, respectively compared to a net loss of $135,441 and a net income of $157,318 for the same period in 2015.

- For the three and six months ended June 30, 2016, the Company had a total loss attributable to shareholders of the Company of $686,155 and $1,472,866, respectively compared to a net loss of $372,549 and a net income of $1,888,856 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 Q2	2016 Q1	2015 Q4 Re-presented	2015 Q3 Re-presented	2015 Q2 Re-presented	2015 Q1 Re-presented	2014 Q4 Re-presented	2014 Q3 Re-presented
	$	$	$	$	$	$	$	$
Operating revenue								
Sales Revenue	156,449	80,879	99,423	10,944	-	2,630	-	-
Service Revenue	-	8,011	-	56,453	-	363,059	102,602	404,965
Total operating revenue	156,449	88,890	99,423	67,398	-	365,689	102,602	393,188
Net income (loss) from continuing operations	(471,104)	(407,236)	(434,134)	2,975,217	(304,828)	2,115,024	(454,646)	(32,473)
Discontinued operations, net of tax	(699,703)	(489,350)	(235,436)	(88,550)	(135,441)	292,759	(330,460)	(411,229)
Net income (loss) for the period	(1,170,807)	(896,586)	(669,569)	2,886,667	(440,269)	2,407,783	(785,106)	(443,701)
Net income (loss) from continuing operations attributable to:								
Shareholders of the Company	(471,104)	(407,236)	(434,134)	2,975,217	(304,828)	2,115,024	(454,646)	(32,473)
Net income (loss) attribute to:								
Shareholders of the Company	(686,155)	(786,711)	(551,852)	2,930,943	(372,549)	2,261,404	(619,876)	(443,701)
Basic and diluted per share of								
Net income (loss) from continuing operations	(0.01)	(0.01)	(0.01)	0.06	(0.01)	0.04	(0.01)	(0.00)
Net income (loss) from discontinued operations	(0.01)	(0.02)	(0.01)	0.05	(0.01)	0.04	(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	53,571,285

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 and six months ended June 30, 2016 and the comparative results have been re-presented.

Comparison of the continuing operation results for the three and six months ended June 30, 2016 and 2015:

Revenue

The Company reported total operating revenue of $156,449 and $245,339 for the three and six months ended June 30, 2016, respectively compared to $Nil and $365,689 for the same period in 2015, due to a decrease in service revenue.

For the three and six months ended June 30, 2016, the Company recognized revenue of $156,449 and $237,328, respectively (same period in 2015: $Nil and $2,630) from merchandise resale and trading in China.

For the three and six months ended June 30, 2016, the Company recognized revenue of $Nil and $8,011, respectively (same period 2015: $Nil and $363,059) from service and maintenance fees.

The cost of goods sold incurred in relation to these sales was $155,211 and $230,889, respectively compared to $Nil and $91,111 for the same period in 2015.

OPERATING EXPENSES

Total operating expenses increased to $631,756 and decreased to $1,134,819 for the three and six months ended June 30, 2016, respectively compared to $303,458 and $1,496,266 for the same period in 2015. 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 increased to $155,211 and $230,890 for the three and six months ended June 30, 2016, respectively compared to $Nil and $91,111 for the same period in 2015. The increase of cost of goods sold in 2016 is consistent with the increase of merchandise revenue.

Foreign Exchange gain or loss

The Company had a foreign exchange loss of $39,397 and $41,037 for the three and six months ended June 30, 2016, respectively compared to $31,038 and $281,343 for the same period in 2015. The foreign exchange loss for the six months ended June 30, 2015 was mainly from the repayment of shareholder loan in its original currency. The Company did not utilize any hedges or forward contracts.

Sales and Marketing

Sales and marketing expenses increased to $27,668 and $57,725 for the three and six months ended June 30, 2016, respectively compared to $11,516 and $12,500 for the same period in 2015. This increase was a result from activities for developing and exploring new business for the Company.

General and Administrative

General and administrative expenses increased to $260,726 and $591,494 for the three and six months ended June 30, 2016, respectively compared to $157,607 and $325,011 for the same period in 2015, representing an increase of 65% and 82%. The increase was due to an increase in legal fees relating to the sale of XCXD and business development in relation to identifying new business for the Company.

Salaries and Benefits

Salaries and benefits expenses increased to $116,762 and decreased to $179,015 for the three and six months ended June 30, 2016, respectively compared to $85,711 and $765,540 for the same period in 2015. The higher salaries and benefit expenses for the six months ended June 30, 2015 was the result of the Company payment of 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 were $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 $471,104 and $878,340 for the three and six months ended June 30, 2016, respectively compared to a net loss from continuing operations attributable to the shareholders of the Company of $304,828 and net income of $1,810,196 for the same period in 2015. The net income for the six months ended June 30, 2015 was mainly a result of the gain from disposition of the Shenzhen e-commerce platform in Q1 2015.

Basic and diluted loss per share from continuing operations was $0.01 and $0.02 for the three and six months ended June 30, 2016, respectively compared to basic and diluted loss per share of $0.01 and earnings per share of $0.03 in the same period in 2015.

