

## 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 three months and six months ended September 30, 2018. The MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes thereto for the three months and six months ended September 30, 2018 as well as the audited consolidated financial statements for the years ended December 31, 2017 and 2016 of the Group. These unaudited interim condensed 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 November 29, 2018.*

### **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 "2018 Outlook: Repositioning of business focus and completing the preliminary offering of vacation package". Some of these Forward-Looking Statements express management's beliefs and intentions relating to the future operational direction of the Company, such as "to create a diversified tourism experience, as well as promoting a new tourism style"; "we will improve the overall planning scheme"; and "we will consult and work closely with local government to better promote Swallow Gully". 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 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.

### *Third Quarter 2018 Operating Results*

The Group’s revenue totaled \$72,944 for the third quarter, fell by 81.39% compared to \$392,025 in the prior year quarter. Excluding the item of construction services under a service concession arrangement, , which comprised decreased by 86 % admission ticket sales, 79% attraction ticket sales and 79% from other items.

Total operating costs were \$0.8 million in the third quarter, relative to \$1.79 million in the prior year period. On an adjusted basis, total operating expenses were 1,095.4% of total revenue in 2018 as compared to 457.1% in 2017.

Net loss for the third quarter of 2018 decreased by 56.2% to \$ 576,013 from \$1,316,239 for the third quarter of 2017. The decrease was mainly due to the decrease of depreciation, amortization and also strengthen cost control for reduce all cost.

### 2018 Outlook: Repositioning of business focus and completing the preliminary offering of vacation package

For the year 2018, we will transform the previous tourism pattern, through the change of current scenic area’s service concept and product offering, to create a diversified tourism experience, as well as promoting a new tourism style. Under this world class environmental resources and the distinct culture of Kangba, we aim to create an international vacation resort -- Swallow Gully tourism cultural resort of Gongga Mountain, China.

In order to facilitate such change, our product offering and marketing efforts will focus on the followings:

**Operation and marketing:** our main target tourists are the parent-child family as well as middle-aged and young people with middle and high income such as the white-collar. These people, who have both the power of consumption and influence, are the future marketing target group of our scenic area.

In response to China's tourism related policies and market demand, we will change the previous marketing aim to a more targeted marketing strategy, covering social media as well as traditional channels, to better leverage the influence of the new image of Swallow Gully.

In operation, we will mainly focus on providing resort service, to meet the tourists' demand for the high mountain vacation. As well as encouraging add-on sales, to improve the overall income of the scenic area.

In the first half of the year, we’ve established partnership with more than 20 social media platforms, and Swallow Gully’s content is now covered most of those. The first draft of some scenic spots upgrading and transformation has been completed, and the overall planning and design work of the scenic area has been started.

**Product offering:** The Company positions the scenic area as Swallow Gully tourism cultural resort of Gongga Mountain, highlighting the tourism and vacation aspects. The scenic area is a high mountain resort town, with wild luxury resort hotels, catering, the outdoor recreation, science and natural education of kids, and sightseeing. Therefore, in 2018, the bubble hotel will be reconstructed, we will establish vacation restaurants, create outdoor parent-child products, and improve the IT system of scenic area, so that tourists can experience a unique vacation experience.

In addition, we will improve the overall planning scheme of Swallow Gully tourism cultural resort, which is composed of the Swallow Gully scenic area and the tourism resort town. And we will consult and work closely with local government to better promote Swallow Gully.

