

WORLD MAHJONG LIMITED
Management Discussion and Analysis (“MD&A”)
for the six months ended June 30, 2017

The following discussion and analysis of the operations, results, and financial position of World Mahjong Limited (“the Company”) for the six months ended June 30, 2017 should be read in conjunction with the Company’s unaudited financial statements and related notes for the six months ended June 30, 2017 and the audited financial statements for the year ended December 31, 2016. The effective date of this report is August 29, 2017. All figures are presented in Canadian dollars, unless otherwise indicated.

COMPANY OVERVIEW

World Mahjong Limited (the “Company”) was incorporated in the Province of British Columbia on May 11, 1981. The Company’s principal business activity is the development of mahjong tournaments throughout the Asia Pacific region. The head office and records office of the Company are located at 1430 – 800 West Pender Street, Vancouver, British Columbia, Canada, V6C 2V6. The Company is listed on the Canadian Securities Exchange (“CSE”) under the symbol “WSM”.

On May 12, 2017, the Company consolidated its share capital, stock options and warrants on a one-new-for-ten-old basis. All references to share capital, stock options and share purchase warrants presented in these financial statements have been restated to reflect the share consolidation.

On June 9, 2017, the Company settled \$453,841 of debt through a private placement with various arm’s length and non-arm’s creditors.

On August 15, 2017, the Company announced a proposed consolidation of its issued and outstanding common shares on the basis of one new common share for up to ten existing common shares, subject to CSE’s approval.

On August 21 2017, the Company announced its intention to carry out a non-brokered private placement of up to 15,000,000 units at a price of \$0.05 per unit for gross proceeds up to \$750,000.

CORPORATE HISTORY

The Company is a tournament-based and online Mahjong game developer. Under development since 2007, the Company hosts tournaments at physical venues, in addition to its online and television focus. Most importantly, the Company has the exclusive right to use “World Series of Mahjong” trademark and owns its own proprietary “rule-set”. Trademark applications for the “World Series of Mahjong” logo were submitted in late 2014 and early 2015 to the firm’s attorney for the countries and regions of Australia, Canada, Hong Kong, Macau, the Philippines, China, Japan, Singapore, Malaysia, Taiwan and the United States. This protected brand and system means that the Company can offer Mahjong operators, sponsors, and players a distinctive and collaborative environment to play Mahjong – whether it be in-person or online – using the Company’s own Mahjong system.

The Company developed the “World Series of Mahjong” in 2007. The World Series of Mahjong tournament was last held in Macau in 2015 and was (and remains) the largest Mahjong tournament in the world. In addition to carrying the largest prize purse in history, the tournament was widely promoted throughout Asia, North America, Australia and Europe. In 2007 and 2008, the World Series of Mahjong was held at the Wynn Macau. In 2010, the World Series of Mahjong was held at the Venetian Macau Resort, and in 2012 the tournament was scheduled to be held in Sydney, Australia at The Star Casino, but was postponed to 2013, and finally cancelled due to a change in management at The Star. In 2015, the World Series of Mahjong tournament was held again at The Venetian Macau Resort. In addition to the World Series of Mahjong tournament, each year, the Company has operated a series of qualifying

events throughout the Asia-Pacific region. Since 2008, such qualifying events have been held in Hong Kong, Australia, Canada, Japan and Taiwan. The Company's primary focus since 2013 has been developing its online platform, including an interactive website and its own online Mahjong game and affiliate partners.

During the year ended December 31, 2016, the Company abandoned its 100% owned subsidiaries Silverdale Ventures (BVI) Limited ("Silverdale") and World's Competition Events Management Ltd. ("WCEM") as it lost its ability to control the subsidiaries. As a result, the Company's condensed interim financial statements for the six months ended June 30, 2017 only include the accounts of the Company and its wholly-owned subsidiary, Croydon Holdings (BVI) Limited ("Croydon"), a British Virgin Islands company. Croydon was inactive during the six months ended June 30, 2017 and 2016.

