

PEARL RIVER HOLDINGS LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three months ended March 31, 2018

Forward-Looking Information

This interim management discussion and analysis contains certain forward-looking statements and information relating to Pearl River Holdings Limited (“**Pearl**” or the “**Company**”). All statements, other than statements of historical fact, included herein may be forward-looking information. Generally, forward-looking information may be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “proposed”, “is expected”, “budgets”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would, or might occur or be achieved. This forward-looking information reflects the Company’s current beliefs and is based on information currently available to the Company and on assumptions the Company believes are reasonable. These assumptions include, but are not limited to, the level of activity in the plastics industry and the economy generally, consumer interest in the Company’s products, and future costs and expenses being based on historical costs and expenses, adjusted for inflation. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information. Such risks and other factors may include, but are not limited to: general business, economic, competitive, political and social uncertainties; fluctuations in raw material costs; competition; lack of insurance; changes in legislation, including environmental legislation, affecting the Company; timing and availability of external financing on acceptable terms; and lack of qualified, skilled labour or loss of key individuals. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

Basis of Discussion and Analysis

The following management discussion and analysis of the financial condition and results of operations of the Company and other information is dated May 30, 2018 and should be read in conjunction with the Company’s condensed interim consolidated financial statements and notes thereto as at and for the three months ended March 31, 2018. These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements including International Accounting Standard 34 – Interim Financial Reporting and have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements for the year ended December 31, 2017.

These condensed interim consolidated financial statements include only significant events and transactions affecting the Company during the current fiscal period and do not include all disclosures normally provided in the Company's annual financial statements. As a result, these condensed interim consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2017. The Company's consolidated financial statements for the year ended December 31, 2017 and related MD&A can be obtained on the System for Electronic Document Analysis and Retrieval ("SEDAR"). Interim results are not necessarily indicative of the results expected for the fiscal year.

In this MD&A, Pearl and its subsidiaries are referred to collectively as "Pearl", the "Group" or the "Company" unless the context requires otherwise.

FINANCIAL HIGHLIGHTS

	2018		2017	
	Quarter ended March 31 (RMB)	Year to date (RMB)	Quarter ended March 31 (RMB)	Year to date (RMB)
Revenue	63,460,544	63,460,544	65,865,925	65,865,925
Gross profit	13,085,542	13,085,542	11,534,470	11,534,470
Gross margin	20.62%	20.62%	17.51%	17.51%
Net income (loss) attributable to common shareholders	(37,435)	(37,435)	54,394	54,394
Net income (loss) attributable to common shareholders per share	(0.0014)	(0.0014)	0.0020	0.0020
			March 31, 2018 (RMB)	December 31, 2017 (RMB)
Total assets			131,746,971	132,205,869
Total liabilities			39,765,228	38,522,859
Shareholders' Equity			60,405,089	62,218,618
Non-controlling interest			31,576,654	31,464,392

- Revenues decreased by 3.65% for the quarter compared to 2017. The operating margins have increased by 3.11% for the quarter compared to 2017.
- Debt to equity .43:1 (March 31, 2018), .41:1 (December 31, 2017), .37:1 (December 31, 2016)

Outlook

The Chinese economy continues to recover slowly from the re-structuring policies announced by the Central Government to up-grade technology in manufacturing industries. The principle effects of these policies on the Group has been a shift from the traditional product range to logistic containers and OEM containers for the motor vehicle assembly lines. Our cooler market continues to expand with increasing export markets. The Group's performance in 2018 is expected to improve

RESULTS OF OPERATIONS

Sales

	2018		2017	
	Quarter (RMB)	Year to date (RMB)	Quarter (RMB)	Year to date (RMB)
	<u>63,460,544</u>	<u>63,460,544</u>	<u>65,865,925</u>	<u>65,865,925</u>

Revenues have decreased by 2,405,381 RMB or 3.65% for the quarter from 2017.

Gross Profit

	Quarter		Year to date	
	2018	2017	2018	2017
Gross Profit	13,085,542	11,534,470	13,085,542	11,534,470
% of Total Sales	20.62	17.51	20.62	17.51

The increase in profit margin is due mostly to the increase in pricing for the cooler export business.

Salaries

Salaries increased to 4,548,810 RMB from 4,141,075 RMB (9.85%) for the quarter compared to 2017 due to more production and sales volume.

General Administration

General administrative expenses increased to 8,271,248 RMB from 6,275,286 RMB (31.81%) for the quarter compared to 2017. More business-related expenses incurred in Q1 this year for sales team in organizing and attending different shows in China and overseas as well as an increase in rent for additional warehousing.

Selling

Selling expenses decreased to 3,540,028 RMB from 4,160,244 RMB (14.91%) for the quarter compared to 2017.

Interest on Debt

Interest has increased for the quarter due to an exchange loss of 255,296 RMB.

