MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations (the "MD&A") of Alpha Peak Leisure Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") is prepared for the years ended December 31, 2017 and 2016. The 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. These financial statements were prepared in accordance with International Financial Reporting Standards. The results of operations, business prospects and financial condition of the Group will be affected by certain risk factors described elsewhere in this document.

All dollar figures stated in this MD&A are expressed in Canadian dollars, unless otherwise specified. Information contained herein includes any significant developments to April 30, 2018.

RESULTS OF OPERATIONS

Selected Quarterly Financial Data

	2017				2016			
	31 Dec	30 Sep	30 Jun	31 Mar	31 Dec	30 Sep	30 Jun	31 Mar
Revenue	370,713	392,025	465,620	163,191	358,218	355,240	570,596	362,971
Cost of sales	654,495	589,467	578,095	409,397	755,833	533,821	838,466	592,974
Other income	915	44,399	43,850	42,688	43,292	37,660	37,208	39,777
Other gain and (loss)	23,939	39,216	43,943	35,697	(73,991)	(48,944)	118,587	610,003
Marketing expenses	(259,320)	372,126	446,257	321,114	535,016	238,473	354,654	329,224
Impairment loss on IA from SCA	7,770,223	-	-	-	-	-	-	-
Written off on PPE	7,471,811	-	-	-	-	-	-	-
Impairment loss on PPE	10,163,037	-	-	-	-	-	-	-
Administrative expenses	889,457	806,330	922,527	664,456	610,842	631,330	664,352	533,280
Finance cost	24,484	23,956	25,700	25,464	25,930	25,344	24,805	26,068
Loss before tax	26,318,620	1,316,239	1,419,166	1,178,855	1,600,102	1,085,012	1,155,886	468,795
Income tax credit	-	-	-	-	(12,787)	(12,515)	(10,341)	(10,870)
Loss for the year	26,318,620	1,316,239	1,419,166	1,178,855	1,587,315	1,072,497	1,145,545	457,925
Basic loss per share	0.39	0.02	0.02	0.02	0.02	0.02	0.02	0.01
Diluted loss per share	0.39	0.02	0.02	0.02	0.02	0.02	0.02	0.01

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

Fourth Quarter 2017 Operating Results

The Group’s revenue totaled $370,713 for the fourth quarter, compared to $358,218 in the prior year quarter, up 3.5%.

The Group revenue growth was led by increased of visitors in the fourth quarter. In the first half of 2017, continuous marketing campaigns were launched to increase cooperation with travel agencies.

Total operating costs were $26.4 million in the fourth quarter, relative to $1.9 million in the prior year period.

The net loss for the fourth quarter of 2017 increased by 1,558.00% to $26,318,620 from $1,587,315 for the fourth quarter of 2016.

Overall Performance 2017

In 2017, we reported net loss of $30.23 million, a substantial increase of 60% as compared to the same period in 2016. The increase was mainly due to the impairment loss for 2017.

Revenue

Gonga's revenue consists of construction services under a service concession arrangement, admission ticket sales, attraction ticket sales and bubble hotels business. Revenue for the full year decreased 15.5% to $1,391,549, mainly due to the absence of construction services under a service concession that terminated in 2017.

Revenues from admission ticket sales increased 48% to $515,578. The segment's growth which reflected over 35% of revenues resulted from the increase in number of visitations. In comparison to 2016, the operations were adversely affected by landslides and bad weather from June to August of 2016, resulting in the drop of spending per visitor from $19 to $14. However, in 2017 continuous sales promotion and publicity activities have greatly improved the number of individual visitors. In 2017, traffic facilities in Chengdu to Moxi were greatly improved compared with that in 2016, and convenient for tourists to enter scenic spots.

Revenues from attraction ticket sales recorded a growth which reflected approximately 53.5% of revenues resulted from the increase in number of visitation.

Revenue with bubble hotels business increased by 29% to $72,553, which is mainly caused by the increase of visitors.

In 2017 the increase in admission ticket sales and attraction ticket sales are mainly caused by few reasons as follow:

1) The first half of 2017, continuous marketing campaigns were launched to increase cooperation with travel agencies.
2) Since the four major line travel agencies began to cooperate with the company in 2015, they gradually improved their own sales channels and basically covered the market of the two-level city travel agencies in Chengdu and the province, and took the initiative to do some promotion activities, from passive to the initiative to carry out a little increase in swallow gully.
3) August 8, 2017 earthquake in Jiuzhaigou, Sichuan, part of the tourists to Ganzi scenic area play is also one of the reasons.
4) In 2017, traffic facilities in Chengdu to Moxi were greatly improved compared with 2016, which improved the entry of scenic spots.

