

UGE INTERNATIONAL LTD.

Management's Discussion and Analysis

Year ended December 31, 2015

The following Management Discussion and Analysis ("MD&A") is prepared as of April 29, 2016 and is intended to assist in understanding the results of operations and financial condition of UGE International Ltd. (formerly Way Ventures Inc.) ("UGE" or the "Company"). Throughout the MD&A, reference to the Company or UGE is on a consolidated basis. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2015, which are expressed in United States dollars and prepared in accordance with International Financial Reporting Standards ("IFRS").

Forward-Looking Information

This MD&A contains forward-looking information that involves material assumptions and known and unknown risks and uncertainties, certain of which are beyond the Company's control. Such assumptions, risks and uncertainties include, without limitation, those associated with, loss of markets, expected sales, future revenue recognition, currency fluctuations, the effect of global and regional economic conditions, industry conditions, changes in laws and regulations, and changes in how they are interpreted and enforced, the lack of qualified personnel or management, fluctuations in foreign exchange or interest rates, demand for the Company's products, and availability of funding. The Company's performance could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if they do so, what benefits the Company will derive there from. The forward-looking information is made as of the date of this press release or the MD&A, as applicable, and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. Actual events or results could differ materially from the Company's expectations and projections.

Corporate Profile

UGE is a global renewable energy company, focused on serving commercial and industrial clients with energy solutions that provide cheaper, more reliable, and more sustainable electricity. We design and deploy energy systems around the world, providing energy solutions and customer service to our clients. Project sizes typically range from 10kW to 2MW in rated peak capacity, and are with companies large and small (recent examples of clients include Bayer, Microsoft, and Dropbox).

UGE was formed in 2008 as an energy solutions company, packaging together renewable energy technologies to solve the needs of commercial and industrial clients. We first reached commercial success through our proprietary line of vertical axis wind turbines with installations in over 100 countries, including on the Eiffel Tower. We have since grown expertise in solar and project financing, which we leverage to deploy advanced energy systems for our clients, designed to immediately lower their electricity costs. In 2014 we set in place a strategic shift that saw us refine our focus towards commercial and industrial clients, with a greater emphasis on solar energy and key geographic markets (the United States, Panama, the Philippines and China), which was coupled with our public listing in August of 2014.

Subsequent to December 31, 2015, we completed an acquisition of Endura Energy Project Corp ("Endura"), which is now a wholly-owned subsidiary of UGE. Endura provides solutions to its clients in all aspects of the solar PV project design-build lifecycle, including: development, consulting and project management, engineering and design, and turn-key construction. Endura has an established track-record and expertise in executing on the full development cycle of solar PV projects, particularly in the 250kW to 500 kW ground mount and rooftop market. Since 2009, Endura has been responsible for advising on or implementing over 250MW of solar photovoltaic systems. This complements the UGE business model in a number of ways: a) ability to perform more detailed upfront analysis and design to assist in the sale process; b) stronger project management capabilities to ensure value maximization and risk minimization; and c) greater understanding of project costing and controls to enhance margin capture.

Revenue recognition varies based on the method of deployment for each project. When completing projects that have a service component directly for our end user clients, we recognize an equal amount of revenue and cost of sales during project delivery, and the remaining revenue when the energy system has been substantially completed. When we sell equipment without a service component (such as to a distribution partner), we recognize revenue (including our margin) after change of title, which generally occurs at shipment. In 2015, UGE has turned our focus towards completing turnkey (i.e. inclusive of a service component) projects, making such “delayed” recognition of margins a more common theme in our financial results. Management expects such focus to ultimately result in a stronger competitive position, and stronger margins for the Company.

UGE is focused on providing the optimal energy solution to our clients. As we have gained prominence in the fast growing solar sector, and as the economics of solar have continued to improve, our sales have continued to shift from wind towards solar. We believe this shift will be beneficial for the Company, as the solar industry is expected to continue to experience rapid growth, and more scalable growth to the Company, despite providing lower average margins than we achieved when most of its revenue was from wind turbines manufactured in house.