Income Tax Expense

Income tax is incurred at the Chinese joint venture level at a rate of 25% of taxable earnings. The expenses incurred outside China are not deductible and as such the tax expense is higher as a percentage of consolidated profits due to this non-deductibility.

Quarterly Information

Selected Quarterly Consolidated Financial Information

	Unaudited Quarters Ended			
	March 31, 2018 (RMB)	December 31, 2017 (RMB)	September 30, 2017 (RMB)	June 30, 2017 (RMB)
Revenue	63,460,544	71,148,050	72,733,771	49,803,121
Net income (loss) attributable to common shareholders	(37,435)	(8,431,692)	1,951,942	1,335,472
Net income (loss) attributable to common shareholders per Share	(0.0014)	(0.3087)	0.0715	0.0489

	Unaudited Quarters Ended			
	March 31, 2017 (RMB)	December 30, 2016 (RMB)	September 30, 2016 (RMB)	June 30, 2016 (RMB)
Revenue	65,865,925	64,295,266	62,621,886	51,463,387
Net income attributable to common shareholders	54,394	2,099,392	3,031,103	623,200
Net income attributable to common shareholders per Share	0.0020	0.0769	0.1110	0.0228

The Corporation's primary capital management objective is to maintain a strong statement of financial position through the optimization of the debt and equity balance affording the Corporation financial flexibility to achieve goals of continued growth and access to capital. The capital structure of the Company consists of shareholders' equity comprised of share capital and deficit.

The basis for the Corporation's capital structure is dependent on the Corporation's expected business growth and changes in the business environment. The Corporation manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objective stated above. To manage the capital structure, The Corporation may adjust capital spending, issue new shares, issue new debt, or repay existing debt.

The Corporation is not exposed to externally imposed capital requirements.

Cash Flow:

	March 31, 2018 (RMB)	March 31, 2017 (RMB)
Cash provided by (used in) operating activities	9,058,439	(2,571,996)
Cash used in investing activities	(205,898)	(166,971)
Cash provided by (used in) financing activities	112,262	(110,498)

Contractual obligations, Commitments and Guaranteesa) **Commitments**

The Company is committed to payments under operating leases for premises and equipment as follows:

	(RMB)
Within one year	7,504,079
After one year but within five years	25,180,987
After five years	17,604,396

The Corporation has no capital commitments outstanding at March 31, 2018 as part of its Joint Venture (2017- nil).

Off-Balance Sheet Arrangements

The Company has no off balance sheet arrangements.

Share Capital

- a) **Authorized**
Unlimited number of voting, common shares and non-voting, preferred shares.
- b) **Issued**

	March 31, 2018		March 31, 2017	
	Common Shares (#)	Amount (RMB)	Common Shares (#)	Amount (RMB)
Balance – Beginning and end of period	27,309,927	52,242,949	27,309,927	52,242,949

Share Capital (continued)

c) Stock option plan

Under the Corporation's stock option plan, the aggregate number of common shares that may be reserved for issuance pursuant to options shall not exceed 10% of the outstanding common shares at the time of the granting of an option, less the aggregate number of common shares then reserved for issuance pursuant to any other share compensation arrangement. The exercise price per common share for option granted shall not be less than the market price. Every option shall have a term not exceeding and shall expire no later than five years after the date of grant. The options granted under this plan may not be assigned or transferred. The Board of Directors shall determine the manner in which an option shall vest and become exercisable.

On May 11th, 2017, the Company granted 2,730,000 stock options which vested immediately and are exercisable into one common share in exchange for CAD \$0.35 per share for a period of five years. The options were valued using the Black Scholes option pricing model with the following inputs: volatility – 147.4%, risk-free interest rate – 0.91%, expected life – five years; and dividend yield – 0%. The company did not have any stock options outstanding, or stock option transactions during the current year.

Transactions with Related Parties

Details of transactions between the Pearl River group of companies and related parties are disclosed below:

- a) During the period and in the normal course of business, the Company entered into the following transactions with Guangzhou Plastics Industrial Joint Stock Co. Limited, the PRC partner of the jointly controlled entity, Guangzhou Rodman Plastics:

	<u>2018</u> (RMB)	<u>2017</u> (RMB)
Purchase of raw materials	5,001,692	3,070,832
Sale of finished goods	-	368
Trademark paid	36,000	36,000

- b) During the period the Company had the following other transactions included in general and administrative expenses with related parties:

Administrative fees incurred with a company controlled by a director of the Company were incurred in the amount of 11,415 RMB during the current quarter. All of this amount is included in accounts payable and accrued liabilities at March 31, 2018.

- c) The remuneration paid of directors and other members of key management during the period was as follows:

	<u>Quarter</u> (RMB)	<u>Year to date</u> (RMB)
Management salary and benefits	545,939	545,939

Transactions with Related Parties (continued)

These transactions have been recorded in the financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Management is of the opinion that these transactions were undertaken under the similar terms and conditions as those with non-related parties.

