



# **Fireswirl**

## **Technologies Inc.**

**Management Discussion and Analysis of  
Financial Condition and Results of Operations**

**For the three and nine months ended September 30, 2017  
(Restated and Amended)**

**April 6, 2018**

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

*The following Management's 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 (restated and amended) and the accompanying notes for the three and nine months ended September 30, 2017. The unaudited condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and in accordance with International Standard 34 Interim Financial Reporting*

*Additional information about the Company is available on SEDAR at ([www.sedar.com](http://www.sedar.com)) under Fireswirl Technologies Inc. and on the Company website at [www.fireswirl.com](http://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 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 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 working capital adjustment. The Shenzhen e-commerce platform included: (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 chief executive officer, Mr. Tony Lau (“Mr. Lau”) was required to resign and join the purchaser as an employee.

Throughout the time from the acquisition of the Company’s controlling interest in XCXD to the present, XCXD incurred recurring losses and required financing from the Company to sustain its operations. Because of the recurring losses and the growing challenges relating to control of the strategic direction of XCXD and its continuing operations, the Company decided to sell its shares of XCXD back to XCXD’s non-controlling interest shareholders.

On February 29, 2016, the Company entered into a purchase and sale agreement (the “Agreement”), pursuant to which the Company agreed to sell its controlling interest in XCXD to the non-controlling interest shareholders of XCXD in consideration for an aggregate of 6,058,673 common shares of the Company held by its non-controlling interest shareholders (the “Purchasers”) and cash in the amount of RMB5,000,000 (equivalent to \$965,000) (the “Advances”) in exchange for a full settlement of XCXD’s outstanding indebtedness to the Company and its subsidiaries. An amendment to the Agreement was signed on April 5, 2016 to extend the closing date to December 31, 2016.

In December 2016, the Company again realized that the transactions contemplated by the Agreement would not close on December 31, 2016, as the Purchaser would not be able to repay all the Advances. The Agreement was again amended on December 31, 2016 and April 30, 2017 to extend the closing date.

The sale of the Company’s interest in XCXD was completed on May 31, 2017. The Company received the Consideration Shares and partial repayment of the Advances. Of the Advances, RMB3,500,000 (approximately \$675,500) was received (of which RMB1,300,000 was received by December 31, 2016, RMB1,700,000 was received during the three months ended March 31, 2017 and RMB500,000 was received in May 2017) and RMB1,500,000 (approximately \$289,500) was written off by the Company. The Consideration Shares returned to the Company were cancelled in June 2017.

In January 2017, the Company realized that it no longer had any control over the strategic or business affairs of XCXD. Control existed when the Company was exposed, and had the rights, to variable returns from its involvement with XCXD and had the ability to affect those returns. The financial results of XCXD would be included in the consolidated financial statements from the date that control commenced until the date that control ceased. Effective control over XCXD ceased on January 1, 2017.

As at December 31, 2016, and during the year then ended, the Company’s interest in XCXD was reported as assets and liabilities held for sale in the Company’s statement of financial position. The operating

results of XCXD for each quarter of 2016 and for the year ended December 31, 2016 were reported as discontinued operations. A loss from the sale of XCXD was also reported during the fourth quarter of 2016 to recognize the fair value of the Company's investment in XCXD.

The Company had previously reported XCXD's assets and liabilities as assets and liabilities held for sales as at June 30, 2017 and reported XCXD's operating results for the three and six months ended June 30, 2017 as discontinued operations. Since the Company did not have control over the operations or the cash flows of XCXD effective January 1, 2017, the Company derecognized the assets and liabilities of XCXD from its consolidated statement of financial position. The Company then accounted for its remaining investment in XCXD at fair value and ceased reporting operating results of XCXD from January 1, 2017, to the eventual date of its sale in May 2017.