Overall Performance

For the year ended December 31, 2015, our revenue grew by 60%, year over year, reaching $6.1 million, versus $3.8 million for 2014. We finished 2015 with a backlog of confirmed orders, yet to be recognized as revenue, of $7.4 million. In addition, we have watched expenses closely, keeping selling, general and administrative (“SG&A”) spending flat versus the same period from 2014, with the exception of listing costs and non-cash compensation expenses.

Selected Annual Financial Information

	Years ended December 31, 2015	2014	2013
Revenue	$ 6,140,100	$ 3,837,801	$ 5,031,957
Cost of sales	5,655,583	3,077,274	3,322,771
	8%	20%	34%
Gross profit	484,517	760,527	1,709,186
Expenses			
Selling, general and administrative	5,953,918	5,541,857	4,129,735
Selling, general and administrative - listing costs	-	1,805,039	97,864
Net finance costs (income)	136,837	250,902	84,531
Income tax expense	(151)	194,629	(35,483)
	6,090,604	7,792,427	4,276,647
Net loss	$ (5,606,087)	$ (7,031,900)	$ (2,567,461)
Loss per share - Basic and diluted	$ (0.42)	$ (0.90)	$ (0.97)

	December 31, 2015	December 31, 2014
Total assets	$ 7,647,091	$ 9,214,306
Total non-current financial liabilities	$ 7,268,319	$ 6,785,255

Results of Operations for the year ended December 31, 2015 as compared with 2014

Revenue for the year ended December 31, 2015 was $6,140,100, compared with $3,837,801 in the prior year, an increase of 60%, as providing “turnkey” commercial solar projects meant we recognized more revenue per project, and as we entered new lucrative markets, such as Panama.

The gross profit margin for the year ended December 31, 2015 was 8%, compared with 20% in the prior year. Reasons for the decrease primarily results from:

- an inventory adjustment of $272,141 in the fourth quarter of 2015, partly related to outdated wind components, and partly related to the disposal of low-value components at the Company’s warehouse that no longer fit the Company’s sales strategy;
- the Company’s revenue recognition for the solar projects that include a service component, for which revenue and costs are recognized in equal parts until the project is substantially completed, meaning recognition of gross profit margin occurs at a later date; and
- strategic projects at below market margins to build relationships and market share in new key markets.

Our selling, general and administrative ("SG&A") expenses, excluding listing costs, for the year ended December 31, 2015 increased $412,061, or 7%, to $5,953,918, from $5,541,857 in the prior year. The increase was due to higher non-cash stock based compensation of approximately $550,000, partly offset by a decrease in research and development of approximately $93,000.

As a result of increased revenue, decreased gross profit margins, and the absence of listing costs in 2015, we recorded a net loss in 2015 of $5,606,087, compared with a loss of $7,031,900 in 2014, primarily due to the fact there were no listing costs in 2015.

Selected Fourth Quarter Information

Below is selected unaudited fourth quarter information.

	Three months ended December 31, 2015	2014
Revenue	$ 1,359,479	$ 1,315,562
Cost of sales	1,387,565	1,491,805
	-2%	-13%
Gross profit	(28,086)	(176,243)
Expenses		
Selling, general and administrative	1,621,330	1,693,487
Net finance costs (income)	(49,714)	49,529
Income tax expense	48,149	59,659
	1,619,765	1,802,675
Net loss for the period	$ (1,647,851)	$ (1,978,918)
Loss per share - Basic and diluted	$ (0.08)	$ (0.20)

Results of operations for the fourth quarter

Revenue for the three months ended December 31, 2015 was $1,359,479, compared with $1,315,562 in the same period of the prior year, an increase of 3%.

The gross profit margin for the three months ended December 31, 2015 was -2%, compared with -13% in the same period of the prior year. The negative margins resulted primarily from an inventory adjustment of $272,141 in the fourth quarter of 2015 (coincidentally, the fourth quarter of 2014 also had negative margins, a result of $358,963 of cost of sales incurred for which revenue had not been recognized).