New Accounting standards and amendments

The Corporation adopted the following new accounting standards which did not have a material impact on these financial statements:

IFRS 9 – Financial Instruments

Under IFRS 9, financial assets are classified into financial assets measured at fair value or at amortized cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognized in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognize the gains and losses in other comprehensive income. IFRS 9 carries forward the recognition and measurement requirements for financial liabilities from IAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognized in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for de-recognition of financial assets and financial liabilities. This standard is effective for reporting periods commencing on or after January 1, 2018.

IFRS 15 – Revenues from Contracts with Customers

IFRS 15 replaces IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. This standard is effective for reporting periods commencing on or after January 1, 2018.

Future Standards and Amendments not yet adopted:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for reporting periods beginning on or after January 1, 2019.

Management is in the process of reviewing this new standard and its impact on the consolidated financial statements.

Financial Instruments and Other Instruments

Capital and financial risk management

The Group's objective of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of equity attributable to equity holders of the Company only, comprising share capital and reserves.

The main risks arising from the Group's financial instruments in the normal course of the Group's businesses are credit risk, interest rate risk, liquidity risk, and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

a) Credit risk

The Group's credit risk is primarily attributable to its accounts and other receivables and amount due from ultimate holding company. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of accounts receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Trade receivables are due within 30 days from the date of billing. Debtors with balances that are more than three months past due are requested to settle outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

b) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively.

The Group's fair value interest rate risk mainly arises from bank borrowings which interest rates and terms of repayment are disclosed in Notes to the annual financial statements. Borrowings were issued at fixed rates which expose the Group to fair value interest rate risk. The Group has no cash flow interest rate risk as there are no bank borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

Financial Instruments and Other Instruments (continued)

c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

d) Currency risk

The Group is exposed to currency risk primarily through transactions that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily the Renminbi and United States dollar.

e) Price risk

The Group is not exposed to any equity securities risk or commodity price risk.

Fair value of financial instruments

All financial instruments are carried at amounts not materially different from their fair values as at March 31, 2018 and December 31, 2017.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies, management has made the following judgments apart from those involving estimation as discussed below, which have the most significant effect on the amounts recognized in the financial statements.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgment in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or de-recognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year are discussed below.

Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the ageing and estimated net realizable value of inventories. The assessment of the provision amount required involves management judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charged/written back in the period in which the estimate has been changed.

Provision for doubtful debts

Provision for doubtful debts is made based on assessment of the recoverability of trade debtors and other receivables. The identification of doubtful debts requires management judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of trade debtors and other receivables and doubtful debt expenses/written back in the period in which the estimate has been changed.

Income taxes

The Company is subject to income taxes in Canada and in certain of its foreign operations. Management has estimated the income tax provision and deferred income tax balances in accordance with its interpretation of the various income tax laws and regulations. It is possible, due to complexity inherent in estimating income taxes that the tax provision and deferred income tax balances could change.

Estimated useful lives

Management estimates the useful lives of property, plant and equipment and amortizing intangible assets based on the period during which the assets are available for use. The amounts and timing of depreciation and amortization for these amounts are affected by the useful lives. The estimates are reviewed annually and are updated for changes in the expected useful life.

Business Development

Pearl continues to expand its business activities by increasing its distribution network throughout the new economic development areas in China; by developing new products for the logistics / automotive and agriculture industries; developing new products in conjunction with its export OEM customers and continuing to increase business activity from non-plastic sourcing opportunities.

Risks and Uncertainties

Pearl operates in the Chinese market which involves various known and unknown risk factors and uncertainties and other factors affecting Pearl specifically or the markets generally, Pearl's future performance could be affected by these important factors, which in some cases have affected, and which in the future could affect, Pearl's actual results and that could cause Pearl's actual results for 2018 and beyond to differ materially from those expressed in any forward looking statements made by or on behalf of Pearl. These risks and uncertainties include fluctuations in the level of local demand and capital, changes in Pearl's product costs and pricing, an inability to achieve or delays in achieving sayings related to the cost reductions, consolidation and restructuring program, changes in Pearl's product mix, the growth rate of the markets in which Pearl products are sold, market acceptance and demand for Pearl's products, changes in availability or prices for raw materials, pricing competition, difficulty in developing and introducing new products, failure to penetrate new markets effectively, limitations on foreign investment in local business and other political, economic and regulatory risks, difficulty in preserving proprietary technology, changes in environmental regulation and currency risk exposure. Certain of these risks and uncertainties are described in more detail below.

The price and availability of raw materials represents a substantial portion of the cost of manufacturing Pearl products. Historically, there have been fluctuations in these raw materials' prices and in some instances price movements have been volatile and affected by circumstances beyond Pearl's control. There can be no assurance that Pearl can pass on increase from normal market fluctuations in the price of resin to its customers through increases in selling price, or otherwise absorb such cost increases without significantly affecting its margins. In addition, the industry has occasionally found certain raw materials to be in short supply.