The summary of the restatements is presented below:

	<b>For the nine months ended September 30, 2017</b>		
	<b>Previously presented</b>	<b>Adjustments</b>	<b>Restated</b>
Change of fair value on investments in XCXD	\$ -	\$ 145,796	\$ 145,796
Loss on disposition of investment in XCXD	-	(113,028)	(113,028)
Net loss from discontinued operations, net of tax	(3,527,716)	3,527,716	-
Gain on disposition of XCXD	1,796,600	(1,796,600)	-
<b>Net loss for the period</b>	<b>(3,234,645)</b>	<b>1,763,884</b>	<b>(1,470,761)</b>
<b>Other comprehensive income, net of tax</b>			
Exchange differences on translation of foreign operations	(26,594)	25,581	(1,013)
<b>Net comprehensive loss</b>	<b>\$(3,261,239)</b>	<b>\$ 1,789,465</b>	<b>\$(1,471,774)</b>
<b>Net loss for the period attributable to:</b>			
Common shareholder of the Company	\$(1,252,124)	\$ -	\$(1,252,124)
Non-controlling interest	(1,982,521)	1,763,884	(218,637)
	<b>\$(3,234,645)</b>	<b>\$ 1,763,884</b>	<b>\$(1,470,761)</b>
<b>Comprehensive loss for the period attributable to:</b>			
Common shareholder of the Company	\$(1,260,488)	\$ 12,816	\$(1,247,672)
Non-controlling interest	(2,000,751)	1,776,649	(224,102)
	<b>\$(3,261,239)</b>	<b>\$ 1,789,465</b>	<b>\$(1,471,774)</b>
<b>Basic and diluted per share of net loss attributable to common shareholder of the Company</b>			
	\$ (0.02)	\$ -	\$ (0.02)

The disposition of XCXD was completed on May 31, 2017. The movement of investment in XCXD for the period from January 1, 2017 to the date of the disposition and the loss on the disposition of XCXD are presented below:

	<b>Fair value amount</b>
Balance, January 1, 2017	\$ 640,979
Advances received (RMB1,700,000)	(317,450)
Change in fair value	145,796
Foreign exchange	(9,155)
<b>Balance, March 31, 2017</b>	<b>\$ 460,170</b>
Advances received (RMB500,000)	(99,100)
Foreign exchange	24,598
<b>Balance, May 31, 2017 (closing date)</b>	<b>385,668</b>
Fair value of 6,058,673 common shares of the Company received	272,640
<b>Loss on disposition of investment in XCXD</b>	<b>\$ 113,028</b>

On February 3, 2017, the Company entered into a share purchase agreement, pursuant to which the Company agreed to purchase an aggregate of 60% equity interest in AMZON (HK) Limited (“AMZON”) for a total of HK\$7.2 million (approximately \$1.2 million) in three payment dates. The closing date is each of the first, second and third payment date. On March 16, 2017, the Company completed the first payment in the amount of HK\$4.8 million (approximately \$823,560) and acquired 40% of the equity interest in AMZON (the “First Payment Date”). On April 21, 2017, the Company completed the second payment in the amount of HK\$1.2 million (equivalent to \$208,438) and acquired additional 10% of the equity interest in AMZON (the “Second Payment Date”). On May 15, 2017, the Company completed the final payment in the amount of HK\$1.2 million (equivalent to \$210,175) and acquired the final 10% of the equity interest in AMZON. AMZON is a private company incorporated pursuant to the laws of Hong Kong Special Administrative Region of China and is in the business of providing multimedia and interactive marketing solutions, specializing in three dimensional visualizations, computer graphics and digital design.

### THIRD QUARTER HIGHLIGHTS

- For the three months ended September 30, 2017 (“Q3 2017”), total operating income was \$143,194 compared to \$16,043 for the same period in 2016 (“Q3 2016”).
- Net loss from continuing operations was \$330,830 in Q3 2017 compared to \$318,662 for the same period in 2016.
- Net loss was \$330,830 in Q3 2017 compared to \$295,887 for the same period in 2016.
- The Company had a total net loss attributable to common shareholders of the Company of \$292,179 compared to \$307,275 for the same period in 2016.