SG&A expenses, excluding listing costs, for the three months ended December 31, 2015 were $1,621,330, compared with $1,693,487 in the same period of the prior year. The decrease of 4% was due to reductions in overhead costs, such as headcount and warehouse costs, as well as efficiencies in administrative operations, as the Company began to make changes in anticipation of the closing of the acquisition. SG&A costs are expected to decrease in 2016 due to synergies from the acquisition of Endura.

The net loss for the three months ended December 31, 2015 decreased by $331,067 to $1,647,851 as compared with $1,978,918 in the same period of the prior year, primarily due to the $72,157 reduction in SG&A costs discussed above.

Summary of Quarterly Results

All amounts in 000's, except per share figures

	Mar 31 2014 Q1	Jun 30 2014 Q2	Sep 30 2014 Q3	Dec 31 2014 Q4	Trailing four quarters	Mar 31 2015 Q1	Jun 30 2015 Q2	Sep 30 2015 Q3	Dec 31 2015 Q4	Trailing four quarters
Revenue	$ 848	$ 686	$ 988	$ 1,316	$ 3,838	$ 658	$ 1,419	$ 2,704	$ 1,359	$ 6,140
Net loss	$ (814)	$ (1,174)	$ (3,065)	$ (1,979)	$ (7,032)	$ (1,397)	$ (1,359)	$ (1,202)	$ (1,648)	$ (5,606)
Basic and diluted loss per share	$ (0.22)	$ (0.16)	$ (0.32)	$ (0.20)	$ (0.90)	$ (0.13)	$ (0.12)	$ (0.09)	$ (0.08)	$ (0.42)

Quarter to quarter comparisons in the financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. The quarterly information is unaudited, but reflects all adjustments of a normal recurring nature, which are, in the opinion of management, necessary to present a fair statement of results of operations for the periods presented. Revenues and earnings may fluctuate from quarter to quarter. A number of factors could cause such fluctuations, including the timing of substantial orders. Because operating expenses are determined based on anticipated sales, are generally fixed, and are incurred throughout each fiscal quarter, any of the factors listed above could cause significant variations in revenues and earnings in any given quarter.

Liquidity and Capital Resources

Cash flow from operations

The principal source of cash is from operations; however, in this period of expansion and market development, cash from operations has not been sufficient to meet all of the Company's obligations. The Company has also generated a significant amount of cash through private placements and loans from related parties. The primary uses of cash are operating expenses, including cost of sales.

During the year ended December 31, 2015, the Company incurred a net loss of $5,606,087 and negative cash flow from operations of $2,216,434. In addition, as at December 31, 2015, the Company has a working capital deficiency of $4,295,750. We are incurring losses as we expand our operations, and gross profit margins have not been sufficient to cover all costs, and may not be sufficient for additional quarters. We anticipate that we will incur further losses in the development of the business.

To date we have funded the losses with cash from operations, private placements, and debt, which has been primarily advanced from related parties. To the extent that the Company does not achieve positive cash flows from operations in the future, or financing is not available or not available on reasonable terms, reductions in expenditures will be required or the Company may not be able to continue as a going concern. Certain conditions discussed above raise substantial doubt about the ability of the Company to continue as a going concern.

The directors are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended December 31, 2015 on a going concern basis, which do not include any adjustments or disclosures that would be required if assets are not realized and liabilities and commitments are not settled in the normal course of operations. If we are unable to continue as a going concern, then the carrying value of certain assets and liabilities would require revaluation on a liquidation basis, which could differ materially from the values presented in the consolidated financial statements. Management believes that there will be significant growth in revenues as we expand upon existing projects and grow in key markets. However, we will require additional funding to continue to develop the Company.

The acquisition of Endura allows the Company to better rely on cash flows from operations, as Endura has been operating as a profitable company for the last three years and is expected to continue as a profitable entity for the foreseeable future.

As at December 31, 2015 we had cash and restricted cash of $179,544 and $9,508, respectively. The restricted cash relates to a government grant for the continued investment in property, plant and equipment in the Peoples Republic of China ("PRC").

