

## AMENDED AND RESTATED 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 (the "MD&A") of Alpha Peak Leisure Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") is prepared for the years ended December 31, 2016 and 2015. The MD&A should be read in conjunction with the audited consolidated financial statements and related notes thereto for the years ended December 31, 2016 and 2015 of the Group. These financial statements were prepared in accordance with International Financial Reporting Standards. The results of operations, business prospects and financial condition of the Group will be affected by certain risk factors described elsewhere in this document.*

*All dollar figures stated in this MD&A are expressed in Canadian dollars, unless otherwise specified. Information contained herein includes any significant developments to April 22, 2017.*

### **Forward-looking statement**

This MD&A includes certain forward-looking information and forward-looking statements (collectively "Forward-Looking Statements") concerning the future performance of the Group's business, operations and financial performance and condition, as well as management's objectives, strategies, beliefs and intentions. Forward-Looking Statements are frequently identified by such words as "may", "will", "plan", "expect", "anticipate", "estimate", "intend" and similar words referring to future events and results. Some of the Forward-Looking Statements in this MD&A are included in the section entitled "2017 Outlook: Repositioning of business focus and cableway approval process". Some of these Forward-Looking Statements express management's beliefs and intentions relating to the future operational direction of the Company, such as "we plan to add new revenue streams on top of our traditional revenue from tours and individual visitors"; "align our sales & marketing efforts to the tourism policies to further promote Swallow Gully"; "seek sponsorships and cooperation from the commercial sectors for programs such as public square dancing and working with local government on school education programs"; "create new promotional activities and products for the existing and new visitor segments"; and "the management is of the view that a preliminary decision on the approval for construction of the cableway may likely be rendered in the near future." Forward-Looking Statements are based on the current opinions and expectations of management based on currently available information. All Forward-Looking Statements are inherently uncertain and subject to a variety of risks and uncertainties, such as unfavorable weather conditions, natural disasters, competition from nearby scenic tourism areas, changes in the tourism promotion policies of Mainland China, acceptability of terms of arrangements with sponsors or local governments on new programs and initiatives, acceptability of our new programs and initiatives by the consumer audience that we are targeting, costs related to implementing new programs and initiatives to add new revenue streams, availability of working capital and financial resources to implement and sustain programs and initiatives once they have been started, changes in Chinese laws and regulations, all as described in various parts of this MD&A and the "Risk Factors" section below. Such Forward-Looking Statements are based on a number of assumptions, including but not limited to, information or statements concerning the Group's expectations for its ability to raise capital and meet the Group's obligations. Should one or more risks and uncertainties materialize or should any assumptions prove incorrect, then actual events or results may differ materially from those expressed or implied in the Forward Looking-Statements. Investors are cautioned against placing undue reliance thereon. The Group undertakes no obligation to revise or update the Forward-Looking Statements, except as required by applicable law.

### **Overview**

The principal activities of the Group are developing and operating Swallow Gully Scenic Area ("Swallow Gully"), a large scale tourist attraction site in Sichuan Province, the People's Republic of China (the "PRC").

The Company was incorporated on June 24, 2011 under the British Columbia Business Corporation Act and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "TSX-V"). On June 23, 2015, the Company completed the qualifying transaction ("Qualifying Transaction") pursuant to the policies of the TSX-V through a private placement financing and an amalgamation with 1016772 B.C. Ltd ("6772BC"), a private limited company incorporated under the British Columbia Business Corporation Act. In connection with the closing of the Qualifying Transaction, 6772BC amalgamated with the Company to continue as an amalgamated company which continues in the name of the Company. Particulars of the Qualifying Transaction are set out in note 1 to the audited consolidated financial statements

#### *Fourth Quarter 2016 Operating Results*

The Group's revenue totaled \$358,218 for the fourth quarter, compared to \$339,223 in the prior year quarter, up by 6%. The revenue increase was comprised of 44% admission ticket sales growth; 17% growth from attraction ticket sales and 28% growth from the bubble hotels business.