Basic and diluted loss per share was $0.01 and $0.03 for the three and six months ended June 30, 2016, respectively compared to basic and diluted loss per share of $0.01 and earnings per share of $0.04 in the same period in 2015

Non-Controlling Interest

The Company's foreign subsidiary, XCXD realized a net loss of $699,703 and $1,189,053 for the three and six months ended June 30, 2016 compared to a net loss of $135,441 and a net gain of $157,318 for the same period in 2015. Non-controlling interest share of loss was $484,652 and $594,527 for the three and six months ended June 30, 2016, respectively.

Comparison of the discontinued operation results for the three and six months ended June 30, 2016 and 2015:

The operating results of XCXD are presented as discontinued operations.

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Operating revenue				
Sales revenue	$ 16,011,824	$ 10,771,220	$ 29,879,791	$ 19,454,565
Service revenue	1,638,958	951,246	2,025,908	2,245,578
Total operating revenue	17,650,782	11,722,466	31,905,699	21,700,143
Operating expenses				
Purchases	14,034,438	9,451,693	25,846,738	16,803,973
Delivery charges	311,473	235,345	488,674	402,666
Technical service charges	2,995,961	1,279,193	4,824,147	2,462,932
Other related expense	10,160	(5,656)	16,168	262
Depreciation and amortization	16,194	17,473	34,046	32,607
Sales and marketing	24,308	41,811	36,036	79,517
General administration	124,785	144,207	293,880	267,978
Salaries and benefits	709,239	568,629	1,332,156	1,253,079
	18,226,558	11,732,695	32,871,845	21,303,014
Operating loss before below items	(575,776)	(10,229)	(966,146)	397,129
Interest and other income	1,411	(3,339)	2,767	-
Finance costs	(117,650)	(116,406)	(217,986)	(234,344)
(Loss) income before income taxes from discontinued operations	(692,015)	(129,974)	(1,181,365)	162,785
Income tax expenses	(7,688)	(5,467)	(7,688)	(5,467)
Net (loss) income from discontinued operations	$ (699,703)	$ (135,441)	$ (1,189,053)	$ 157,318
Net (loss) income from discontinued operations attributable to:				
Shareholders of the Company	$ (215,051)	$ (67,721)	$ (594,527)	$ 78,659
Basic and diluted (loss) earnings per share from discontinued operations	(0.00)	(0.00)	(0.01)	0.00

Revenue

XCXD reported total operating revenue of $17,650,782 and $31,905,699 for the three and six months ended June 30, 2016, respectively compared to $11,722,466 and $21,700,143 for the same period in 2015, representing an increase of 51% and 47% due to an increase of merchandise sales.

For the three and six months ended June 30, 2016, XCXD recognized revenue of $16,011,824 and $29,879,791, respectively (same period of 2015: $10,771,220 and $19,454,565) from merchandise resale and trading in China, representing an increase of 49% and 54%.

For the three and six months ended June 30, 2016, XCXD recognized revenue of $1,638,958 and $2,025,908, respectively (same period 2015: $951,246 and $2,245,578) from service and maintenance fees, representing an increase of 72% and a decrease of 10%.

OPERATING EXPENSES

Total operating expenses increased to $18,226,558 and $32,871,845 for the three and six months ended June 30, 2016, respectively compared to $11,732,695 and $21,303,014 for the same period in 2015, representing an increase of 55% and 54%. 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 $17,352,032 and $31,175,727 for the three and six months ended June 30, 2016, respectively compared to $10,960,575 and $19,669,833 for the same period of 2015, representing an increase of 58% and 59%.

Sales and Marketing

Sales and marketing expenses decreased to $24,308 and $36,036 for the three and six months ended June 30, 2016 compared to $41,811 and $79,517 for the same period of 2015.

General and Administrative

General and administrative expenses decreased to $124,785 and increased to $293,880 for the three and six months ended June 30, 2016, respectively compared to $144,207 and $267,978 for the same period in 2015, representing a decrease of 13% and an increase of 10%. The increase was due to an increase of office expenses.

Salaries and Benefits

Salaries and benefits expenses increased to $709,239 and $1,332,156 for the three and six months ended June 30, 2016, respectively compared to $568,629 and $1,253,079 for the same period in 2015, representing an increase of 25% and 6%.

Net Income (Loss) from Discontinued Operations

The Company reported a net loss from discontinued operations attributable to the shareholders of the Company of $215,051 and $594,527 for the three and six months ended June 30, 2016 compared to a net loss from discontinued operations attributable to the shareholders of the Company of $67,721 and a net income of $78,659 for the same period of 2015.

Basic and diluted loss per share from discontinued operations attributable to the Company's shareholders was $0.00 and $0.01 for the three and six months ended June 30, 2016, respectively compared to basic and diluted loss/earnings per share of $0.00 and $0.00 for the same period in 2015.