## 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, 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 six months ended September 30, 2018 and 2017 was RMB 1 = CAD 0.1979 and RMB 1 = CAD 0.1915, respectively. While that for HKD against CAD for the six months ended September 30, 2018 and 2017 was HKD 1 = CAD 0.1647 and HKD 1 = CAD 0.1670, 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, 2017, 2016 and 2015 are summarized as follows:

|                                 | For the financial<br>year ended and as<br>at Dec 31, 2017 | For the financial<br>year ended and as<br>at Dec 31, 2016 | For the financial<br>year ended and as<br>at Dec 31, 2015 |
|---------------------------------|---|---|---|
|                                 | \$  | \$  | \$  |
| Total Revenue                   | 1,391,549   | 1,647,025   | 1,060,314   |
| Loss before tax                 |   |   |   |
| (i) Total for the year          | 30,232,880  | 4,309,795   | 26,630,923  |
| (ii) per share - basic          | 0.45  | 0.07  | 0.48  |
| (iii) per share - fully diluted | 0.45  | 0.07  | 0.48  |
| Net Loss                        |   |   |   |
| (i) Total for the year          | 30,232,880  | 4,263,282   | 26,589,321  |
| (ii) per share - basic          | 0.45  | 0.07  | 0.48  |
| (iii) per share - fully diluted | 0.45  | 0.07  | 0.48  |

|  |           |            |            |
|--|-----------|------------|------------|
| Total Assets                                       | 9,294,616 | 37,766,715 | 51,526,431 |
| Total Non-current Liabilities                      | -         | 2,075,712  | 3,682,512  |
| Distributions or Cash Dividends declared per-share | Nil       | Nil        | Nil        |

### Results of Operations – Three Months and Six Months Ended September 30, 2018 compared to September 30, 2017

#### Revenue

|  | 3 months ended Sep 30, |               |                |               | 9 months ended Sep 30, |               |                  |               |
|--|------------------------|---------------|----------------|---------------|------------------------|---------------|------------------|---------------|
|  | 2018                   | % of Total    | 2017           | % of Total    | 2018                   | % of Total    | 2017             | % of Total    |
|  | \$                     |               | \$             |               | \$                     |               | \$               |               |
| Admission ticket sales                                       | 21,329                 | 29.2%         | 151,395        | 38.6%         | 115,115                | 30.7%         | 370,016          | 369.2%        |
| Attraction ticket sales                                      | 43,725                 | 59.9%         | 238,527        | 60.8%         | 238,527                | 63.5%         | 644,579          | 63.1%         |
| Others   | 7,890                  | 10.8%         | 2,103          | 0.6%          | 32,185                 | 8.6%          | 6,241            | 0.7%          |
| <b>Total</b>   | <b>72,944</b>          | <b>100.0%</b> | <b>392,025</b> | <b>100.0%</b> | <b>375,363</b>         | <b>100.0%</b> | <b>1,020,836</b> | <b>100.0%</b> |
| Less:  |                        |               |                |               |                        |               |                  |               |
| Construction services under a service concession arrangement | -                      |               | -              |               | -                      |               | -                |               |
| <b>Adjusted total</b>  | <b>72,944</b>          |               | <b>392,025</b> |               | <b>375,363</b>         |               | <b>1,020,836</b> |               |
| <b>Number of visitors</b>                                    | <b>3,901</b>           |               | <b>29,055</b>  |               | <b>20,312</b>          |               | <b>77,419</b>    |               |
| <b>Spending per visitor (in \$)</b>                          | <b>18</b>              |               | <b>13</b>      |               | <b>18</b>              |               | <b>13</b>        |               |

For the three months ended September 30, 2018, total revenue decreased by 81.39% to \$72,944, compared to \$392,025 for the same period in the previous year.

For the nine months ended September 30, 2018, total revenue decreased by 63.23% to \$375,363, compared to \$1,020,836 for the same period in the previous year.

Swallow Gully attracted 3,901 and 20,312 visitors for the three months and nine months ended September 30, 2018, compared to 29,055 and 77,419 visitors for the same period in prior year, respectively. This year, the travel agency did not implement the rebate policy, resulting in fewer group visitors.

The spending per visitor for the three months and nine months ended September 30, 2018 was \$18, compared to \$13 for the same period the previous year, respectively. The increase was mainly due to the increase of the number of individual visitors who paid higher ticket price than tour group visitors and also the increase in the price of tickets.