The Group revenue growth was led by the record highest number of visitors in the fourth quarter of 24,560, thanks to 7 consecutive National Holidays in China in the fourth quarter and a number of activities such as "Colorful Forest Theme Activities" and "Play with Snow in Swallow Gully", which were successfully launched during this period.

Total operating costs were \$1.9 million in the fourth quarter, relative to \$1.4 million in the prior year period.

The net loss for the fourth quarter of 2016 slightly decreased by 0.3% to \$1,587,315 from \$1,592,161 for the fourth quarter of 2015.

#### *Overall Performance 2016*

In 2016, we reported net loss of \$4.26 million, a substantial decrease of 84.0% as compared to the same period in 2015. The decrease was mainly due to the one time occurrence of the qualifying transaction cost in 2015.

#### Revenue

Gonga's revenue consist of construction services under a service concession arrangement, admission ticket sales, attraction ticket sales and bubble hotels business. Revenue for the full year increased 55% to \$1,647,025, mainly due to the number of visitors that increased by 16,679 to 64,597 in 2016.

Revenue with the construction services under a service concession arrangement increased over 3 times to \$730,811. The segment's growth was due to investments in road infrastructure and pavements in order to provide a safety environment to attract the visitation.

Revenues with admission ticket sales increased 8% to \$347,806. The segment's growth which reflected over 70% of revenues growth from the increase in number of visitation being offset by the decline in average admission ticket fee. The operations were adversely affected by landslides and bad weather from June to August of 2016, the drop of spending per visitor from \$19 to \$14 during 2016 due to the half route admission & attraction ticket fee was an offsetting factor.

Revenues with attraction ticket sales recorded a stagnant growth which reflected about 98% of revenues growth from the increase in number of visitation being offset by the decline in average attraction ticket fee. The operations were adversely affected by landslides and bad weather form June to August of 2016, the drop of spending per visitor from \$19 to \$14 during 2016 due to the half route admission & attraction ticket fee was an offsetting factor.

Revenue with bubble hotels business increased by 21% to \$56,178 included:

- In 2015, the bubble hotels business was closed from January to April because of cold temperature, but there was a full year operation in 2016. Consequently, the overall room/night increased by 25% on a yearly basis.
- In 2016, the occupancy rate of 17% remained consistent at the 2015 level.

#### Operating Expenses

Marketing expenses were \$1.46 million in 2016, a substantial increase of 125.1% from the same period in 2015. Driving the increase in reported expenses were the Group's increased marketing program spending and the payment of RMB 3 million to the strategic partner, China Travel Service (HK) Ltd.

Promotional expenses were \$263,928 in 2016, which was 63% higher than in 2015. The increase in spending was mainly promoted the new brand products and activities to attract the visitation.

Promotional expenses were 28.8% of adjusted revenue in 2016 as compared to 18.2% in 2015. The promotional expenses to adjusted revenue ratio is a measurement of the effectiveness of our advertising campaign depends on several factors such as the competitive rivalry; business size and its growth stage. This ratio will fluctuate in any given period depending on the timing of program spending.

Administrative expenses were \$2.44 million in 2016, which was 10.3% higher than in 2015. The increase in spending was mainly due to the full year running expenses of Hong Kong management office.

Administrative expenses were 148.1% of revenue in 2016 as compared to 208.5% in 2015. The improvement has been the result of higher revenue.

#### 2017 Outlook: Repositioning of business focus and cableway approval progress

For 2017, we plan to add new revenue streams on top of our traditional revenue from tours and individual visitors and to align our sales & marketing efforts to the tourism policies to further promote Swallow Gully. Our sales and marketing effort will focus on the followings:

- Align our marketing efforts to be in line with the Tourism policies of Mainland China such as drive-in camping tourism, open mountain sports tourism, Chinese medicine-related tourism and other policies and measures to promote tourism with themes in culture, sports, health, provision for the elderlies and education.
- Seek sponsorships and cooperation from the commercial sectors for program such as public square dancing and working with local government on school education program.
- Create new promotional activities and products for the existing and new visitor segments.