Operating Expenses

Marketing expenses were $0.88 million in 2017, a substantial decrease of 39.6% from the same period in 2016. The Group's decreased marketing program spending is mainly caused by the factor that the payment of RMB 3 million to company's strategic partner, China Travel Service (HK) Ltd in 2016 that did not reoccur for 2017. Instead, during the year 2017, variety of more cost-effective marketing campaigns were launched to increase cooperation with travel agencies which effectively decreased the over all marketing expense with an improved visiting numbers.

Promotional expenses were $192,428 in 2017, which was 27.1% lower than in 2016, as management is constantly exploring cost effective method of promoting Swallow Gully.

Promotional expenses were 13.8% of adjusted revenue in 2017 as compared to 28.8% in 2016. The promotional expenses to adjusted revenue ratio is a measurement of the effectiveness of our advertising campaign and depends on several factors such as the competitive rivalry, business size, and its growth stage. This ratio will fluctuate in any given period depending on the timing of program spending.

Administrative expenses were $3.28 million in 2017, which was 34.6% higher than in 2016. The increase in spending was mainly due to the full year running expenses of Hong Kong management office.

Administrative expenses were 235.9% of revenue in 2017 as compared to 148.1% in 2016. The increase has been the result of higher net loss.

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 Gonga 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.

Product offering: The Company positions the scenic area as Swallow Gully tourism cultural resort of Gonga 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, Gonga Terraferma Limited ("Gonga"), a company incorporated under the laws of the PRC, which is the developer and operator of Swallow Gully. Meanwhile, some of the Group's expenses are denominated in Hong Kong dollars ("HKD") and generated through its wholly owned subsidiary, Merit Sign Investments Limited ("Merit Sign"), a company incorporated in Hong Kong, which provides management services to the Group. Accordingly, the results of operations are impacted by the fluctuation of RMB and HKD against Canadian dollars ("CAD"). The average exchange rate of RMB against CAD for the years ended December 31, 2017 and 2016 was RMB 1 = CAD 0.1920 and RMB 1 = CAD 0.1987 respectively. While that for HKD against CAD for the years ended December 31, 2017 and 2016 was HKD 1 = CAD 0.1661 and HKD 1 = CAD 0.1703 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.

Results of Operations – Year Ended December 31, 2017 compared to December 31, 2016

Revenue

	For the year ended December 31,			
	2017	**% of Total**	**2016**	**% of Total**
	$		$	
Construction services under a service concession arrangement	-	-	730,811	44.4%
Admission ticket sales	515,578	37.1%	347,806	21.1%
Attraction ticket sales	867,303	62.3%	564,893	34.3%
Others	8,668	0.6%	3,515	0.2%
Total	**1,391,549**	**100.0%**	**1,647,025**	**100.0%**
Less:				
Construction services under a service concession arrangement	-		(730,811)	
Adjusted total	**1,391,549**		**916,214**	
Number of visitors	**102,003**		**64,597**	
Spending per visitor	**14**		**14**	

For the year ended December 31, 2017, total revenue was 15.5% lower than last year, as the Company earned revenue from the construction services under a service concession arrangement of CAD 730,811 last year.

Revenue from construction services for the year ended December 31, 2017 decreased compared to last year. The Swallow Gully was completed in 2016, so there is no longer any construction services revenue for 2017.

Revenue from construction services was accounted for in accordance with IAS 11 *Construction Contracts* (see note 5 to the audited consolidated financial statements). As such, the revenue and cost from construction services were offset with each other. Excluding revenue from construction services, the adjusted revenue was $1,391,549 for the year ended December 31, 2017 compared to $916,214 for the same period in the year prior, reflecting an increase of $475,335. The increase was attributed to the increase in the number of visitors.

Swallow Gully attracted 102,003 visitors for the year ended December 31, 2017, compared to 64,597 visitors for the same period in the previous year. The increase was mainly due to better marketing efforts and signing on additional travel agents.

The spending per visitor for the year ended December 31, 2017 was $14, compared to $14 for the same period in the previous year. It was expected to use the price adjustment strategy to stabilize the number of visitors, to remain competitive.