As of December 31, 2015, the Company had loans with related parties as follows:

- A loan of $1,462,515 (RMB 9,496,850) from Xiangrong Xie, a director, with a fixed annual interest rate of 6% beginning in January 1, 2018. The loan is unsecured and is to be repaid evenly over 10 years with monthly repayments commencing January 1, 2018. Subsequent to December 31, 2015, the Company entered into an agreement with Xiangrong Xie to forgive $281,834 (RMB 1,830,148), and made a partial repayment of $93,937 (RMB 610,000) towards this loan;

- A loan of $555,000 with Qi Liu, a family member of the chairman of the board of directors, with a fixed annual interest rate of 5%, beginning in January 1, 2018. The loan is unsecured and is to be repaid evenly over 5 years, with monthly repayments commencing January 1, 2018. Subsequent to December 31, 2015, the Company settled $500,000 of this loan by the issue of 1,240,907 shares;

- A loan of $770,000 (RMB 5,000,000) from Yun Liu, a shareholder and family member of the CEO, with a fixed annual interest rate of 5.52%. Interest is payable monthly until the principal due date. The loan is unsecured and due September 18, 2016. Subsequent to December 31, 2015, the due date was extended to September 18, 2017;

- A loan of $1,078,000 (RMB 7,000,000) from Beijing Zhongjihaotai Investment Ltd., a company controlled by Xiangrong Xie, a director, with a fixed annual interest rate of 7.49%. Interest is payable monthly until the principal due date of March 2, 2016. The loan is secured by the Company's manufacturing assets in the PRC. Subsequent to December 31, 2015, the due date was extended to March 2, 2018;

- A loan of $1,054,317 (RMB 6,846,216) from Xiangrong Xie, a director. The loan is unsecured, non-interest bearing and is due on demand after January 1, 2018. Subsequent to December 31, 2015, this loan was repaid in full;

- A loan of $68,000 (2014 - $Nil) from Yun Liu, a shareholder and family member of the CEO. Then loan is non-interest bearing, due on January 1, 2018 and is unsecured. Subsequent to December 31, 2015, the Company received additional proceeds of $833,000 from Yun Liu on the same terms as this loan .

Subsequent to December 31, 2015, the Company received a loan of $1,848,000 (RMB 12,000,000) from the Bank of China. The loan has a one-year term and bears interest of 5.22% per annum which is subject to change based on industry rates set by the Bank of China. This loan held with Pinquan UGE Co., Ltd ("UGE Pingquan") and is secured by UGE's land in Pingquan, with guarantees from Beijing Urban Green Energy Co., Ltd ("UGE Beijing"), Xiangrong Xie, a director, and Qi Liu, a family member of the chairman of the board of directors. The Bank of China Loan is guaranteed further by an agreement from Xiangrong Xie to the Company to pay the balance of the Bank of China Loan at maturity, if necessary, to allow for extensions or refinancing.

Subsequent to December 31, 2015, the Company received loans from three independent directors for a total of $55,442. The loans are non-interest bearing, due on May 26, 2016, with a 5% processing fee due upon repayment.

Subsequent to December 31, 2015, the Company filed a preliminary short form prospectus to raise capital. The minimum to be raised is expected to be CAD$1,500,000 and the maximum is CAD$2,500,000.

As of December 31, 2015, the Company has contractual commitments as follows:

	Carrying amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5+ years
Trade and other payables	$ 3,634,958	$ 3,634,958	$ 3,629,023	$ 5,935	$ -	$ -
Loans payable	4,712,884	6,354,623	2,175,909	-	2,269,893	1,908,821
Contractual commitments	-	70,000	70,000	-	-	-
Lease commitments	-	90,606	90,606	-	-	-
	$ 8,347,842	$ 10,150,187	$ 5,965,538	$ 5,935	$ 2,269,893	$ 1,908,821

The Company has a $250,000 loan which contains a covenant stating that an adjusted fixed charge coverage ratio must not be less than 1.25 and that the loan value shall not exceed a borrowing base determined from accounts receivable, inventory and pre-approved purchase orders (with an over advance of $53,254). As at December 31, 2015, the Company exceeded the borrowing base; however, a waiver from the lender for not demanding repayment of the amount borrowed in excess of the amount of the borrowing base in April 2016 was obtained.