## 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.

	<i>Restated</i>		<i>Restated</i>					
	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4
	\$	\$	\$	\$	\$	\$	\$	\$
Total operating revenue	143,194	121,338	16,018	16,108	16,043	15,107	70,271	86,397
Net loss from continuing operations	(330,830)	(789,446)	(350,485)	(155,425)	(318,662)	(468,885)	(389,106)	(431,807)
Discontinued operations, net of tax	-	-	-	1,664,424	22,775	(699,703)	(489,350)	(235,435)
Net (loss) income for the period	(330,830)	(789,446)	(350,485)	1,508,999	(295,887)	(1,168,588)	(878,456)	(667,242)
Net loss from continuing operations attributable to:								
Shareholders of the Company	(292,179)	(631,808)	(328,137)	(155,425)	(318,662)	(468,885)	(389,106)	(431,807)
Net loss attribute to:								
Shareholders of the Company	(292,179)	(631,808)	(328,137)	(224,205)	(307,275)	(683,936)	(768,581)	(549,526)
Basic and diluted per share of								
Net loss from continuing operations	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)
Net loss for the period	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)

## RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

The Company's presentation currency is the Canadian dollar while the Company's operating expenses are predominately incurred in Canadian dollars, Chinese RMB and Hong Kong dollars. Therefore, the Company is subject to the risks of foreign exchange. The Company's operations are not impacted by seasonality considerations. The following table sets forth selected consolidated financial information for the three and nine months ended September 30, 2017 and 2016.

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Total revenues	143,194	16,043	280,550	101,421
Cost of sales	17,123	7,709	90,470	58,288
	126,071	8,334	190,080	43,133
Operating expenses				
General administration	416,763	251,365	1,510,731	1,056,533
Sales and marketing	34,833	78,376	130,322	136,102
	451,596	329,741	1,641,053	1,192,635
Operating loss before items below	(325,525)	(321,407)	(1,450,973)	(1,149,502)
Foreign exchange gain (loss)	316	(622)	(36,453)	(41,659)
Change of fair value on investment in XCXD	-	-	145,796	-
Loss on disposition of investment in XCXD	-	-	(113,028)	-
Interest and other income	6,794	3,839	2,692	15,990
Finance costs	(12,415)	(472)	(18,795)	(1,482)
Loss before income tax from continuing operations	(330,830)	(318,662)	(1,470,761)	(1,176,653)
Income tax expense	-	-	-	-
Net loss for the period from continuing operations	(330,830)	(318,662)	(1,470,761)	(1,176,653)
Discontinued operations, net of tax	-	22,775	-	(1,166,278)
<b>Net loss for the period</b>	<b>(330,830)</b>	<b>(295,887)</b>	<b>(1,470,761)</b>	<b>(2,342,931)</b>
Net loss from continuing operations attributable to common shareholders of the Company	(292,179)	(318,662)	(1,252,124)	(1,176,653)
Net income (loss) from discontinued operations attributable to common shareholders of the Company	-	11,387	-	(583,139)
<b>Net loss attributable to common shareholders of the Company</b>	<b>(292,179)</b>	<b>(307,275)</b>	<b>(1,252,124)</b>	<b>(1,759,792)</b>
Basic/diluted per share attributable to shareholders of the Company:				
- net loss from continuing operations	(0.01)	(0.01)	(0.02)	(0.02)
- net loss from discontinued operations	0.00	0.00	-	(0.01)
- net loss for the period	(0.01)	(0.01)	(0.02)	(0.03)

#### Consolidated Statements of Financial Position

	September 30	December 31
	2017	2016
	\$	\$
Total assets	2,687,904	17,226,970
Total long-term liabilities	326,711	-

## **Revenue**

The Company reported total operating revenue of \$143,194 in Q3 2017 compared to \$16,043 for the same period in 2016. The increase of operating revenue in Q3 2017 was mainly from revenue contributed from AMZON as a result of the acquisition of AMZON in March 2017.

The Company reported total operating revenue of \$280,550 for the nine months ended September 30, 2017 compared to \$101,421 for the same period in 2016. The increase of operating revenue in for the nine months period was mainly from revenue contributed from AMZON as a result of the acquisition of AMZON in March 2017.