Management has also been working on diligently to obtain approvals for construction of cableway in Swallow Gully. We completed the cableway feasibility study for Swallow Gully and worked with the Sichuan Provincial Bureau of Housing and Municipal and Rural Construction to organize experts to assess the viability of the cableway project in Swallow Gully. The Sichuan Bureau of Housing and Municipal and Rural Construction has accepted the plan for the cableway project in Swallow Gully and subsequently included the Swallow Gully cableway project in its overall Mount Gongga Master Plan and forwarded the master plan to the National Bureau of Housing and Municipal and Rural Construction in Beijing for approval. Based on initial responses received by the management, the management is of the view that a preliminary decision on the approval for construction of the cableway may likely be rendered in the near future. However, because the timing for government approval in the PRC is outside of the control of the management, there is no guarantee that such a decision will be made in the anticipated timeframe.

## Factors Affecting Results of Operations

### Foreign Currency

Majority of the Group's revenue and expenses are denominated in Renminbi ("RMB") and generated through its wholly owned operating subsidiary, Gongga Terraferma Limited ("Gonga"), a company incorporated under the laws of the PRC, which is the developer and operator of Swallow Gully. Meanwhile, some of the Group's expenses are denominated in Hong Kong dollars ("HKD") and generated through its wholly owned subsidiary, Merit Sign Investments Limited ("Merit Sign"), a company incorporated in Hong Kong, which provides management services to the Group. Accordingly, the results of operations are impacted by the fluctuation of RMB and HKD against Canadian dollars ("CAD"). The average exchange rate of RMB against CAD for the years ended December 31, 2016 and 2015 was RMB 1 = CAD 0.1987 and RMB 1 = CAD 0.2065 respectively. While that for HKD against CAD for the years ended December 31, 2016 and 2015 was HKD 1 = CAD 0.1703 and HKD 1 = CAD 0.1663 respectively.

### Seasonality

The tourism business is seasonal in nature. Based on historical results, we generally expect our revenue to be lower during the first calendar quarter of each year than during each of the three subsequent quarters, with the second and third quarters producing the strongest revenue of the year.

## Selected annual information

The financial results of the Group for the financial years ended December 31, 2016, 2015 and 2014 are summarized as follows:

	For the financial year ended and as at Dec 31, 2016 \$	For the financial year ended and as at Dec 31, 2015 \$	For the financial year ended and as at Dec 31, 2014 \$
Total Revenue	1,647,025	1,060,314	1,824,240
Loss before tax			
(i) Total for the year	4,309,795	26,630,923	3,426,844
(ii) per share - basic	0.07	0.48	0.08
(iii) per share - fully diluted	0.07	0.48	0.08
Net Loss			
(i) Total for the year	4,263,282	26,589,321	3,393,013
(ii) per share - basic	0.07	0.48	0.07
(iii) per share - fully diluted	0.07	0.48	0.07
Total Assets	37,766,715	51,526,431	37,113,314
Total Non-current Liabilities	2,075,712	3,682,512	3,215,816
Distributions or Cash Dividends declared per-share	Nil	Nil	Nil

## Results of Operations – Year Ended December 31, 2016 compared to December 31, 2015

### Revenue

	For the year ended December 31,			
	2016	% of Total	2015	% of Total
	\$		\$	
Construction services under a service concession arrangement	730,811	44.4%	173,065	16.3%
Admission ticket sales	347,806	21.1%	321,697	30.3%
Attraction ticket sales	564,893	34.3%	552,903	52.1%
Others	3,515	0.2%	12,649	1.3%
<b>Total</b>	<b>1,647,025</b>	<b>100.0%</b>	<b>1,060,314</b>	<b>100.0%</b>
Less:				
Construction services under a service concession arrangement	(730,811)		(173,065)	
<b>Adjusted total</b>	<b>916,214</b>		<b>887,249</b>	
<b>Number of visitors</b>	<b>64,597</b>		<b>47,918</b>	
<b>Spending per visitor</b>	<b>14</b>		<b>19</b>	

For the year ended December 31, 2016, total revenue was 55.3% higher than the same period in the last year, with the revenue derived from the construction services under a service concession arrangement of RMB 3.68 million.

