FORM 5

QUARTERLY LISTING STATEMENT

Name of CNSX Issuer: **AFG FLAMEGUARD LTD.** (the "Issuer")

Trading Symbol: **AFG**

This Quarterly Listing Statement must be posted on or before the day on which the Issuer's unaudited interim financial statements are to be filed under the *Securities* Act, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer's first, second and third fiscal quarters. This statement is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the CNSX Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the CNSX.ca website.

General Instructions

(a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.

(b) The term "Issuer" includes the CNSX Issuer and any of its subsidiaries.

(c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

SCHEDULE A: FINANCIAL STATEMENTS

Financial statements are required as follows:

For the first, second and third financial quarters interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

SCHEDULE B: SUPPLEMENTARY INFORMATION

The supplementary information set out below must be provided when not included in Schedule A.

1. Related party transactions

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

(a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.

Please see Note 6 to the condensed consolidated financial statements.

(b) A description of the transaction(s), including those for which no amount has been recorded.

Not applicable

(c) The recorded amount of the transactions classified by financial statement category.

Not applicable

(d) The amounts due to or from Related Persons and the terms and conditions relating thereto.

Not applicable

(e) Contractual obligations with Related Persons, separate from other contractual obligations.

Not applicable

(f) Contingencies involving Related Persons, separate from other contingencies.

Not applicable

2. Summary of securities issued and options granted during the period.

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

(a) summary of securities issued during the period,

Please see Note 8 to the condensed consolidated financial statements.

(b) summary of options granted during the period,

No options were granted during the period

3. Summary of securities as at the end of the reporting period.

Provide the following information in tabular format as at the end of the reporting period:

(a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,

Description	Number Authorized	Par Value
Common shares	Unlimited	NPV

(b) number and recorded value for shares issued and outstanding,

Description	Number Issued/ Outstanding	Amount
Common shares	28,653,992	$3,045,621

(c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and

Description	Shares Issued Upon Exercise	Exercise Price	Expiry Date
Stock options	Nil	N/A	N/A

Warrants	1,766,670	$0.25	July 11, 2012
Warrants	1,218,258	$0.55	April 11, 2013
Finders' Warrants	8,250	$0.55	April 11, 2013

(d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

Description	Shares Held, Beginning of Period	Released During Period	Shares Held, End of Period
Escrow *	14,535,134	1,453,513	13,081,621
Performance Escrow *	1,836,502	Nil	1,836,502

* These shares are subject to two escrow agreements and are released as follows: 10% on the listing date (April 11, 2012) and 15% every six months thereafter subject to a performance escrow requirement on 1,836,502 shares ("Performance Escrow Shares") whereby the Performance Escrow Shares are released on the aforementioned schedule but only after the Company records $1,000,000 in sales. Should the Company not achieve $1,000,000 in sales within three years the Performance Escrow Shares will be cancelled.

4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.

Thomas Bell, Director, President and CEO
Patrick Lavin, Director, CFO
Donald Gordon, Director, VP Corporate Development
Linas Antanavicius, Secretary
Frans Vogelzangs, Director

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

Provide Interim MD&A if required by applicable securities legislation.

See attached Management Discussion and Analysis

Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.

2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.

3. The undersigned hereby certifies to CNSX that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all CNSX Requirements (as defined in CNSX Policy 1).

4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated: **August 28, 2012**

Patrick Lavin
Name of Director or Senior Officer

"Patrick Lavin"
Signature

CFO
Official Capacity

Name of Issuer	For Quarter End	Date of Report (YY/MM/DD)
AFG Flameguard Ltd.	**June 30, 2012**	**12/08/28**
Issuer Address **1150 – 750 West Pender Street**		
City/Province/Postal Code **Vancouver, BC V6C 2T8**	Issuer Fax No. **(604) 638-8106**	Issuer Telephone No. **(604) 629-8629**
Contact Name **Patrick Lavin**	Contact Position **CFO**	Contact Telephone No. **(604) 629-8631**
Contact Email Address **patrick@afg5.com**	Web Site Address	

AFG FLAMEGUARD LTD.

Vancouver, BC

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2012

(Unaudited – Expressed in Canadian Dollars)

AFG FLAMEGUARD LTD.

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed consolidated financial statements by an entity's auditor.

" *Thomas Bell*"
President and Chief Executive Officer

"*Patrick Lavin*"
Chief Financial Officer

August 28, 2012

AFG FLAMEGUARD LTD.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited – Expressed in Canadian Dollars)

As at

	June 30, 2012 $	December 31, 2011 $
Assets		
Current		
Cash	**43,972**	8,065
Amounts receivable	**23,220**	113,843
Inventory (Note 3)	**638,059**	667,264
Prepaid expenses and deposits (Note 10)	**11,538**	19,007
Due from related party (Note 6)	**33,886**	20,000
	750,675	828,179
Vehicle (Note 4)	**8,349**	10,138
Distribution rights (Note 5)	**135,189**	135,189
	894,213	973,506
Liabilities		
Current		
Payables and accruals	**181,864**	157,581
Due to related parties (Note 6)	**111,461**	600,717
Payable to shareholders (Note 7)	**45,000**	45,000
	338,325	803,298
Due to related party (Note 6)	**510,997**	-
	849,322	803,298
Equity		
Share capital (Note 8)	**3,045,621**	2,986,653
Subscriptions received	**118,250**	-
Reserves	**169,390**	157,150
Deficit	**(3,288,370)**	(2,973,595)
	44,891	170,208
	894,213	973,506

Nature and continuance of operations (Note 1)

Amalgamation with Orca Power Corp. (Note 9)

Commitments (Note 10)

Subsequent events (Note 13)

Approved and authorized for issue by the Company's Board of Directors on August 28, 2012.