## **Cost of Sales**

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

The cost of sale incurred was \$17,123 in Q3 2017 compared to \$7,709 for the same period in 2016. The increase of cost of sales was consistent with the increase of operating revenue.

The cost of sale incurred was \$90,470 for the nine months ended September 30, 2017 compared to \$58,288 for the same period in 2016. The increase of cost of sales was consistent with the increase of operating revenue.

## **Operating Expenses**

Total operating expenses increased by \$121,855 to \$451,596 in Q3 2017 compared to \$329,741 for the same period in 2016. Total operating expenses increased by \$448,418 to \$1,641,053 for the nine months ended September 30, 2017 compared to \$1,192,635 for the same period in 2016.

Operating expenses consisted of general administration expenses, and sales and market expenses which are explained below.

### **General Administration**

General administration expenses increased by \$165,398 to \$416,763 in Q3 2017 compared to \$251,365 for the same period in 2016. The increase was mainly due to general administrative expenses incurred by AZMON or in connection with the acquisition of AMZON in March 2017.

General administration expenses increased by \$454,198 to \$1,510,731 for the nine months ended September 30, 2017 compared to \$1,056,533 for the same period in 2016. The increase was mainly due to general administration expenses incurred by AMZON or in connection with the acquisition of AMZON in March 2017.

### **Sales and Marketing**

Sales and marketing expenses decreased by \$43,543 to \$34,833 in Q3 2017 compared to \$78,376 for the same period in 2016. This decrease was a result of reducing the activities relating to the developing and exploring of new acquisition target in 2017 as a result of the acquisition of AMZON

Sales and marketing expenses decreased by \$5,780 to \$130,322 for the nine months ended September 30, 2017 compared to \$136,102 for the same period in 2016. This decrease was a result of reducing the activities relating to the developing and exploring of new acquisition target in 2017 as a result of the acquisition of AMZON.



### **Foreign Exchange Gain or Loss**

The Company had a foreign exchange gain of \$316 and a foreign exchange loss of \$36,453 for the three and nine months ended September 30, 2017, respectively compared to a foreign exchange loss of \$622 and \$41,659 for the same periods in 2016.

### **Net Loss from Continuing Operations**

The Company reported a net loss from continuing operations of \$330,830 and \$1,503,529 for three and nine months ended September 30, 2017, respectively compared to \$318,662 and \$1,176,653 for the same periods in 2016.

The Company completed the disposition of its investment in XCXD effective May 31, 2017 and reported a loss on disposition in the amount of \$113,028 in Q2 2017. As fully discussed in the Overview Section, the Company ceased to consolidate the operating results of XCXD because the Company was no longer exercising the control over its investment in XCXD effective January 1, 2017. Therefore, effective the same date, the Company measured the investment in XCXD at fair value. The change of the fair value relating to the investment in XCXD in the amount of \$145,796 was recorded in Q1 2017.

Basic and diluted loss per share from continuing operations was \$0.01 and \$0.03 for three and nine months ended September 30, 2017, respectively compared to basic and diluted loss per share from continuing operations of \$0.01 and \$0.02 for the same periods in 2016.

### **Net Loss from Discontinued Operations**

The Company reported a net loss from discontinued operations (net of tax) of \$nil and \$3,527,716 for the three and nine months ended September 30, 2017, respectively compared to a net income of \$22,775 and a net loss of \$1,166,278 for the same periods in 2016.

The Company reported a net loss from discontinued operations (net of tax) attributable to the shareholders (net of the gain on disposition of XCXD) of \$Nil and a net income of \$Nil for the three and nine months ended September 30, 2017 compared to a net income of \$11,387 and a net loss of \$583,139 for the same periods in 2016.

The discontinued operations for the three and nine months ended September 30, 2016 presents the operating results of XCXD. As fully discussed in the Overview Section, the Company ceased to consolidate the operating results of XCXD effective January 1, 2017.

Basic and diluted loss per share from discontinued operations was \$0.00 and \$0.00 for the three and nine months ended September 30, 2017, respectively compared to loss per share of \$0.00 and \$0.01 for the same periods in 2016.