CASH FLOW STATEMENT FOR the three and six months ended June 30 2016 and 2015

Comparison of cash flows from continuing operations for the three and six months ended June 30, 2016 and 2015:

Operating Activities

Cash outflow used in operating activities was $295,090 and $570,271 for the three and six months ended June 30, 2016, respectively compared to cash outflow used in operating activities of $539,812 and $1,330,508 for the same period in 2015, representing a decrease in outflow of 45% and 57%. The decrease of cash outflows from operating activities is mainly a result of a decrease in operating loss.

Investing Activities

Cash inflow generated from investing activities was $Nil for the three and six months ended June 30, 2016 compared to cash inflow of $Nil and $2,975,000 for the same period in 2015. The cash inflow in 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 and six months ended June 30, 2016 compared to $Nil and $1,153,210 of cash used for the same period in 2015. The cash outflow in 2015 was mainly due to repayment of shareholder loans and short-term loans.

Comparison of cash flows from discontinued operations for the six months ended June 30, 2016 and 2015:

	For the six months ended June 30,	
	2016	**2015**
Operating activities		
Income (loss) from discontinued operations	$ (1,189,053)	$ 157,318
Income tax expenses	7,688	5,467
Income (loss) before income tax from continuing operations	(1,181,365)	162,785
Add (deduct) items not affecting cash:		
Depreciation and amortization	34,046	32,607
Interest and other income	-	(3,869)
Finance costs	217,987	238,213
Changes in non-cash working capital items:		
Trade and other receivables	2,267,842	(37,552)
Due from/to a related party	2,543,080	(1,409,077)
Deposits and prepayments	173,651	(26,586)
Inventory	(2,794,086)	2,162,155
Accounts payable and accrued liabilities	351,287	(424,742)
	1,612,442	693,934
Interest received	-	3,869
Interest paid	(217,987)	(238,213)
Income taxes paid	(7,688)	(5,467)
Net cash provided by operating activities of discontinued operations	$ 1,386,766	$ 454,123
Investing activities		
Acquisition of property and equipment	$ (15,507)	$ (39,020)
Net cash used in investing activities of discontinued operations	$ (15,507)	$ (39,020)
Financing activities		
Proceeds from short term loans	$ -	$ 29,740
Repayment of short term loans	(520,194)	(687,986)
Change in restricted cash	-	226,145
Loan repayment to shareholders	-	(633)
Net cash used in investing activities of discontinued operations	$ (520,194)	$ (432,734)
Net cash outflow	$ 851,065	$ (17,631)

Operating Activities

Cash inflow from operating activities was $1,386,766 for the six months ended June 30 2016 compared to $454,123 for the same period in 2015. The increase in cash inflows in 2016 from operating activities was mainly a result from an increase of due to a related party.

Investing Activities

Cash outflow for investing activities was $15,507 for the six months ended June 30, 2016 compared to cash outflow of $39,020 for the same period in 2015.

Financing Activities

Cash used for financing activities was $520,194 for the six months ended June 30, 2016 compared to $432,734 cash used for the same period of 2015. The increase of cash outflow in 2016 was mainly due to the repayment of short term loans while in 2015 the cash outflow was relating to the repayment of short term loans offset with the release of the restricted cash used as the collateral for the short-term loans.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2016, the Company had $Nil long term debt and $13,266,112 current liabilities (of which $12,761,323 was directly related to the assets held for sale). The Company had $2,258,236 in cash and cash equivalents, working capital (defined as current assets less current liabilities) of $2,427,679. 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 within terms expected. These unaudited condensed interim 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 June 30, 2016. The Company's capital resources consist of common share issuances.

Contractual Obligations

The Company's future minimum annual payments under operating leases are as follows:

2016	$ 171,686
2017	392,257
2018	335,278
2018	61,971
Total	$ 961,192

Related Party Transactions

a) Due to Related Parties

		June 30, 2016		December 31, 2015
Due to the Company's shareholders	$	-	$	29,977
Due to Yatan (see note below)		2,548,015		110,834
		2,548,015		140,811
Amounts due to related parties included in accounts payable		22,583		35,244
Total	$	2,570,598	$	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 June 30, 2016, XCXD had a payable of $2,548,015 (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 and six months ended June 30, 2016 and 2015 are as follows:

	For the Three months ended June 30				For the Six months ended June 30			
		2016		2015		2016		2015
Salaries and fees								
- Salaries and consulting fees	$	143,750	$	65,400	$	218,750	$	251,628
- Director fees		38,000		4,000		46,000		38,000
		181,750		69,400		264,750		289,628
Share-based compensation		30,320		14,605		32,492		14,605
Total	$	212,070	$	84,005	$	297,242	$	304,233

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 June 30, 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

There are no subsequent events.

OFF BALANCE SHEET ARRANGEMENT

As at June 30, 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 June 30, 2016 and December 31, 2015, the Company did not have financial instruments measured at fair value on a recurring basis.

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, 3,920,000 stock options outstanding, and 2,520,000 stock options exercisable as at June 30, 2016. If all of the Company's exercisable options were exercised, the Company would have 57,491,285 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 June 30, 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.