## Cost of Sales/Services

|   | 3 months ended Sep 30, |               |                |               | 9 months ended Sep 30, |               |                  |               |
|---|------------------------|---------------|----------------|---------------|------------------------|---------------|------------------|---------------|
|   | 2018                   | % of Total    | 2017           | % of Total    | 2018                   | % of Total    | 2017             | % of Total    |
|   | \$                     |               | \$             |               | \$                     |               | \$               |               |
| Amortization of intangible assets   | 1,374                  | 0.9%          | 63,865         | 10.8%         | 3,034                  | 0.7%          | 193,149          | 12.2%         |
| Depreciation  | 24,630                 | 15.3%         | 158,876        | 27.0%         | 80,171                 | 17.8%         | 487,887          | 30.9%         |
| Salary  | 64,469                 | 40.0%         | 75,980         | 12.9%         | 176,446                | 39.1%         | 222,659          | 14.1%         |
| Insurance expenses  | 28,106                 | 17.5%         | 20,846         | 3.5%          | 64,615                 | 14.3%         | 53,906           | 3.4%          |
| Transportation  | 31,331                 | 19.5%         | 67,464         | 11.4%         | 73,786                 | 16.4%         | 174,979          | 11.1%         |
| Others  | 11,000                 | 6.8%          | 202,436        | 34.4%         | 52,997                 | 11.7%         | 444,379          | 28.3%         |
| <b>Total</b>  | <b>160,910</b>         | <b>100.0%</b> | <b>589,467</b> | <b>100.0%</b> | <b>451,049</b>         | <b>100.0%</b> | <b>1,576,959</b> | <b>100.0%</b> |
| Less:   |                        |               |                |               |                        |               |                  |               |
| Provision of construction services under a service concession arrangement | -                      |               | -              |               | -                      |               | -                |               |
| <b>Adjusted total</b>   | <b>160,910</b>         |               | <b>589,467</b> |               | <b>451,049</b>         |               | <b>1,576,959</b> |               |

Cost of sales/services decreased by \$428,557 to \$160,910 for the three months ended September 30, 2018 compared to \$589,467 for the same period in the previous year. The decreased mainly due to the decrease of depreciation and amortization during the period

Cost of sales/services decreased by \$987, 492 to \$451,049 for the nine months ended September 30, 2018 compared to \$1,576,959 for the same period in the previous year. The decreased mainly due to the decrease of depreciation and amortization during the period

## Gross Loss

|            | 3 months ended Sep 30, |         |          | 9 months ended Sep 30, |         |          |
|------------|------------------------|---------|----------|------------------------|---------|----------|
|            | 2018                   | 2017    | Increase | 2018                   | 2017    | Increase |
|            | \$                     | \$      |          | \$                     | \$      |          |
| Gross loss | 87,966                 | 197,442 | 55.4%    | 75,686                 | 556,123 | 86.4%    |

Gross loss for the three months ended September 30, 2018 decreased by \$109,476 to \$78,334, from loss \$197,442 for the same period in prior year.

Gross loss for the nine months ended September 30, 2018 increased by \$480,437 to \$66,054 from loss \$556,123 for the same period in previous year.

## Other Income

|              | 3 months ended Sep 30, |        |          | 9 months ended Sep 30, |         |          |
|--------------|------------------------|--------|----------|------------------------|---------|----------|
|              | 2018                   | 2017   | Increase | 2018                   | 2017    | Increase |
|              | \$                     | \$     |          | \$                     | \$      |          |
| Other income | 69,967                 | 44,399 | 57.6%    | 182,406                | 130,937 | 39.3%    |

Other income consists of imputed interest income on advances to a local authority, Hailuogou Authority (see note 5 to the unaudited interim condensed consolidated financial statements), which was advanced in prior years, bank interest income and sundry income. Other income increased by \$25,568 to \$69,967 for the three months ended September 30, 2018 from \$44,399 for the same period in prior year. Other income increased by \$51,469 to \$182,406 for the nine months ended September 30, 2017, compared to the same period in prior year.