Revenue from construction services for the year ended December 31, 2016 increased compared to last year. Revenue from construction services is accounted for in accordance with IAS 11 *Construction Contracts*. The exact same amount of revenue and cost is recognized by reference to the stage of completion for the construction in Swallow Gully as at December 31, 2016, according to IAS 11 (see note 5 to the audited consolidated financial statements). As such, the revenue and cost from construction services will offset with each other. Excluding revenue from construction services, the adjusted revenue was \$916,214 for the year ended December 31, 2016 compared to \$887,249 for the same period in the year prior, reflecting an increase of \$28,965. The increase was attributed to the increase in the number of visitors.

Swallow Gully attracted 64,597 visitors for the year ended December 31, 2016, compared to 47,918 visitors for the same period in the previous year. The increase was mainly due to better marketing efforts and signing on additional travel agents.

The spending per visitor for the year ended December 31, 2016 was \$14, compared to \$19 for the same period in the previous year. The decrease was largely due to the natural disaster during July and August of 2016, resulting in the drop of our visitations. It was expected to use the price adjustment strategy to stabilize the number of visitors, to remain competitive.

### Cost of Sales/Services

	For the year ended December 31,			
	2016	% of Total	2015	% of Total
	\$		\$	
Provision of construction services under a service concession arrangement	730,811	26.9%	173,065	9.2%
Amortization of intangible assets	269,824	9.9%	259,957	13.8%
Depreciation	556,053	20.4%	528,159	28.0%
Salary	269,050	9.9%	283,997	15.0%

Insurance expenses	60,399	2.2%	64,871	3.4%
Transportation	190,348	7.0%	197,275	10.5%
Meal and entertainment	15,581	0.6%	26,480	1.4%
Sales rebate and others	629,028	23.1%	353,672	18.7%
<b>Total</b>	<b>2,721,094</b>	<b>100.0%</b>	<b>1,887,476</b>	<b>100.0%</b>
Less:				
Provision of construction services under a service concession arrangement	(730,811)		(173,065)	
<b>Adjusted total</b>	<b>1,990,283</b>		<b>1,714,411</b>	

The cost of sales/services increased by 44.2% to \$2,721,094 for the year ended December 31, 2016, compared to \$1,887,476 for the same period in the previous year. This was mainly because of the increase in the provision of construction services of \$557,746. Excluding this portion, the adjusted cost of sales/services increased by \$275,872 to \$1,990,283 for the year ended December 31, 2016, compared to \$1,714,411 for the same period in the year prior.

The more notable components of the year-over-year change in cost of sales/services included:

- For the year ended December 31, 2016, sales rebate and other expenses of \$629,028 increased \$275,356 or 77.9% from the year ended December 31, 2015, largely due to the increase in sales rebate of \$203,050 paid to travel agents and the written off of consumable goods of \$130,616 incurred as a result of the change in PRC tax rule.

#### Gross Loss

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	
Gross loss	1,074,069	827,162	29.8%

The gross loss increased by 29.8% to \$1,074,069 for the year ended December 31, 2016 up from \$827,162 for the same period in the year prior.

#### Other Income

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	
Other income	157,937	171,819	-8.1%

Other income consists of imputed interest income on advances to a local authority, Hailuogou Authority (see note 8 to the audited consolidated financial statements), which was advanced in prior years, bank interest income and sundry income. For the year ended December 31, 2016, other income squeezed \$13,882 or 8.1% compared to the same period in the last year, representing the interest income derived from bank deposit decreased as a result of \$4.8 million bank deposit balances have plummeted during the current year.