Cost of Sales/Services

	For the year ended December 31,			
	2017	% of Total	2016	% of Total
	$		$	
Provision of construction services under a service concession arrangement	-	-	730,811	26.9%
Amortization of intangible assets	258,657	11.6%	269,824	9.9%
Depreciation	655,735	29.4%	556,053	20.4%
Salary	315,470	14.1%	269,050	9.9%
Insurance expenses	73,001	3.2%	60,399	2.2%
Transportation	217,830	9.8%	190,348	7.0%
Meal and entertainment	-	-	15,581	0.6%
Sales rebate and others	710,761	31.9%	629,028	23.1%
Total	**2,231,454**	**100.0%**	**2,721,094**	**100.0%**
Less:				
Provision of construction services under a service concession arrangement	-		(730,811)	
Adjusted total	**2,231,454**		**1,990,283**	

The cost of sales/services decreased by 18% to $2,231,454 for the year ended December 31, 2017, compared to $$2,721,094 in the previous year. This was mainly because of the decrease in the provision of construction services. Excluding this portion, the adjusted cost of sales/services increased by $241,171 to $2,231,454 for the year ended December 31, 2017, compared to $$1,990,283 for the same period in the year prior.

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

- For the year ended December 31, 2017, sales rebate and other expenses of $710,761 increased $81,733 or 13.0% from the year ended December 31, 2016.
- For the year ended December 31, 2017, depreciation of $655,735 increased $99,682 or 17.9% from the year ended December 31, 2016.

Gross Loss

	For the year ended December 31,		
	2017	2016	Increase (decrease)
	$	$	
Gross loss	839,905	1,074,069	-21.8%

The gross loss decreased by 21.8% to $839,905 for the year ended December 31, 2017 up from $1,074,069 from the prior year.

Other Income

	For the year ended December 31,		
	2017	2016	Increase (decrease)
	$	$	
Other income	131,852	157,937	-16.5%

Other income consists of imputed interest income on advances to a local authority, Hailuogou Authority (see note 8 to the audited consolidated financial statements), which was advanced in prior years, bank interest income and sundry income. For the year ended December 31, 2017, other income squeezed $26,085 or 16.5% compared to the same period in the last year, representing the interest income derived from bank deposit decreased as a result of $4.8 million bank deposit balances have plummeted during the current year.

Marketing Expenses

	For the year ended December 31,		
	2017	2016	Increase (decrease)
	$	$	
Fee paid to China Travel Service (H.K.) Ltd.	-	598,345	100.0%
Promotional activities	192,428	263,928	-27.1%
Staff costs and others	687,749	595,094	-15.6%
Total	880,177	1,457,367	-39.6%

Marketing expenses decreased 39.6% to $880,177 for the year ended December 31, 2017, compared the last year. The decrease was mainly due to the marketing initiatives and the services fee of accrued to China Travel Service (H.K.) Ltd., in 2016 but no any in 2017. During the year 2017, variety of more cost-effective marketing campaigns were launched to increase cooperation with travel agencies which effectively decreased the overall marketing expense with an improved visiting numbers.

Other Gain and Loss

	For the year ended December 31,		
	2017	2016	Increase (decrease)
	$	$	
Other gain and (loss)	142,795	605,655	-76.4%

In the current year, we recorded foreign exchange gain of $142,795 as compared to a gain of $605,655 for the last year. Other gain and loss comprises net foreign exchange gain or loss. The year over year less improvement in foreign exchange gain and loss is principally due to the result of much stronger RMB in relation to CAD and HKD throughout 2017.

Administrative Expenses

	For the year ended December 31,		
	2017	2016	Increase (decrease)
	$	$	
Administrative expenses	3,282,770	2,439,804	34.55%

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

Administrative expenses increased 34.55% to $3,282,770 for the year ended December 31, 2017 from $2,439,804 for the same period in 2016. The increase was mainly due to the fees paid to CFO and staff who were the running expenses of Hong Kong management office.

Qualifying Transaction cost

	For the year ended December 31,		
	2017	**2016**	**Increase (decrease)**
	$	$	
Qualifying Transaction cost	-	-	-

Qualifying Transaction cost of $21,484,233 for the year ended December 31, 2015, representing the difference between the amount of consideration and the net identifiable assets acquired upon the completion of Qualifying Transaction, together with expenses directly attributable to the Qualifying Transaction (see note 21 to the audited consolidated financial statements). This cost is a non-cash item. No such expense incurred in the year ended December 31, 2016 and 2017.