The abandonment of these subsidiaries by the Company during the year ended December 31, 2016 resulted in a loss on abandonment of assets and liabilities of \$2,017,737 summarized as follows:

<u>Assets or Liabilities Abandoned</u>	<u>\$</u>
Cash	363,800
Prepaid expenses	9,245
Advances to a related party (Note 7)	275,024
Investment in subsidiaries	541,250
Accounts payable and accrued liabilities	(742,939)
Foreign currency translation reserve	1,571,357
Total	2,017,737

SUMMARY OF QUARTERLY RESULTS

The following selected financial data is prepared in accordance with IFRS:				
	3 months ended June 30, 2017	3 months ended March 31, 2017	3 months ended December 31, 2016	3 months ended September 30, 2016
Total revenue	\$0	\$0	\$0	\$0
Cost of revenue	\$0	\$0	\$0	\$0
Expenses	\$225,727	\$88,956	\$259,014	\$24,860
Net loss	\$(225,727)	\$(87,727)	\$(262,419)	\$(24,860)
Loss per common share, basic and diluted	\$(0.02)	\$(0.01)	\$(0.03)	\$(0.00)

The following selected financial data is prepared in accordance with IFRS:				
	3 months ended June 30, 2016	3 months ended March 31, 2016	3 months ended December 31, 2015	3 months ended September 30, 2015
Total revenue	\$0	\$0	\$350,253	\$0
Cost of revenue	\$0	\$0	\$890,986	\$0
Expenses	\$72,036	\$42,754	\$4,001,600	\$222,808
Net loss	\$(72,036)	\$(2,060,491)	\$(4,542,333)	\$(222,808)
Loss per common share, basic and diluted	\$(0.01)	\$(0.25)	\$(0.67)	\$(0.04)

The Company signed the Amalgamation Agreement in June 2015 and as a result experienced an increase in operating activities since Q2 2015.

In December 2015, the Company held its World Series of Mahjong tournament at The Venetian Macau Resort and reported a total revenue of \$350,253 and cost of revenue of \$890,986.

In December 2015, the Company granted 450,000 stock options to various consultants, directors and officers of the Company which have an exercise price of \$4.50 and expire on December 7, 2018. The grant-date fair value of these options, using Black-Scholes Option Pricing Model, was \$1,494,765 resulting in a significant increase in operating expenses for Q4 2015.

However, the Company abandoned its investments in Silverdale and WCEM during the year ended December 31, 2016. This resulted in a significantly lower activity throughout 2016. The Company recorded a loss on abandonment of subsidiaries during the first quarter ended March 31, 2016.

DISCLOSURE OF OUTSTANDING SHARE DATA

The following table summarizes the total number of common shares outstanding as at June 30, 2017 and as of the date of this MD&A assuming all outstanding options were converted to common shares:

	June 30, 2017	As of the date of this MD&A
Common shares	16,471,231	16,471,231
Options to purchase common shares	450,000	450,000
Warrants to purchase common shares	8,271,641	8,271,641
	<u>25,192,872</u>	<u>25,192,872</u>

RESULTS OF OPERATIONS

Six months ended June 30, 2017 ("2017") compared with six months ended June 30, 2016 ("2016")

The loss for the six months ended June 30, 2017 was \$313,454, compared with \$2,017,737 for the six months ended June 30, 2016. Detailed discussion of the major differences is as follows:

- Consulting fees of \$104,266 were incurred in 2017 as compared to \$40,667 in 2016. The increase was mainly due to increased fees accrued to a different consultant during 2017 in relation to the identification of and evaluation of potential deals for the Company;
- Management fees of \$176,000 were incurred in 2017 as compared to \$35,000 in 2016. The increase was due to incurring management fees paid/accrued to a total of four directors in 2017 compared to one director in 2016;
- Professional fees of \$6,896 were incurred in 2017 as compared to \$18,874 in 2016. The decrease is mainly due to reduced accounting and audit fees recorded in 2017; and
- Loss on abandonment of subsidiaries of \$Nil were incurred compared to \$2,017,737. During 2016, the Company abandoned both Silverdale and WCEM resulting in a loss of \$2,017,737. No similar costs were incurred in 2017.

Three months ended June 30, 2017 (“Q2 2017”) compared with three months ended June 30, 2016 (“Q2 2016”)

The loss for the three months ended June 30, 2017 was \$225,727, compared with \$72,036 for the three months ended June 30, 2016. Detailed discussion of the major difference is as follows:

- Consulting fees of \$54,655 were incurred in Q2 2017 as compared to \$26,000 in Q2 2016. The increase was mainly due to increased fees accrued to a different consultant during Q2 2017 in relation to the identification of and evaluation of potential deals for the Company;
- Management fees of \$145,000 were incurred in Q2 2017 as compared to \$19,000 in Q2 2016. The increase was due to incurring management fees paid/accrued to a total of three directors in 2017 compared to one director in 2016;
- Professional fees of \$2,896 were incurred in Q2 2017 as compared to \$15,797 in Q2 2016. The decrease is mainly due to reduced accounting and audit fees recorded in Q2 2017; and
- Transfer agent and filing fees of \$10,363 were incurred in Q2 2017 as compared to \$1,041 in Q2 2016. The increase was mainly due to additional fees paid to transfer agent during Q2 2017 in relation to the Company's share consolidation on May 12, 2017.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements.