## Marketing Expenses

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	
Fee paid to China Travel Service (H.K.) Ltd.	598,345	-	100.0%
Promotional activities	263,928	161,475	63.4%
Staff costs and others	595,094	486,028	22.4%
Total	1,457,367	647,503	125.1%

Marketing expenses increased 125.1% to \$1,457,367 for the year ended December 31, 2016, compared to the same period of last year. The increase was mainly due to the new marketing initiatives and the services fee of \$598,345 paid and accrued to China Travel Service (H.K.) Ltd., in 2016 targeting to promote awareness of the scenic sites and increase visitation.

## Other Gain and Loss

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	
Other gain and (loss)	605,655	(1,533,047)	-139.5%

In the current year, we recorded foreign exchange gain of \$605,655 as compared to a loss of \$1.53 million for the same period last year. Other gain and loss comprises net exchange gain or loss. The year over year improvement in foreign exchange gain and loss is principally due to the result of much weaker RMB in relation to CAD and HKD throughout 2016. Exchange gain of CAD bank deposit amounted to \$417,721 and the exchange gain of translating HKD transactions into RMB of foreign subsidiaries amounted to \$239,708.

## Administrative Expenses

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	
Administrative expenses	2,439,804	2,211,009	10.3%

Administrative expenses primarily consist of director fees, professional fees, salaries and benefits, hydro and electricity and entertainment expenses.

Administrative expenses increased 10.3% to \$2,439,804 for the year ended December 31, 2016 from \$2,211,009 for the same period in 2015. The increase was mainly due to the fees paid to directors who were appointed on June 23, 2015, as well as the running expenses of Hong Kong management office which was set up in July 2015, soon after the completion of Qualifying Transaction.

## Qualifying Transaction cost

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	
Qualifying Transaction cost	-	21,484,233	-100.0%

Qualifying Transaction cost of \$21,484,233 for the year ended December 31, 2015, representing the difference between the amount of consideration and the net identifiable assets acquired upon the completion of Qualifying Transaction, together with expenses directly attributable to the Qualifying Transaction (see note 21 to the audited consolidated financial statements). This cost is a non-cash item. No such expense incurred in the year ended December 31, 2016.

## Net Loss

	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>Increase (decrease)</b>
	\$	\$	
Net loss	4,263,282	26,589,321	-84.0%
Less:			
Qualifying transaction cost		(21,484,233)	
Non-cash unrealized exchange (gain) loss	605,655	(1,533,047)	
<b>Adjusted net loss</b>	<b>4,868,937</b>	<b>3,572,041</b>	<b>36.3%</b>

Net loss decreased 84.0% to \$4,263,282 for the year ended December 31, 2016, compared to last year. The decrease was mainly due to the non-occurrence of qualifying transaction cost in 2016. Excluding the qualifying transaction cost and foreign exchange gain or loss, the adjusted net loss increased 36.3% to \$4,868,937 for the year ended December 31, 2016, compared to the same period of prior year. The increase was mainly due to the increase in marketing expenses and administrative expenses mentioned above.

## Summary of Quarterly Results

The financial results for each of the eight most recently completed quarters are summarized as follows:

	3 months ended and as at Dec 31, 2016	3 months ended and as at Sep 30, 2016	3 months ended and as at Jun 30, 2016	3 months ended and as at Mar 31, 2016
	\$	\$	\$	\$
Total Assets	37,766,715	45,811,167	46,704,426	48,342,722
Working Capital	6,004,692	7,555,246	8,521,125	10,392,610
Equity	33,799,199	40,757,077	41,456,551	43,348,148
Total Revenue	358,218	355,240	570,596	362,971
Loss before tax				
(i) Total for the period	1,600,102	1,085,012	1,155,886	468,795

