

KING GEORGE FINANCIAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS For The Three Months and Six Months Ended May 31, 2017

The following Management's Discussion & Analysis (MD&A) is based on information available to management as of July 24, 2017. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the six months ended May 31, 2017 which were prepared in accordance with International Accounting Standards ("IAS") 34 and the audited consolidated financial statements and MD&A for the year ended November 30, 2016 and 2015 prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise noted, the financial information in this MD&A and condensed consolidated interim financial statements are presented in Canadian dollars.

Based on the recommendation of Audit Committee, the Company's Board of Directors approved the content of this MD&A on July 24, 2017. Additional Information on the Company can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain information in this MD&A contains forward-looking statements that are based on assumptions and beliefs of Company's management who relies on its past experience, analysis of historical trends and information available to them at the time. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions are intended to identify forward-looking statements. Readers are cautioned that such statements are subject to certain risks and uncertainties associated with general business conditions, market competition, availability of acceptable financing and other economic factors commonly associated with the real estate development and hospitality related industry. As such, actual results and performance may vary significantly from those presented or discussed in such forward-looking statements. The Company is not obligated to publicly update or amend its forward looking statements except as required by applicable law.

OVERVIEW AND DESCRIPTION OF BUSINESS

King George Financial Corporation ("the Company") was incorporated under the laws of the Province of British Columbia on July 21, 1999 and is listed on the TSX Venture Exchange under the symbol 'KGF'. The Company's business is concentrated in the area of commercial and residential real estate development and long term investment in real estate and hotel related securities.

The principal assets include:

- 3.5 million common shares of Allied Hotel Properties Inc. (AHP), a hotel ownership and management company trading on the TSX Venture Exchange;
- 253 non-redeemable preference shares of Oclamon Real Estate Fund 1, a Cayman Islands incorporated company partnering with a top tier Malaysian developer to invest and develop a mixed-used real estate development project in the Iskander region, Malaysia;
- 20 Class 'A' units in MacDonald Lakeshore Properties Limited Partnership, a real estate investment limited partnership to develop 537 acres of land into a new subdivision called Lakestone located in Lake Country, Kelowna, BC;
- 3,971 units in Central Surrey Real Estate Investment Limited Partnership (CSREILP), a real estate investment limited partnership partnering with a third party on a 60/40 share-basis to jointly develop a residential building site into a 37-storey, 398-unit market condo project in Surrey, BC;
- 7,826,000 common shares of Glittering Team Sdn Bhd (GTSB), a Malaysian hotel ownership company developing and operating a hotel property in Kuala Lumpur, Malaysia. GTSB shares are held through the Company's 100% Malaysian subsidiary KGFC (Malaysia) Sdn Bhd (KGFCMSB); and
- \$24.1 million cash

RESULTS OF OPERATION

2017 Second Quarter Results (narrative amounts rounded to the nearest thousand, except income (loss) per share data)

For the three months ended May 31, 2017, net loss and comprehensive income (loss) attributable to shareholders of the Company was \$(275,000) ((\$0.01) per share) compared to \$(432,000) ((\$0.01) per share) for the same period last year. For the six months ended May 31, 2017, net income (loss) and comprehensive income (loss) attributable to shareholders of the Company was \$10,734,000 (\$0.27 per share) compared to a \$(955,000) ((\$0.02) per share) for the same period last year.

The Company has the following reportable operating segments: Real Estate Development, Hotel Development and Operations, Management and Finance Services, and Other.

	Revenue			
	Three months ended		Six months ended	
	May 31		May 31	
	2017	2016	2017	2016
Operating segments:				
Real Estate Development	(\$15,000)	-	11,505,000	(409,000)
Hotel Development and Operations	-	-	-	-
Management and Finance Services	-	-	-	-
Other	550,000	56,000	639,000	146,000
	<u>\$(265,000)</u>	<u>\$ 56,000</u>	<u>\$12,144,000</u>	<u>\$(263,000)</u>

Depreciation expense was \$2,000 for the three months ended May 31, 2017 compared to \$2,000 for the same period last year. For the six months ended May 31, 2017, depreciation expense was \$4,000 compared to \$4,000 the year before. No depreciation was taken on property, plant and equipment belonging to the Malaysian hotel under development until the hotel property is substantially developed and available for occupancy.