### **Net Loss for the Period**

The Company reported a net loss of \$330,830 and \$1,470,761 for the three and nine months ended September 30, 2017, respectively compared to a net loss of \$295,887 and \$2,342,931 for the same periods in 2016.

Basic and diluted loss per share was \$0.01 and \$0.02 for the three and nine months ended September 30, 2017, respectively compared to \$0.01 and \$0.03 for the same periods in 2016.

## **CASH FLOW STATEMENTS**

### **Operating Activities**

Cash used in operating activities was \$737,408 for the nine months ended September 30, 2017 compared to cash provided by operating activities of \$1,649,875 for the same period in 2016.

### **Investing Activities**

Cash used in investing activities was \$583,169 for the nine months ended September 30, 2017 compared to \$32,982 for the same period in 2016. The increase of cash outflow in investing activities for the nine months ended September 30, 2017 was mainly due to (i) cash paid net of the cash acquired in connection with the acquisition of Amzon totaling \$998,134 and (ii) acquisition of property and equipment in the amount of \$1,585, offset with the cash received relating to the repayment of the Advances in connection with the disposition of XCXD of \$416,550.

### **Financing Activities**

Cash provided by financing activities was \$101,691 for the nine months ended September 30, 2017 compared to cash used of \$2,255,954 for the same period in 2016.

## **ACQUISITION OF AMZON**

As discussed in the overview, the Company completed the First Payment on March 16, 2017 and acquired 40% equity interest in AMZON. The First Payment Date is the acquisition date (the "Acquisition Date") of the initial acquisition of 40% of the equity interest in AMZON. The acquisition of AMZON has been accounted for as a business acquisition using the acquisition method. The Company has appointed two of three directors of AMZON since the Acquisition Date and has *de facto* control over AMZON. The unaudited condensed interim consolidated financial statements for period ended September 30, 2017 and this MD&A include the results of AMZON for the period from the First Payment Date to September 30, 2017. On April 21, 2017, the Company completed the second payment (the "Second Payment Date") in the amount of HK\$1.2 million (equivalent to \$208,438) and acquired additional 10% of the equity interest in AMZON. On May 15, 2017, the Company completed the third payment (the "Third Payment Date") in the amount of HK\$1.2 million (equivalent to \$210,175) and acquired the final 10% of the equity interest in AMZON. There were no material operations from the First Payment Date to the Third Payment Date. The Company is in the process of performing the valuation of the assets acquired and liabilities assumed. The Company has elected to measure the non-controlling interest in the acquiree at proportionate share of its interest in the acquiree's identifiable net assets. The provisional purchase price allocation of the fair value of the assets acquired and liabilities assumed of AMZON as at the Acquisition Date were:

	<b>Fair value recognized on acquisition</b>
Cash	\$ 244,039
Trade receivables	8,152
Equipment	12,743
Due from a director	169,622
Intangible assets (provisional)	1,980,066
Accounts payable and accrue liabilities	(88,630)
Deferred tax liability	(326,711)
<b>Total identifiable net assets at fair value</b>	<b>1,999,281</b>
Non-controlling interest (40% of net assets)	(799,712)
Goodwill arising on acquisition (provisional)	42,604
<b>Purchase consideration transferred</b>	<b>\$ 1,242,173</b>
<b>Consideration paid (HK\$4,800,000)</b>	<b>\$ 1,242,173</b>
Net cash acquired with the subsidiary	\$ 244,039
Cash paid	(1,242,173)
<b>Net cash flow on acquisition</b>	<b>\$ (998,134)</b>

The intangible assets mainly comprise the proprietorship of know-how and contract list and have an estimated useful life of 5 years. The deferred tax liability comprises the tax effect of the temporary difference of the accounting and tax base of the intangible assets acquired. The goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of AMZON with those of the Company. The goodwill is not deductible for tax purposes.

From the date of acquisition, AMZON has contributed \$234,095 of revenue and \$502,949 to the net loss before income tax from continuing operations. If the acquisition had taken place at the beginning of the period, revenue from continuing operations would have been \$392,066 and the loss before income tax from continuing operations would have been \$3,216,836 for the nine months ended September 30, 2017.

## LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2017, the Company had total debt of \$1,178,359. The Company had \$544,064 in cash and cash equivalents, and working capital (defined as current assets less current liabilities, excluding assets and liabilities associated with assets held for sale) of negative \$131,236. 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. 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.

The Company does not have commitments for capital expenditures as of September 30, 2017. The Company's capital resources consist of common share, contributed surplus, accumulated other comprehensive income and accumulated deficit.

## CONTRACTUAL OBLIGATIONS

As at September 30, 2017, the Company's future minimum non-cancellable annual payment under operating lease is approximately \$41,009.

## RELATED PARTY TRANSACTIONS

The related parties' transactions were in the normal course of operations and are measured and recorded at the exchange amount, which is the amount of consideration established and agreed to by the relevant parties.

### a) Due from/to Related Parties

	September 30, 2017	December 31, 2016
Due to a director (i)	\$ 119,314	\$ -
Due to a director to AMZON (iii)	18,419	-
	137,733	-
Amounts due to directors included in accounts payable (ii)	70,000	24,791
<b>Total</b>	<b>\$ 207,733</b>	<b>\$ 24,791</b>

- (i) Amount due to a director represents a director loan and the related accrued interest totaling \$119,314. The Company has recorded an interest expense of \$12,019 and \$17,624 for the three and nine months ended September 30, 2017 (three and nine months ended September 30, 2016 - \$nil and \$nil), respectively. This loan is unsecured, bearing an interest rate of approximately 22% per annual and the expected repayment date is December 31, 2017.
- (ii) Amounts due to directors included in accounts payable are unsecured, non-interest bearing and have no specific repayment date.
- (iii) Amount due to a director of AMZON is 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 for the three and nine months ended September 30, 2017 and 2016 are as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Salaries and fees				
- Salaries and consulting fees	\$ 75,000	\$ 75,000	\$ 366,875	\$ 293,750
- Director fees	4,000	38,000	49,333	84,000
	79,000	113,000	416,208	377,750
Share-based compensation	4,053	7,809	24,058	40,301
<b>Total</b>	<b>\$ 83,053</b>	<b>\$ 120,809</b>	<b>\$ 440,266</b>	<b>\$ 418,051</b>

Key management personnel were not paid post-employment benefits or other long-term benefits during the three and nine months ended September 30, 2017 and 2016.

## CHANGES IN ACCOUNTING POLICIES

The Company did not adopt any new accounting standard changes or amendments effective January 1, 2017 that had a material impact on these unaudited condensed interim 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 September 30, 2017, and have not been applied in preparing the Company's unaudited 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. The Company has not adopted these new and amended standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

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

On July 24, 2014 the IASB issued the complete IFRS 9, Financial Instruments ("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.

### **b) IFRS 15 Revenue from contracts with customers**

On May 28, 2014 the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The effective date is for reporting periods beginning on or after January 1, 2018 with early application permitted.

### **c) IFRS 16, Leases ("IFRS 16")**

On January 13, 2016, the IASB 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.

## **OFF BALANCE SHEET ARRANGEMENT**

As at September 30, 2017 and the date of this report the Company has not entered into any off balance sheet arrangements.

## **FINANCIAL INSTRUMENTS**

### **Fair value estimation of financial instruments**

The Company's financial assets include (i) cash and cash equivalents, and trade and other receivables 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, trade and other receivables, accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these instruments. The fair values of due to directors are not readily determinable, as there is not comparable market for these transactions. EMP is a private entity. The fair value of the investment in EMP is measured based on observing the recent equity financing completed by EMP. The Company did not have financial liabilities measured at fair value on a recurring basis.

## **OUTSTANDING SHARE CAPITAL**

As at the date of this report, the Company had 47,512,612 common shares issued and outstanding, 4,100,000 stock options outstanding and 3,450,000 stock options exercisable.

## **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 and nine months ended September 30, 2017 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](http://www.sedar.com).

## **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.