(ii) per share - basic	0.02	0.02	0.02	0.01
(iii) per share - fully diluted	0.02	0.02	0.02	0.01
<b>Net Loss</b>				
(i) Total for the period	1,587,315	1,072,497	1,145,545	457,925
(ii) per share - basic	0.02	0.02	0.02	0.01
(iii) per share - fully diluted	0.02	0.02	0.02	0.01
	3 months ended and as at Dec 31, 2015	3 months ended and as at Sep 30, 2015	3 months ended and as at Jun 30, 2015	3 months ended and as at Mar 31, 2015
	\$	\$	\$	\$
Total Assets	51,526,431	53,262,584	52,725,492	39,561,140
Working Capital	11,847,412	12,424,435	13,343,079	813,009
Equity	46,525,476	47,405,229	46,979,041	34,699,378
Total Revenue	343,002	421,064	272,393	34,734
<b>Loss before tax</b>				
(i) Total for the period	1,278,073	3,636,795	20,305,779	853,728
(ii) per share - basic	0.02	0.06	0.43	0.02
(iii) per share - fully diluted	0.02	0.06	0.43	0.02
<b>Net Loss</b>				
(i) Total for the period	1,267,206	3,626,130	20,285,959	853,728
(ii) per share - basic	0.02	0.06	0.43	0.02
(iii) per share - fully diluted	0.02	0.06	0.43	0.02

For the three months ended June 30, 2015, the Group recorded a one-time non-cash qualifying transaction cost of \$21,484,233 (see note 21 to the audited consolidated financial statements).

## Liquidity

The purpose of liquidity management is to ensure there is sufficient cash to meet all of the Group's financial commitments and obligations as they fall due. The Group believes that it has the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill its cash requirements in 2017. The Group's main source of funds is from admission and attraction ticket sales and cash on hand. The Group's use of funds is primarily for its operating expenses and investment in property, plant and equipment.

At present, there are no known demands, commitments, events or uncertainties that would adversely affect the trends and expected fluctuations in the Group's liquidity. Nowadays, the Group is going to enhance the free cash inflow by considering different financial modalities in 2017.

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	\$	\$
Net cash used in operating activities	(3,641,135)	(4,682,421)
Net cash (used in) from investing activities	(777,736)	233,594
Net cash from financing activities	-	14,276,940
Effects of foreign exchange rate changes on cash	(392,496)	447,829
Net (decrease) increase in cash	(4,811,367)	10,275,942
Working capital	6,004,692	11,847,412

The net cash used in investing activities for the year ended December 31, 2016 consists of the acquisition of property, plant and equipment in the amount of \$808,116, offset by the bank interest income of \$30,380. The property, plant and equipment included attractions and improvement, motor vehicles and others (see note 4 to the audited consolidated financial statements). The net cash from investing activities for the same period in 2015 was the cash and cash equivalent of \$557,223 acquired from the Qualifying Transaction as well as the bank interest income of \$52,919, offset by the acquisition of property, plant and equipment in the amount of \$376,548.

The net cash from financing activities for the year ended December 31, 2015 merely represented the net proceeds from the private placement financing.

Effects of foreign exchange rate changes on cash representing the unrealized exchange gain (loss) arising on translation of bank balance of foreign subsidiaries, of which the functional currency is other currencies than CAD, the Group's presentation currency.

Working capital decreased from \$11,847,412 as at December 31, 2015 to \$6,004,692 as at December 31, 2016 mainly due to the continued operating loss and the acquisition of property, plant and equipment.

### **Capital Expenditures**

The Group's capital expenditures primarily relate to its investment in the property, plant and equipment required in its business operations. The management expects to use a portion of the net proceeds from the private placement financing to further invest in capital expenditures.

### **Off-Balance Sheet Arrangements**

The Group has no off-balance sheet arrangements.

### **Related Party Balances and Transactions**

As at December 31, 2016, the Group had a current and non-current balance due to a shareholder, CN Lifestyle Limited, in the amount of \$201,277 (2015: \$100,864) and \$ 2,075,712 (2015: \$2,147,511), respectively.