The objective in managing capital is to safeguard our ability to continue as a going concern and to sustain future development of the business. In the management of capital, we include shareholders' equity, excluding accumulated other comprehensive income. Our objective is met by retaining adequate cash reserves to provide for the possibility that cash flows from operations will not be sufficient to meet future cash flow requirements. In order to maintain or adjust our capital structure, we may issue shares. The Board of Directors does not establish quantitative return on capital criteria for management. UGE is not subject to any externally imposed capital requirements and our overall strategy with respect to capital management remains unchanged from the year ended December 31, 2014.

Transactions with Related Parties

The Company leased its office in Beijing from Xiangrong Xie, a director of the Company, for $6,384 (RMB 40,000) per month beginning in April, 2014. For the year ended December 31, 2015 $73,920 (RMB 480,000) (2014 – $58,468, RMB 360,000) has been recorded for this transaction in selling, general and administrative expenses in the consolidated statement of operations and comprehensive loss. The lease was set to expire on December 31, 2015 and subsequent to December 31, 2015 the expiry date was extended to December 31, 2016.

During the year ended December 31, 2015, the Company paid interest expense of $Nil (2014 - $37,500) to Nathun Venture Advisors Inc, a company controlled by Matthew Watson, a former director of the Company, pursuant to a bridge loan of $300,000, at 12.5% interest per annum, which was received and repaid in the year ended December 31, 2014.

As at December 31, 2015 the Company has a receivable of $Nil (2014 - $25,409) due from an officer of the Company.

During the year ended December 31, 2015 the Company:

- Incurred interest expense of $55,840 (2014 - $60,092), with Yun Liu a shareholder and family member of the CEO; and
- Incurred interest expense of $85,089 (2014 – $50,672), with Beijing Zhongjihaotai Investment Ltd, a company controlled by Xiangrong Xie, a director of the Company.

All existing loans with related parties are discussed in the Liquidity and Capital Resources section.

Completed Acquisition of Endura Energy Project Corp.

The Company acquired 100% of the issued and outstanding shares of Endura, a private renewable energy company located in Toronto, Ontario, Canada on February 22, 2016. Endura provides solutions to its clients in all aspects of the solar project design-build lifecycle including: development, consulting and project management, engineering and design, and turn-key construction. The primary purpose for this acquisition is to increase market presence in Canada, increase engineering and project management expertise and to improve cash flows.

Pursuant to the share purchase agreement, the Company paid cash of $88,313 (CAD$123,337), issued 8,888,888 shares of UGE valued at $3,817,600 (CAD$5,333,333) based on the market price of the Company's shares on February 22, 2016 of $0.43 (CAD$0.60) and issued a promissory note in the amount of $627,487 (CAD$876,623). The promissory note was subsequently repaid in full. Of the 8,888,888 shares issued, 2,222,222 were issued to the vendor on February 22, 2016 and the remaining 6,666,666 shares issued are subject to an escrow agreement providing for the release of 2,222,222 shares annually on the anniversary date of the transaction over the next three years. 2,666,666 of the shares in escrow may be forfeited if Cameron Steinman, one of the vendors, resigns from employment with the Company during the escrow period. Accordingly, the value of these shares has been attributed to post combination employment services to be provided and are not included in the consideration paid for the business combination. In addition, the release of 2,222,222 shares on the first anniversary date is subject to meeting certain cumulative revenue targets. If these targets are not met on the first anniversary date, the number of shares released will be prorated based on the actual amounts achieved relative to the targets with the remaining shares held in escrow until the targets are met. The value of these shares have been accounted for as contingent consideration. The acquisition will be accounted for using the acquisition method with the results of operations consolidated with those of the Company effective February 22, 2016. The total cost incurred during the year ended December 31, 2015 related to this related acquisition was approximately $70,000, with the expenses included under the caption selling, general and administrative.