As at June 30, 2017, the Company had working deficiency of \$150,665 compared to working deficiency of \$291,052 as at December 31, 2016.

As at June 30, 2017, the Company had cash of \$148 (December 31, 2016 - \$1,710) available to meet short-term business requirements and liabilities of \$167,739 (December 31, 2016 - \$305,451). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has no long-term debt.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

CONTRACUAL COMMITMENTS

There are no contractual commitments.

TRANSACTIONS WITH RELATED PARTIES

Related parties include the Board of Directors, Executive Officers and any companies owned or controlled by them.

Compensation of Key Management Personnel

Key management personnel consist of current and former directors and senior management including the President, Chief Executive Officer, current and former Chief Financial Officers. Key management personnel compensation for the six months ended June 30, 2017 and 2016 includes:

	2017	2016
Consulting and management fees	\$ 176,000	\$ 35,000

The accounts payable and accrued liabilities of the Company include amounts due to related parties. The amounts owing are non-interest bearing, unsecured and due on demand and are as follows:

	June 30, 2017	December 31, 2016
Key management personnel	\$ 62,600	\$ 32,800

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include accrued liabilities, the determination of share-based payments and the recoverability of deferred tax assets.

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 further periods if the review affects both current and future periods.

Information about critical judgments in applying accounting policies that have the most significant effect of amounts recognized in the financial statements is included going concern assessment.

RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

The following standard will be effective for annual periods beginning on or after January 1, 2018:

IFRS 9 – Financial Instruments - In November 2009, as part of the IASB project to replace IAS 39 *Financial Instruments: Recognition and Measurement*, the IASB issued the first phase of IFRS 9 *Financial Instruments* that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. IFRS 9 was subsequently amended in November 2013 to add new general hedge accounting requirements. The final version of IFRS 9 was issued in July 2014 and adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics.

The extent of the impact of adoption of this standard and interpretations on the financial statements of the Company has not been determined.

FINANCIAL INSTRUMENTS

The classification of the financial instruments as well as their carrying values as at June 30, 2017 is shown in the table below:

Loans and receivables	\$	148
Financial liabilities measured at amortized cost	\$	167,739

a) Fair Value of Financial Instruments

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The fair value of cash, amounts receivable, and accounts payables and accrued liabilities approximates their carrying value due to their short term maturity.

b) Management of Risks Arising From Financial Instruments

The Company is exposed to various types of market risks including credit risk, liquidity risk, interest rate risk and commodity price risk. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed.

(i) **Credit Risk** – Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents and amounts receivable. Cash and cash equivalents are held with a major Canadian financial institution and the receivables are from Government entities. Management is of the view that these amounts are fully collectible.

(ii) **Liquidity Risk** – Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. The Company's financial obligations are limited to accounts payable and accrued liabilities, all of which have contractual maturities of less than a year. The Company is subject to liquidity risk.

(iii) **Interest Rate Risk** – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. If interest rates decrease, the Company will generate smaller interest income. Presently, the Company is not at risk of realizing a loss as a result of a decline in the fair value of its financial instruments as the Company has no interest-bearing debt and due to the short-term nature of cash investments.

(iv) **Commodity Price Risk** – The Company's future success is linked to the price of minerals, because the value of mineral resources and the Company's future revenues are tied to

prices of minerals. Worldwide production levels also affect the prices. The prices of minerals are occasionally subject to rapid short-term changes due to speculative activities.

DISCLOSURE OF INTERNAL CONTROLS

Management has established processes to provide sufficient knowledge to support representations that reasonable diligence has been exercised to ensure that:

- (i) the audited financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements, and
- (ii) the audited financial statements fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- (i) 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
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. 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 the certificate. Investors should be aware that inherent limitations 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 NI 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements is the responsibility of Management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

FORWARD-LOOKING STATEMENTS

Certain sections of this Management Discussion and Analysis may contain forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from actual future results. The risks, uncertainties and other factors that could influence actual results are described in the "Risks and Uncertainties" section of this report. The forward-looking statements contained herein are based on information available as of the date of this report.

CORPORATE DIRECTORY

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Jason Chen (Director)
Dan Placzek (Director)

Members of the Audit Committee

Dan Placzek (Chair)
Jason Chen
Mark Lotz

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