The Group had the following transactions with a shareholder and a related party:

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	\$	\$
Interest payable to a shareholder	102,147	99,788
Management fee payable to a related party	40,867	19,956

### **Financial Instruments and Other Instruments**

The Group held cash of \$7.7 million on its audited consolidated statement of financial position as at December 31, 2016 and does not have any cash equivalents or invested assets. The Group does not currently utilize any other instruments such as derivative financial instruments to reduce its exposure. All of the Group's financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost.

The Group, through its financial instruments, is exposed to various risks as discussed below.

#### *Currency risk*

The Group's foreign currency risk exposure is mainly derived from bank balances, amount due to a shareholder and loan from a shareholder denominated in foreign currency. The management monitors foreign exchange fluctuation by closely monitoring the movement of foreign currency rate. The carrying amounts of the Group's foreign currency denominated bank balances were \$4.9 million and \$10.7 million as at December 31, 2016 and 2015 respectively, and liabilities were \$2.3 million and \$2.1 million as at December 31, 2016 and 2015 respectively.

Management expects market forces are exerting strong pressure on the RMB to depreciate against CAD, drop 3% in 2017. Management will closely monitor the trend depreciation of the RMB and assessing its relevant impact on our performance, will consider the currency hedging should the need arises.

#### *Interest rate risk*

Fluctuation in interest rate could impact the results of operations of the Group. The Group is exposed to cash flow interest rate risk in relation to the bank balances and loan from a shareholder. Interest rate risk is concentrated on the fluctuation of the Hong Kong Prime rate for all periods' presented. The Group currently does not have any interest rate hedging policy in relation to cash flow interest rate risks. Management monitors this risk on ongoing basis and will consider hedging interest rate should the need arises.

#### *Credit risk*

As at December 31, 2016 and 2015, the balance that is subject to significant concentration of credit risk is the advances to a local authority. Management of the Group considered the credit risk on this balance is limited because Gongga had entered into a 40-year service concession arrangement with the local authority in 2007 (see note 5 to the audited consolidated financial statements). As at December 31, 2016 and 2015, the Group's maximum exposure to credit risk which will cause financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Management of the Group considers that its credit risk is significantly reduced. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

### **Outstanding Shares and Share Options Information**

As at December 31, 2016 and at the date of this MD&A, the Company had 64,346,480 common shares, 675,000 share options for a total of 65,021,480 fully diluted common shares outstanding. As at December 31, 2015, the Company had 64,346,480 common shares, 1,020,000 share options for a total of 65,366,480 fully diluted common shares outstanding.

### **Critical Accounting Policies and Estimates**

This MD&A should be read in conjunction with the audited consolidated financial statements and related notes thereto for the years ended December 31, 2016 and 2015 of the Group. Note 2 to the audited consolidated financial statements outlines the significant accounting principles and policies used to prepare these consolidated financial statements. Accounting policies are critical if they rely on a substantial amount of judgment in their application or if they result from a choice between accounting alternatives and that choice has a material impact on reported results or financial position.

The key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

#### *Estimated impairment of advances to a local authority*

When there is objective evidence of impairment loss, management of the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. No impairment on advances to a local authority is considered necessary for the years ended December 31, 2016 and 2015.

#### *Valuation of property, plant and equipment*

Attractions and improvement and buildings included in the property, plant and equipment are revalued based on the valuation performed by an independent professional valuer. The determination of the valuation involves certain assumptions of market conditions. In relying on the valuation report, management of the Group has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions. Changes to these assumptions would result in changes in the valuation of the Group's property, plant and equipment and the corresponding adjustments to the amount of gain or loss arising on the revaluation of property, plant and equipment would be recognized in other comprehensive income.

### *Useful lives and impairment assessment of property, plant and equipment*

Property, plant and equipment are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses. The estimation of their useful lives impacts the level of annual depreciation expense recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying value would be written down to the recoverable amount and the amount of the write-down would be charged against the revaluation reserve in other comprehensive income or results of operations, according to the accounting policies of the Group. During the year ended December 31, 2016, an impairment loss of \$5,985,729 (2015: Nil) was recognised in other comprehensive income and reduced the corresponding revaluation surplus (see note 4 to the audited consolidated financial statements).