## Marketing Expenses

|                    | 3 months ended Sep 30, |         |          | 9 months ended Sep 30, |           |          |
|--------------------|------------------------|---------|----------|------------------------|-----------|----------|
|                    | 2018                   | 2017    | Decrease | 2018                   | 2017      | Decrease |
|                    | \$                     | \$      |          | \$                     | \$        |          |
| Marketing expenses | 165,482                | 372,126 | 55.5%    | 575,401                | 1,139,497 | 49.5%    |

Marketing expenses decreased 55.5% to \$165,482 for the three months ended September 30, 2018 from \$372,126 for the same period in prior year. Marketing expenses decreased 49.5% to \$575,401 for the nine months ended September 30, 2018, compared to the same period of prior year. The decrease mainly due to the reduction of rebate and advertising expenses.

## Administrative Expenses

|                         | 3 months ended Sep 30, |         |          | 9 months ended Sep 30, |           |          |
|-------------------------|------------------------|---------|----------|------------------------|-----------|----------|
|                         | 2018                   | 2017    | Decrease | 2018                   | 2017      | Decrease |
|                         | \$                     | \$      |          | \$                     | \$        |          |
| Administrative expenses | 448,799                | 806,330 | 44.3%    | 1,289,195              | 2,393,313 | 46.1%    |

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

Administrative expenses decreased by \$357,531 to \$448,799 for the three months ended September 30, 2018 from \$806,330 for the same period in prior year. Administrative expenses decreased by \$1,104,118 to \$1,289,195 for the nine months ended September 30, 2018 from \$2,393,313 for the same period in prior year. The decrease was mainly due to the decrease in salary expenses and administrative expenses during this period.

## Other Gain

|                       | 3 months ended Sep 30, |        |          | 9 months ended Sep 30, |         |          |
|-----------------------|------------------------|--------|----------|------------------------|---------|----------|
|                       | 2018                   | 2017   | Decrease | 2018                   | 2017    | Decrease |
|                       | \$                     | \$     |          | \$                     | \$      |          |
| Foreign exchange gain | (51,120)               | 39,216 | 230.4%   | 56,065                 | 118,856 | 52.8%    |

Other gain comprises net foreign exchange gain. Net exchange gain decreased by \$90,336 to loss \$51,120 for the three months ended September 30, 2018 from \$39,216 for the same period in prior year. Net exchange gain decreased by \$62,791 to \$56,065 for the nine months ended September 30, 2018, compared to the same period in prior year. The exchange gain was mainly due to the revaluation of CAD against RMB, resulting in an unrealized exchange gain incurred by one of the Group's subsidiaries, of which the functional currency is RMB. This subsidiary held a bank balance of approximately \$1.95million denominated in CAD as of September 30, 2018 (December 31, 2017: \$4.2 million). The accounting treatment is in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* (see note 12 to the interim condensed consolidated financial statements).

## Income Tax Credit

|                               | 3 months ended Sep 30, |      |                     | 9 months ended Sep 30, |      |                     |
|-------------------------------|------------------------|------|---------------------|------------------------|------|---------------------|
|                               | 2018                   | 2017 | Increase (decrease) | 2018                   | 2017 | Increase (decrease) |
|                               | \$                     | \$   |                     | \$                     | \$   |                     |
| Current tax                   | -                      | -    | N/A                 | -                      | -    | N/A                 |
| Deferred tax - current period | -                      | -    | N/A                 | -                      | -    | N/A                 |

The statutory income tax rates were 26%, 16.5% and 25% in Canada, Hong Kong and the PRC, respectively. No provision for current income tax has been made for operations in Canada, Hong Kong and the PRC as the operations had no assessable profit for the three months and six months ended September 30, 2018 and 2017.