Net Loss

	For the year ended December 31,		
	2017	**2016**	**Increase (decrease)**
	$	$	
Net loss	30,232,880	4,263,282	646%
Less:			
Qualifying transaction cost	-	-	
Non-cash unrealized exchange gain	142,795	605,655	
Impairment loss recognised in respect of intangible asset arising from a service concession arrangement	-7,770,223	-	
Write-off in respect of property, plant and equipment	-7,471,811	-	
Impairment loss recognised in respect of property, plant and equipment	-10,163,037	-	
Adjusted net loss	**4,970,604**	**4,868,937**	**556%**

Net loss increased 646% to $30,232,880 for the year ended December 31, 2017, compared to last year. The increase was mainly due to the impairment loss in 2017. Excluding the qualifying transaction cost, foreign exchange gain or loss and impairment & written off of PPE, the adjusted net loss increased 2.1% to $4,970,604 for the year ended December 31, 2017, compared to the same period of prior year. The increase was mainly due to the fees paid to CFO and staff that were the running expenses of Hong Kong management office.

Staring from Q3 of year 2017, our Group has changed management team. As former management team has overestimated forecast cash flow in the past, after careful analysis and projection, the current team decide to modify to a more conservative but realistic cash flow forecast. Based on the law and regulations, in 2017 our Group have to do an impairment, and the impairment lead our Group obvious loss at the ended of December 31, 2017.

Liquidity

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

At present, there are no known demands, commitments, events or uncertainties that would adversely affect the trends and expected fluctuations in the Group's liquidity.

	For the year ended December 31,	
	2017	2016
	$	$
Net cash used in operating activities	(3,453,289)	(3,641,135)
Net cash used in investing activities	(3,158,195)	(777,736)
Net cash from financing activities	1,496,277	-
Effects of foreign exchange rate changes on cash	(29,040)	(392,496)
Net decrease in cash	(5,144,247)	(4,811,367)
Working capital	1,164,932	6,004,692

The net cash used in investing activities for the year ended December 31, 2017 consists of the acquisition of property, plant and equipment in the amount of $768,193 and placement of structured deposit amount of $2,403,430, offset by the bank interest income of $13,428. The property, plant and equipment included attractions and improvement, motor vehicles and others (see note 5 to the audited consolidated financial statements). The net cash from investing activities for the same period in 2016 was the bank interest income of $30,380, offset by the acquisition of property, plant and equipment in the amount of $808,116.

The net cash from financing activities for the year ended December 31, 2016 merely represented the net proceeds from the private placement financing.

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

Working capital decreased from $6,004,692 as at December 31, 2016 to $1,164,932 as at December 31, 2017 mainly due to the continued operating loss and the acquisition of property, plant and equipment.

Capital Expenditures

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

Off-Balance Sheet Arrangements

The Group has no off-balance sheet arrangements.

Related Party Balances and Transactions

As at December 31, 2017, the Group had a current and non-current balance due to a shareholder, CN Lifestyle Limited, in the amount of $66,440 (2016: $201,277) and nil (2016: $2,075,712), respectively.

As at December 31, 2017, the Group had a current and non-current balance due to a related party, Chong's Family, in the amount of $33,164 (2016: nil) and $1,928,689 (2016: nil), respectively.

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

	For the year ended December 31,	
	2017	**2016**
	$	$
Interest payable to a shareholder	66,440	102,147
Interest payable to related parties	33,164	-
Management fee payable to a related party	31,347	40,867

Financial Instruments and Other Instruments

The Group held cash of $2.6 million on its audited consolidated statement of financial position as at December 31, 2017 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 $0.24million and $4.9 million as at December 31, 2017 and 2016 respectively, and liabilities were $2.0 million and $2.3 million as at December 31, 2017 and 2016 respectively.

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

Interest rate risk

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

Credit risk

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

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

Outstanding Shares and Share Options Information

As at December 31, 2017 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. As at December 31, 2016, the Company had 64,346,480 common shares, 675,000 share options for a total of 65,021,480 fully diluted common shares outstanding.

Critical Accounting Policies and Estimates

This MD&A should be read in conjunction with the audited consolidated financial statements and related notes thereto for the years ended December 31, 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 years ended December 31, 2017 and 2016.

Valuation of property, plant and equipment

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

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost or revalued amount less subsequent accumulated depreciation and accumulated impairment losses. The estimation of their useful lives impacts the level of annual depreciation expense recognised. 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 or cash-generating units. 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 profit or loss, according to the accounting policies of the Group.

As at December 31, 2017, the carrying value of the property, plant and equipment was $1,820,564 (2016: $19,582,723). Impairment losses of $10,163,037 (2016: $Nil) and write-off of $7,471,811 (2016: $Nil) is recognised in the statement of profit or loss in respect of property, plant and equipment for the year ended December 31, 2017.

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. Intangible asset arising from a services concession arrangement of $7,770,223 is fully impaired during the year ended December 31, 2017.

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 Gonga 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 Gonga Mountain and operates a 3.5 km cable car 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[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Venture[2]

Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015 - 2017 Cycle[2]

[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.