### *Amortization and impairment assessment of concession intangible asset*

Amortization of concession intangible asset is calculated using straight-line basis over the period which commences from the date when the part of the tourist attraction site is available for use. The estimation of the useful life impacts the level of annual amortization expense recorded. At the end of each reporting period, the management of the Group would estimate future cash flows generated by the concession intangible asset and determine whether there is any indication on impairment. If such indication exists, the recoverable amount of the concession intangible asset would be estimated and the carrying amount of concession intangible asset would be written down to the recoverable amount and the amount of the write-down would be charged against the results of operations.

## **Risk Factors**

Due to the nature of its business, an investment in the Group should be considered highly speculative. Such investment will be subject to certain material risks and investors should not invest in the Group unless they can afford to lose their entire investment. The following is a description of certain risks and uncertainties that may affect the business of the Group. Readers should note that this list is not a definitive list of all risk factors associated with an investment in the Group.

### *Unfavorable weather conditions*

The Group's ability to attract visitors to Swallow Gully is influenced by weather conditions. Adverse weather conditions may discourage visitors from participating in outdoor activities at Swallow Gully. Prolonged periods of adverse weather conditions (including, severe winters, conditions such as prolonged rain, fog and snow, sandstorms, other conditions resulting from changes in climate attributable to greenhouse gases or otherwise) could have a material adverse effect on the Group's financial condition and results of operation.

### *Natural disasters*

The Group's operation of Swallow Gully will be adversely affected by natural disasters such as earthquakes or landslides. Swallow Gully is located in Sichuan Province of the PRC, which is an area prone to earthquakes, landslides and other natural disasters. If any of these natural disasters takes place in or near Swallow Gully, it may damage infrastructure or improvements existing or to be developed on or near Swallow Gully, directly impacting the operations of the Group by restricting visitors from coming to Swallow Gully, delay or postpone planned development or construction of certain projects, and discourage visitors from traveling to the area in general and reduce the number of visitors to the Swallow Gully. In 2009, there was a landslide that occurred in the Swallow Gully and Gongga was required to remedy the effects caused by the landslide. Therefore, a natural disaster taking place in or near Swallow Gully may force the Group to suspend its operations for an indefinite period and cause the Group to incur additional expenditures, for which the Group is currently unable to obtain adequate insurance, and give rise to a material adverse effect on its financial condition

and results of operation.

#### *Competition from nearby scenic tourism areas*

The Group faces competition from nearby scenic tourism areas. There are a number of AAAAA and AAAA scenic tourism areas in western and northern Sichuan, including the Hailuo Valley scenic area. Located approximately 30 minutes away from Swallow Gully, Hailuo Valley is the oldest commercial scenic park near Gongga Mountain and operates a 3.5 km cableway facility. Hailuo Valley attracted numerous tourists every year. Hailuo Valley Administration is the governmental agency that has jurisdiction over both the Hailuo Valley scenic area and Swallow Gully. Management believes that the success of Hailuo Valley's operation may be beneficial to Swallow Gully and that it may benefit from Hailuo Valley's experience in administering Hailuo Valley and the potential for sharing certain infrastructure owned or operated by the Hailuo Valley Administration. However, due to proximity and relative similarity, there will be competition between Hailuo Valley and Swallow Gully for tourists and the resources of Hailuo Valley Administration, and Swallow Gully may be disadvantaged in such competition as a new and less developed entrant into the market.

#### *Changes in Chinese laws and regulations*

Gongga is subject to a wide variety of laws and regulations relating to scenic area administration, natural reserve area protection, land use and development, and environmental compliance and permitting obligation. Such laws and regulations could change in a manner that materially and adversely affects the Group's ability to conduct its business and to implement desired expansions and improvements to its facilities.

#### **Additional Information**

Additional information relating to the Group can also be found on SEDAR at [www.sedar.com](http://www.sedar.com).