## Net Loss

|  | 3 months ended Sep 30, |           |                     | 9 months ended Sep 30, |           |                     |
|--|------------------------|-----------|---------------------|------------------------|-----------|---------------------|
|  | 2018                   | 2017      | Increase (decrease) | 2018                   | 2017      | Increase (decrease) |
|  | \$                     | \$        |                     | \$                     | \$        |                     |
| Net loss                                 | 576,013                | 1,316,239 | (56.2%)             | 1,642,895              | 3,914,260 | (58.0%)             |
| Less:                                    |                        |           |                     |                        |           |                     |
| Non-cash unrealized exchange gain (loss) | 482,323                | (97)      |                     | 104,826                | 101,527   |                     |
| Adjusted net loss                        | 1,058,336              | 1,316,142 | (19.6%)             | 1,747,721              | 4,015,787 | (56.5%)             |

Net loss decreased by 56.2% to \$576,013 for the three months ended September 30, 2018, compared to \$1,316,239 for the same period in prior year. Net loss decreased by 58.0% to \$3,914,260 for the nine months

ended September 30, 2018, compared to the same period in prior year. The decrease was mainly due to the decrease of depreciation, amortization and also strengthen cost control for reduce all cost.

### Summary of Quarterly Results

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

|                                 | 3 months<br>ended Sep 30,<br>2018        | 3 months<br>ended Jun<br>30,2018            | 3 months ended<br>and as at Mar<br>31, 2018 | 3 months ended<br>and as at Dec<br>31, 2017 |
|---------------------------------|--|---|---|---|
|                                 | \$                                       | \$  | \$  | \$  |
| Total Assets                    | 6,817,323                                | 7,964,499                                   | 8,868,126                                   | 9,294,616                                   |
| Working Capital                 | (574,629)                                | 187,784                                     | 911,506                                     | 1,164,932                                   |
| Equity                          | 3,557,111                                | 4,615,447                                   | 5,331,090                                   | 5,304,832                                   |
| <br>                            |  |   |   |   |
| Total Revenue                   | 72,944                                   | 138,935                                     | 163,484                                     | 370,713                                     |
| <br>                            |  |   |   |   |
| Loss before tax                 |  |   |   |   |
| (i) Total for the period        | 576,013                                  | 595,950                                     | 470,932                                     | 26,318,620                                  |
| (ii) per share - basic          | 0.01                                     | 0.01  | 0.01  | 0.02  |
| (iii) per share - fully diluted | 0.01                                     | 0.01  | 0.01  | 0.02  |
| <br>                            |  |   |   |   |
| Net Loss                        |  |   |   |   |
| (i) Total for the period        | 576,013                                  | 595,950                                     | 470,932                                     | 26,318,620                                  |
| (ii) per share - basic          | 0.01                                     | 0.01  | 0.01  | 0.39  |
| (iii) per share - fully diluted | 0.01                                     | 0.01  | 0.01  | 0.39  |
| <br>                            |  |   |   |   |
|                                 | 3 months ended and as<br>at Sep 30, 2017 | 3 months ended<br>and as at Jun 30,<br>2017 | 3 months ended<br>and as at Mar<br>31, 2017 | 3 months ended<br>and as at Dec<br>31, 2016 |
|                                 | \$                                       | \$  | \$  | \$  |
| Total Assets                    | 34,815,799                               | 35,297,714                                  | 36,508,883                                  | 37,766,715                                  |
| Working Capital                 | 3,429,149                                | 3,048,629                                   | 4,855,616                                   | 6,004,692                                   |
| Equity                          | 30,626,940                               | 30,994,152                                  | 32,633,398                                  | 33,799,199                                  |
| <br>                            |  |   |   |   |
| Total Revenue                   | 392,025                                  | 465,620                                     | 163,191                                     | 358,218                                     |
| <br>                            |  |   |   |   |
| Loss before tax                 |  |   |   |   |
| (i) Total for the period        | 1,316,239                                | 1,419,166                                   | 1,178,855                                   | 1,600,102                                   |
| (ii) per share - basic          | 0.02                                     | 0.02  | 0.02  | 0.02  |
| (iii) per share - fully diluted | 0.02                                     | 0.02  | 0.02  | 0.02  |
| <br>                            |  |   |   |   |
| Net Loss                        |  |   |   |   |
| (i) Total for the period        | 1,316,239                                | 1,419,166                                   | 1,178,855                                   | 1,587,315                                   |
| (ii) per share - basic          | 0.02                                     | 0.02  | 0.02  | 0.02  |
| (iii) per share - fully diluted | 0.02                                     | 0.02  | 0.02  | 0.02  |