Salaries, benefits and director fees for the three months ended May 31, 2017 were \$142,000 compared to \$141,000 for the same period last year. For the six months ended May 31, 2017, salaries, benefits and director fees were \$249,000 compared to \$216,000 for the same period last year. To recognize the successful sale of Company's development lot in Surrey B.C., an additional \$10,000 in director fees were declared and paid during the year.

There was (\$103,000) foreign exchange (gain)/loss incurred during Q2-17 compared to \$209,000 exchange loss in Q2-16. For the six months ended May 31, 2017, exchange (gain)/loss was (\$50,000) compared to exchange loss of \$128,000 for the same period last year. A decrease in Canadian Dollar value against Singapore Dollar and Malaysian Ringgit on Company's foreign cash deposit in Asia was the main reason for the foreign exchange gain during Q2-17.

For the three months ended May 31, 2017, general and administrative expenses were \$62,000 compared to \$68,000 in Q2-16. For the six months ended May 31, 2017, general and administrative expenses were \$129,000 compared to \$120,000 for the same period in 2016. Apart from additional overhead expenses incurred by Company's office in Asia, overall, the amount of general and administrative expenses incurred was consistent with the level of business activity. A breakdown of general and administrative expenses is as follows:

	Breakdown of General & Administrative Expenses			
	Three months ended		Six months ended	
	May 31		May 31	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Advertising and promotion	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Automotive and travel	-	-	-	-
Office and miscellaneous	5,000	4,000	14,000	11,000
Professional fees	29,000	36,000	52,000	47,000
Public company expenses	1,000	2,000	10,000	9,000
Rent	24,000	23,000	48,000	47,000
Telephone	2,000	2,000	4,000	4,000
Total	\$ 62,000	\$ 68,000	\$ 129,000	\$ 119,000

Interest income earned in Q2-17 was \$83,000 compared to \$56,000 in Q2-16. For the six months ended May 31, 2017, interest income earned was \$172,000 compared to \$146,000 for the same period last year. An increase in surplus cash available to invest in short term

GIC had resulted in higher interest income earned during 2017.

Properties Held For Sale

Company's 2.84 acres properties held for sale called Lot A in Surrey, B.C. was sold in Q1-17 for \$15,556,000 less cost of sales \$3,224,000. Estimated income tax payable is \$1,400,000

Investments In Securities

As at May 31, 2017, the Company held the following available-for-sale securities:

- **Allied Hotel Properties Inc. (AHP) - 3.5 million common shares**
AHP is a public hotel ownership and management company trading on the TSX Venture Exchange (TSXV). On May 31, 2017, AHP shares closed at \$0.085 per share on TSXV. Additional information related to AHP is available under the trading symbol AHP on SEDAR at www.sedar.com
- **Oclamon Real Estate Fund 1 (The Fund) - 253 non-redeemable preference shares**
The Fund is a Cayman Islands incorporated private company managed by Oclaner Asset Management Pte. Ltd in Singapore. In 2013, The Fund formed a partnership with a Malaysian real estate developer UMLand to develop 5.02 acre of land located at Medini Lakeside of Iskandar region in Malaysia. On completion, this mixed-used development project will consist of a hotel/serviced apartment, an office tower, retail shopping units and two residential towers. The Fund is measured at cost.