Completed Reverse Take-Over Transaction

On July 28, 2014, UGE International Ltd. (formerly Way Ventures Inc.), a Capital Pool Company listed on the TSX Venture Exchange, completed a reverse take-over transaction with UGE Holdings Limited ("UGE Holdings"). UGE International Ltd. acquired 100% of the issued and outstanding shares of UGE Holdings (the "UGE Shares"), in exchange for the issuance to UGE Holdings Limited's shareholders of 8,924,651 common shares of UGE International Ltd. and 17,000,000 Special Warrants. The Special Warrants are non-voting and each Special Warrant may be converted into one common share of UGE International Ltd. for no additional consideration at any time so long as at least 20% of the common shares of UGE are held by public shareholders following such conversions. Immediately prior to closing the Transaction, UGE International Ltd. completed a 5 for 1 share consolidation. Following the Closing, UGE Holdings became a wholly owned subsidiary of UGE International Ltd.

Financial Instruments and other instruments

The Company's risk exposures and the impact on our financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill our payment obligations. The Company manages credit risk by generally requiring payment from customers prior to shipment. However, the Company does have trade receivables outstanding with several customers.

Liquidity risk

The Company's objective in managing liquidity risk is to ensure that we will have sufficient liquidity to meet its financial obligations when due by maintaining sufficient cash and cash equivalents to settle current liabilities and meet anticipated working capital requirements. As of December 31, 2015, the Company had restricted cash of $9,508 for use in the expansion and manufacturing capacity in the PRC and $179,544 of cash to settle current liabilities of $6,628,914. The Company plans to realize its assets and raise further capital to maintain sufficient liquidity. Subsequent to December 31, 2015, the acquisition of Endura was completed which is a profitable company and provide additional liquidity to the Company.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

The Company has cash balances and debt with fixed interest rates and therefore is not significantly exposed to fluctuating interest rates. Our current policy is to invest excess cash in a savings account at our banking institution.

(b) Foreign currency risk

The Company enters into transactions denominated in US dollars, Canadian dollars, and Chinese Renminbi for which the related expenses and accounts payable balances are subject to exchange rate fluctuations. The Company does not hedge our exposure to foreign currency risk using financial instruments.

Changes in Accounting Policies including Initial Adoption

The Company's audited consolidated financial statements for the years ended December 31, 2015 and 2014 were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (IASB). The audited consolidated financial statements were prepared using the accounting policies as outlined in note 3 of our consolidated financial statements for the period ended December 31, 2015. The IASB has published new standards and amendments or interpretations to existing standards which are mandatory for periods beginning after December 31, 2015, or later as outlined below.

Accounting standards adopted

(i) Change in accounting policy

There were no new standards effective January 1, 2015 that had an impact on the Company's consolidated financial statements.

(ii) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the consolidated financial statements in future periods.

IFRS 9, *Financial Instruments ("IFRS 9")*

IFRS 9 will replace the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. The new standard also requires a single impairment method to be used, provides additional guidance on the classification and measurement of financial liabilities, and provides a new general hedge accounting standard.

The mandatory effective date has been set for January 1, 2018, however early adoption of the new standard is permitted. The Company does not intend to early adopt IFRS 9. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15 is effective for fiscal years commencing on or after January 1, 2018 and will replace IAS 18, *Revenue* and a number of revenue related standards and interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced, which may affect the amount and/or timing of revenue recognized.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

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

On January 13, 2016, the IASB published a new standard, IFRS 16, 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 currently evaluating the impact of IFRS 16 on its consolidated financial statements.

Business Risks

Going concern risk

These consolidated financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During the year ended December 31, 2015, the Company incurred a net loss of $5,606,087 and negative cash flow from operations of $2,216,434. The Company has incurred significant losses as it develops and expands its operations. Revenues have not been sufficient to cover all costs and may not be sufficient for several quarters, if at all. The Company anticipates that it will incur further losses in the development of its business.

To date the Company has funded the losses with the private placements and loans from related parties. To the extent that the Company does not achieve positive cash flows from operations in the future or financing is not available or not available on reasonable terms, reductions in expenditures will be required or the Company may not be able to continue as a going concern. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. If the Company is unable to continue as a going concern, then the carrying value of certain assets and liabilities would require revaluation to a liquidation basis, which could differ materially from the values presented in these financial statements.