### 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 during the

current financial year. 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.

|  | <b>3 months ended Sep 30,</b> |             | <b>9 months ended Sep 30,</b> |             |
|--|-------------------------------|-------------|-------------------------------|-------------|
|  | <b>2018</b>                   | <b>2017</b> | <b>2018</b>                   | <b>2017</b> |
|  | \$                            | \$          | \$                            | \$          |
| Net cash used in operating activities            | (718,005)                     | (729,857)   | (2,327,585)                   | (2,534,557) |
| Net cash used in investing activities            | 572,994                       | (79,836)    | 578,222                       | (661,516)   |
| Net cash from financing activities               | -                             | 1,496,549   | -                             | 1,496,549   |
| Effects of foreign exchange rate changes on cash | (11,657)                      | (193,617)   | (70,930)                      | (460,014)   |
| Net decrease in cash                             | (156,668)                     | 493,239     | (1,820,293)                   | (2,159,538) |
| Working capital                                  | (574,629)                     | 3,429,149   | (574,629)                     | 3,429,149   |

The net cash used in investing activities for the three months ended September 30, 2018 consists of the acquisition of property, plant and equipment with an amount of \$0 and offset by the bank interest income of \$1,260. The main increase of investing activities due to the redemption part of structured deposits.

The net cash used in investing activities for the nine months ended September 30, 2018 included the acquisition of property, plant and equipment with an amount of \$579 and offset by the bank interest income of \$7,067. The main increase of investing activities due to the redemption part of structured deposits.

Effects of foreign exchange rate changes on cash represent the unrealized exchange 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 by \$4,003,778 from \$3,429,149 as at September 30, 2017 to (\$574,629) as at September 30, 2018 mainly due to the continued increasing operating loss.

### **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 Qualifying Transactions 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 September 30, 2018, the Group had a current and non-current balance due to related parties, Chong's Family, in the amount of \$2,052,064 (December 31, 2017: \$1,928,689).

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

|   | <u>3 months ended Sep 30,</u> |             | <u>9 months ended Sep 30,</u> |             |
|---|-------------------------------|-------------|-------------------------------|-------------|
|   | <u>2018</u>                   | <u>2017</u> | <u>2018</u>                   | <u>2017</u> |
|   | \$                            | \$          | \$                            | \$          |
| Interest payable to a shareholder         | -                             | -           | -                             | 70,976      |
| Interest payable to related parties       | 23,845                        | 25,053      | 72,316                        | 25,053      |
| Management fee payable to a related party | -                             | 10,021      | -                             | 30,064      |

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

The Group held cash of \$0.7 million on its interim condensed consolidated statement of financial position as at September 30, 2018 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 \$0.7 million and \$0.72 million as at September 30, 2018 and December 31, 2017, respectively, and liabilities were \$3.2 million and \$2.0 million as at September 30, 2018 and December 31, 2017, respectively.

Management expects a controlled, gradual depreciation on RMB against other major currencies including CAD in the year 2018. This may have minimal unfavorable effects on our results of operations for the year ending December 31, 2017 as majority of the Group's revenues and assets are in RMB denomination.

#### *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 September 30, 2018 and December 31, 2017, 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 unaudited interim condensed consolidated financial statements). As at September 30, 2018 and December 31, 2017, 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, 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, 2017, September 30, 2018 and at the date of this MD&A, the Company had 72,077,073 common shares, 355,000 share options for a total of 72,432,073 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, 2017 and 2016 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 three months and six months ended September 30, 2018 and 2017.