In March 2017, the Fund issued a year-to-date progress report on the Medini Lakeside project as follows:

- Overall project construction is on schedule and 16.84% complete.
 - Project completion date is expected to be Q3 2018.
 - Project office tower building is over 50% sold or reserved representing a total value of RM 80.47M.
 - Sale of Shama hotel serviced apartment is slower than anticipated with approximately 30% of the units sold or reserved to date representing a total value of RM 60M.
 - Several marketing activities and sales events will be launched in China, Singapore, Hong Kong and Thailand in the coming months.
 - Project developer is planning to market a full serviced apartment tower named Citadines in Malaysia and Singapore in or around July 2017.
- **MacDonald Lakeshore Properties Limited Partnership (MLPLP) - 20 Class 'A' units**

MLPLP is a real estate investment limited partnership to develop through its general partner MacDonald Lakeshore Properties Ltd 537 acres of land into a new

subdivision called Lakestone located in Lake Country, Kelowna, BC. On completion, Lakestone will consist of 615 family homes, 150 townhouses and 80 condo suites for a total of 845 homes. MLPLP is measured at cost.

According to Lakestone's latest report, the project phase called Waterside, which consists of 84 development lots, is now sold out. In view of strong sale, partnership is proceeding with the construction of Phase 4 called Highlands, which has a total of 108 development lots. Expected completion date for Phase 4 will be in the fall of 2018 with a projected sell out date in 2019.

In February 2017, Lakestone was the winner of the prestigious Gold Tommie Award for Excellence in Innovative Architecture, Design, and Construction hosted by the Canadian Home Builders' Association. Additional information related to Lakestone can be viewed at www.lakestoneliving.com.

Recovery of Impairment Loss On Securities

In Q2-17, Company sold 10.3 million International Heathway Corporation common shares at \$0.102 per share less handling charges for a net proceed of \$1,046,000. This transaction resulted in a recovery of \$467,000 impairment loss previously recognized by the Company in 2015. The actual recovery amount was higher than the previously estimated \$159,000 made in February 2017.

Investment In Associate

- Central Surrey Real Estate Investment Limited Partnership (CSREILP) – 3,971 units (41.367% limited partnership interest)

CSREILP is a real estate investment limited partnership. It is partnering with a third party on a 60/40-share basis through Central Surrey Development Limited Partnership (CSDLP) to jointly develop a building site in Central City, Surrey, BC into a 37-storey, 398-unit market condo project called Prime On The Plaza. According to the latest report from General Partner of CSDLP, the project is 100% sold. Site construction works had reached level 18 above ground. Construction costs remain on budget and projected substantial completion date will be in the later part of 2018. The Company's investment in CSREILP is measured at its transaction date fair value of \$3,971,250 and adjusted using the Company's pro rata share of CSREILP's comprehensive income (loss) under the accounting equity method and additional capital contribution to the limited partnership. The indirect beneficial interest the Company held in CSDLP as at May 31, 2017 was 24.82%.

In Q2-17, CSREILP reported a 2016 LP loss of \$1,997,000 arising from its own administration expenses and 60% share of \$3,323,000 loss incurred by CSDLP. This CSDLP loss was mainly the result of expensing \$1,686,000 sale centre construction costs previously capitalized as project inventory and \$1,614,000

advance commission paid to real estate agents. The Company's share of loss on investment in associate was \$826,000. Additional information related to Prime can be viewed at www.liveprime.ca.

The Company holds a non-controlling minority investment position in AHP, the Fund, MLPLP, CSREILP and CSDLP respectively.

Property, Plant and Equipment

Property, Plant and Equipment consist of a hotel building under development in Kuala Lumpur, Malaysia and its related electrical and mechanical equipment totaling \$10,436,000 in Malaysia in addition to \$23,000 of Company's office equipment and leasehold improvement in Canada. GTSB is the owner of the hotel property under development and a 61.02% subsidiary of KGFC(M)SB, a corporation in Malaysia wholly owned by the Company.

As at May 30, 2017, the Company through KGFC(M)SB advanced \$3,466,000 as shareholder advance to GTSB. The shareholder advance carries a holding cost of 8% per annum on a non-compounding basis to GTSB. Repayment will be on a semi annual basis or at GTSB Board's discretion and drawn from 50% of GTSB profit available for distribution after deducting current liabilities, taxes and future funding requirements for debt servicing, capital expenditure and operating budget.