Customer concentration risk

We derive a significant portion of revenue from sales to a relatively limited number of customers. If any of our more significant prospective customers fail to purchase our solutions or our existing customers discontinue their relationship with us for any reason, our revenue may be substantially reduced. To mitigate this risk, we have implemented customer retention programs to emphasize both quality of product and superior customer service. Our sales programs also address a large base of potential customers and at any given time, we are pursuing a significant number of sales opportunities.

Sales risk

Our sales efforts target medium sized and large corporations and we spend significant time and resources educating prospective customers about the features and benefits of our solutions. Our sales cycle usually ranges from 3 to 12 months and sales delays could cause our operating results to vary. The Company balances this risk by continuously assessing the condition of our sales “pipeline” and making the appropriate adjustments as far in advance as possible. Our strategy also includes a comprehensive program to build and improve relationships with our customers to better understand their needs and proactively manage incoming business levels effectively.

Operations in PRC

The Company has two operating subsidiaries located in the PRC, and as such the repatriation of cash to the United States and Canada may be restricted by government policies.

Product acceptance risk

Our revenue and profit potential depends substantially upon market acceptance of our products. To mitigate the risk of non-acceptance by the market, our strategy involves ongoing significant investments in product development to enhance our product line and to develop new applications and features to satisfy the increasingly sophisticated demands of our customers. We also ensure our investments in this area are based on a thorough understanding of the market and customer demands through a comprehensive program of market research and customer interaction. Our success depends on the ability of our products to interface with host computer systems and to respond to changes in these systems. In many cases the needs of our customers require us to make significant custom modifications to our products. Our success will depend upon our ability to efficiently undertake and complete such customization, in most cases, under a fixed price arrangement.

Management's Report on Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure Controls & Procedures

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at December 31, 2015, an evaluation was carried out, under the supervision of the CEO and the CFO, of the effectiveness of the design and operation of the Company's DC&P as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Based on this evaluation, the CEO and CFO have concluded that, as at December 31, 2015, the Company's DC&P, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, were effective.

Throughout 2016, the Company will continue to evaluate its DC&P making modifications from time-to-time as deemed necessary. There were no changes in the Company's DC&P that occurred during the period ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's DC&P.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidation financial statements for external reporting purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate ICFR.

The Company's ICFR include, but are not limited to, policies and procedures addressing:

- the maintenance of records that provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with IFRS;
- receipts and expenditures are being made only in accordance with authorizations of management and directors;
- maintenance of records in reasonable detail to accurately and fairly reflect transactions and disposition of assets; and
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on annual and interim consolidated financial statements.

Because of inherent limitations, ICFR can only provide reasonable assurance and may not prevent or detect all misstatements. Additionally, projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. As at December 31, 2015, an evaluation was carried out, under the supervision of the CEO and the CFO, of the effectiveness of the Company's ICFR based on the framework and criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013.

Based on this evaluation, management concluded that the design and operating effectiveness of the Company's ICFR was effective as of December 31, 2015.

Throughout 2016, the Company will continue to evaluate its ICFR making modifications from time-to-time as deemed necessary. There were no changes in the Company's ICFR that occurred during the period ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Limitations on the Effectiveness of Disclosure Controls and Procedures and Internal Control over Financial Reporting

Because of their inherent limitations, DC&P and ICFR may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or implemented, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

Other

As of the date of this MD&A, the Company has 29,076,785 common shares issued and outstanding. In addition, there are 10,200,000 special warrants which may converted to common shares for no additional consideration, 132,727 warrants which may be converted to one common share each for Canadian dollar $1.80 which expired on March 16, 2016 and stock options to purchase an additional 225,667 common shares. The Company also has restricted share units which allow employees and directors to acquire a total of 276,356 common shares over the next 3 years for no additional consideration.

Additional information, including the Company's Annual Information Form, and other publicly filed documents relating to the Company are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at www.sedar.com.