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

Attractions and improvement and buildings included in the property, plant and equipment were revalued based on income approach. The management concluded that there was no material difference between the fair value of the property, plant and equipment measured at revaluation basis and their carrying amounts as of September 30, 2018, accordingly, no revaluation is performed for these assets.

#### *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.

#### *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*

Gonga 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.

#### *Changes in Hong Kong laws and regulations*

The Group has applied the following amendments to IFRSs for the first time in the current year.

|                       |  |
|-----------------------|--|
| Amendments to IAS 7   | Disclosure Initiative  |
| Amendments to IAS 12  | Recognition of Deferred Tax Assets for Unrealised Losses               |
| Amendments to IFRS 12 | As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle |

Except as disclosed below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### **Amendments to IAS 7 Disclosure Initiative**

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 29. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 29, the application of these amendments has had no impact on the Group's consolidated financial statements.

The Group has not early applied the following new and revised to IFRSs that have been issued but are not yet effective:

|                      |   |
|----------------------|---|
| IFRS 9               | Financial Instruments <sup>1</sup>  |
| IFRS 15              | Revenue from Contracts with Customers and the related Amendments <sup>1</sup>   |
| IFRS 16              | Leases <sup>2</sup>   |
| IFRS 17              | Insurance Contracts <sup>4</sup>  |
| IFRIC 22             | Foreign Currency Transactions and Advance Consideration <sup>1</sup>            |
| IFRIC 23             | Uncertainty over Income Tax Treatments <sup>2</sup>                             |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions <sup>1</sup> |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with                                      |

|                       |  |
|-----------------------|--|
|                       | IFRS 4 Insurance Contracts <sup>1</sup>  |
| Amendments to IFRS 9  | Prepayment Features with Negative Compensation <sup>2</sup>  |
| Amendments to IFRS 10 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup> |
| Amendments to IAS 19  | Plan Amendment, Curtailment or Settlement <sup>2</sup>   |
| Amendments to IAS 28  | Long-term Interests in Associates and Joint Venture <sup>2</sup>                                   |
| Amendments to IAS 28  | As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle <sup>1</sup>                |
| Amendments to IAS 40  | Transfers of Investment Property <sup>1</sup>  |
| Amendments to IFRSs   | Annual Improvements to IFRS Standards 2015 - 2017 Cycle <sup>2</sup>                               |

1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for annual periods beginning on or after 1 January 2019.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2021.

Except for the new IFRSs mentioned below, management anticipates that the application of all other new and amendments to IFRSs and interpretations will have no material impact on the Group's consolidated financial statements in the foreseeable future.

### **IFRS 9 Financial Instruments**

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets. Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through profit or loss. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at December 31, 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9.

For the structured deposits as disclosed in Note 11, management anticipates that the Group would revoke its previous designation of financial assets as measured at fair value through profit or loss at initial application date. The contractual cash flows of these deposits do not represent solely payments of principal and interest on the principal outstanding, and accordingly, it is required to be classified at financial assets at fair value through profit or loss.

Except for financial assets which are subject to expected credit loss model under IFRS 9, all other financial assets and financial liabilities will continue to be measured on the same bases currently measured under IAS 39.

In general, management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the management, if the expected credit loss model were to be applied by the Group, an immaterial amount of impairment loss would be recognised by the Group as at 1 January 2018, mainly attributable to expected credit loss position on trade receivables. Such impairment recognised under expected credit loss model would increase the opening accumulated losses at January 1, 2018.

### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Management anticipates that the application of IFRS 15 in the future may result in more disclosures, however, management does not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods. The directors of the Company intend to apply the limited retrospective method with cumulative effect on initial application recognised in opening balance of equity at January 1, 2018.

### **IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront

prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at December 31, 2017, the Group has non-cancellable operating lease commitments of \$184,313 as disclosed in Note 23. A preliminary assessment indicates that the application of new requirements may result in changes in measurement, presentation and disclosure. However, management is still assessing the impact and performing a detailed review of adoption of this new accounting standard on its financial statements.

### **Additional Information**

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