As GTSB's controlling shareholder, the Company also holds a majority position on GTSB's management committee, board of directors and is responsible for the day-to-day operation and administration of GTSB as well as overseeing the development and operation of the hotel property.

Non-controlling Interest and Advance From a Director of Non-controlling Interest

As at May 31, 2017, non-controlling interests in GTSB totals \$1,633,000 (representing 38.98% interest). A director of non-controlling interest party had an outstanding shareholder advance to GTSB in the amount of \$2,323,000. Holding cost and repayment conditions are identical to terms granted by GTSB to shareholder advance made by the Company.

Summary Of Quarterly Results

The following is a breakdown of total revenues (loss) including other income (expenses), net income (loss) and earnings (loss) per share for the last eight quarters:

	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15
Total Revenues (loss)	(265,000)	12,409,000	27,000	89,000	56,000	(319,000)	(3,207,000)	48,000
Net Income (loss)	(368,000)	10,780,000	(359,000)	(116,000)	(432,000)	(523,000)	(2,090,000)	165,000
Basic and diluted earnings (loss) per share								
	(0.009)	0.278	(0.009)	(0.003)	(0.011)	(0.013)	(0.053)	0.004

The above quarterly net income (loss) and basic and diluted earnings (loss) per share prior to Q2-16 were restated to include comprehensive income (loss) attributable to shareholders of the Company. Previously, these were reported using net income (loss) before comprehensive income (loss) for the period.

Other than Company's share of loss on investment in associate in Q2-17 and Q1-16, net revenue from sale of development properties in Q1-17 and an impairment loss on equity securities in Q4-15, in general, the variations were in accordance to the level of business activity in each quarter

LIQUIDITY AND CAPITAL RESOURCES

Cash Generated/(Used) in Operating Activities

For the six months ended May 31, 2017, cash generated/ (used) in operating activities was \$15,327,000 compared to \$(392,000) for the same period last year. Proceed from sale of Company's development lot in Surrey B.C. was the reason for the increase in cash under operating activities during 2017.

Financing and Investing Activities

For the six months ended May 31, 2017, the Company received \$1,046,000 from sale of its marketable securities in Singapore and repaid \$1,000 in its obligations under capital lease.

Working Capital

The Company's cash position increased from \$7,707,000 at the beginning of the period to \$24,078,000 at the end of the period.

Contractual Obligation

The Company had obligations under capital lease totaling \$9,000 from the leasing of certain office equipment.

Commitments and Contingencies

The Company signed a 60-month office rental lease expiring on October 31, 2019. Annual basic rent payable under the lease is \$50,000 plus prorated portion of building operating costs and property tax estimated at \$46,000 per year.

The Company together with other partners in CSREILP has an outstanding joint agreement to indemnify the general partner of CSREILP (the indemnitee) who acts as a co guarantor to secure a construction bank loan made to CSDLP. The pro-rata share of indemnity amount given by the Company to the indemnitee is \$ 6,205,000 plus interest and other costs related to the CSDLP bank loan guarantee.

SHARE CAPITAL

As at July 24, 2017, the Company's issued and outstanding common shares without par value stood at 39,556,460.

No options were granted during Q2-17. At the end of the quarter, there were no options, warrants or convertible securities outstanding. No shares were held in escrow or subject to pooling agreements at the period end.

RELATED PARTY TRANSACTION

For the six months ended May 31, 2017, the Company paid \$86,000 in salary and \$56,000 in director fees to key management personnel.

DIRECTORS AND OFFICERS

The following is a list of the Company's directors and officers as at July 24, 2017:

Directors

Andrew E. Saxton
Andrew Saxton, Jr.
Tuan Syed Abu Bakar bin Syed Mohsin Almohdzar
Robert Yew Chuan Ng
Dennis Ng
Tim Koo

Officers

Andrew E. Saxton	– Chairman
Dennis Ng	– President
Andrew Saxton, Jr.	– CEO
Tim Koo	– CFO
Sean Leong	– Secretary

INVESTOR RELATIONS

No investor relation activities were undertaken by or on behalf of the Company during the quarter ended May 31, 2017. No investor relation arrangements or contracts were entered into by the Company during the quarter ended May 31, 2017.

MINERAL LEASES

The three mineral leases granted to the Company in the Arrow Lakes District of southeastern British Columbia were kept in good standing. Company has no current plan to carry out exploration work on these leased sites.

RISK MANAGEMENT

Credit Risk

The Company's credit risk is primarily attributable to cash and loan receivable. Cash is held in reputable Canadian banks and brokerage firms in Singapore and Malaysia which are closely monitored by management. Management believes the credit risk concentration with respect to the Company's financial instruments is minimal and the credit rating of the financial institutions and brokerage firms it deals with is satisfactory.

Loan receivable was secured with shares pledged by the corporate borrower and personal guarantees from the borrower's corporate directors.

Foreign Exchange Risk

The Company is subject to currency risk due to the fluctuation of Canadian Dollar exchange rate against US Dollar, Singapore Dollar and Malaysian Ringgit. This relates to the cash, loan receivable and equity securities held in the Company's Asian brokerage accounts and hotel investment in Malaysia. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk would impact mainly on the Company's cash. Management believes current interest rate would remain fairly stable in the foreseeable future. A minor fluctuation in interest rate would

have a minimal effect on the profitability of the Company.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at May 31, 2017, the Company held cash of \$24,078,000 and had liabilities of \$4,517,000. \$787,00 liabilities were trade payables due in 30 days or less and were subject to normal trade terms. \$1,398,000 was income tax payable due in January 2018. \$2,323,000 was fund advance from non-controlling interest with repayment terms tied to net surplus cash available for distribution from 50% of GTSB profit. Liquidity risk is assessed as minimal.

Other Price Risk

The Company's investment in publicly traded equity securities AHP is classified as available-for-sale. AHP is listed on Canadian public stock exchange TSX Venture (TSXV). A \$0.10 change in the Canadian dollar equivalent quoted share price would have an impact net of tax on the fair values as follows:

EQUITY SECURITIES	FINANCIAL IMPACT
AHP	\$ 350,000

Real Estate Development Risk

The Company is exposed to certain risks associated with real estate development industry. These include planning permit risk, construction pricing risk, revenue risk associated with supply and demand of residential multi-family units for sale in the market and general market risk. Company mitigates these risks by partnering with other reputable experienced developers, maintaining good communication and a cooperative working relationship with the city planning department, hiring experienced consultants in designing, costing, marketing and construction phase of the development project and whenever possible, entering into fixed-price contracts with general contractors or sub-contractors.

FUTURE ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

The following standards and interpretations are not yet effective and will only be applied for the first time in future periods. They may result in consequential changes to the accounting policies and other note disclosures. The Company has not yet assessed the impacts of the standards or determines whether it will adopt the standards early:

IFRS 9 Financial Instruments was issued in November 2009 and covers the classification and measurement of financial assets as part of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is applicable for periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers establishes a five-step model that will apply to revenue earned from a contract, regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted.

IFRS 16 Leases replaces IAS 17 – Leases and requires leases to account for leases on the balance sheet by recognizing a right to use asset and lease liability. The standard is effective for the annual reports beginning on or after January 1, 2019, with earlier adoption permitted.

CONTROL OVER DISCLOSURE AND FINANCIAL REPORTING

Disclosure controls and procedures (“DC&P”) are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting (“ICFR”) are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with International Financial Reporting Standards (IFRS).

TSX Venture listed companies are not required to provide representations in the annual filings relating to the establishment and maintenance of DC&P and ICFR, as defined in Multinational Instrument 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitation on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in National Instrument 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

ADDITIONAL INFORMATION

Additional information related to the Company is available on SEDAR at www.sedar.com