The accompanying notes are an integral part of these condensed consolidated financial statements.

AFG FLAMEGUARD LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited – Expressed in Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	**2012**	2011
	$	$	**$**	$
Sales	**12,628**	10,348	**38,257**	18,641
Cost of sales	**4,377**	5,225	**15,605**	10,160
Gross profit	**8,251**	5,123	**22,652**	8,481
Expenses				
Depreciation	**894**	596	**1,789**	596
Bank charges and interest	**434**	285	**740**	2,453
Consulting fees	**29,500**	31,880	**55,600**	54,568
Contract labour	**17,500**	46,950	**38,460**	60,780
Foreign exchange gain	**(16,525)**	-	**(41,513)**	-
Management fees (Note 6)	**40,000**	53,656	**40,000**	98,251
Market development	**14,612**	71,115	**23,556**	122,584
Occupancy costs	**20,833**	5,159	**58,679**	9,784
Operating supplies	**12,840**	27,667	**19,014**	36,611
Professional fees	**20,190**	25,554	**20,190**	25,554
Salaries (Note 6)	**47,764**	-	**95,520**	-
Transfer agent and filing fees	**15,581**	-	**22,705**	-
Travel and promotion	**2,059**	14,897	**2,687**	21,827
	205,682	277,759	**337,427**	433,008
Net loss and comprehensive loss for the period	**(197,431)**	(272,636)	**(314,775)**	(424,527)
Basic and diluted loss per common share	**($0.01)**	($0.01)	**($0.01)**	($0.02)
No. of shares outstanding (weighted ave.)	**28,653,992**	21,967,168	**28,292,250**	21,822,668

The accompanying notes are an integral part of these condensed consolidated financial statements.

AFG FLAMEGUARD LTD.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited – Expressed in Canadian Dollars)

	Share Capital			Subscriptions		
	Number	Amount	Reserves	Received	Deficit	Equity
		$	$	$	$	$
Balances, January 1, 2011	18,221,746	274,435	-	373,000	(390,726)	256,709
Issued for cash	4,176,668	902,645	109,855	(373,000)	-	639,500
Subscriptions received	-	-	-	95,000	-	95,000
Net loss	-	-	-	-	(424,527)	(424,527)
Balances, June 30, 2011	22,398,414	1,177,080	109,855	95,000	(815,253)	566,682
Issued for cash	393,368	247,731	47,295	(95,000)	-	200,026
Acquisition of assets – Orca Power Corp. (Note 9)	4,462,406	1,561,842	-	-	-	1,561,842
Net loss	-	-	-	-	(2,158,342)	(2,158,342)
Balances, December 31, 2011	27,254,188	2,986,653	157,150	-	(2,973,595)	170,208
Issued for cash	**1,399,804**	**58,968**	**12,240**	**-**	**-**	**71,208**
Subscriptions received	**-**	**-**	**-**	**118,250**	**-**	**118,250**
Net loss	**-**	**-**	**-**	**-**	**(314,775)**	**(314,775)**
Balances, June 30, 2012	**28,653,992**	**3,045,621**	**169,390**	**118,250**	**(3,288,370)**	**44,891**

The accompanying notes are an integral part of these condensed consolidated financial statements.

AFG FLAMEGUARD LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited – Expressed in Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	**2012**	2011
	$	$	**$**	$
Cash flows from operating activities				
Net loss for the period	**(197,431)**	(272,636)	**(314,775)**	(424,527)
Items not involving cash:				
Depreciation	**894**	596	**1,789**	596
Foreign exchange gain	**(16,525)**	-	**(41,513)**	-
Changes in non-cash working capital				
Amounts receivable	**8,777**	(27,352)	**90,623**	(33,747)
Prepaid expenses and deposits	**(2,925)**	2,500	**7,469**	1,958
Inventory	**18,690**	(118,028)	**29,206**	(133,441)
Payables and accruals	**26,380**	47,134	**24,283**	47,740
Due to related parties	**40,577**	(7,290)	**76,867**	(29,429)
Net cash used in operating activities	**(121,563)**	(375,076)	**(126,051)**	(570,850)
Cash flows from financing activities				
Issue of common shares	**-**	482,501	**71,208**	564,501
Subscriptions received	**80,250**	(282,501)	**90,750**	95,000
Net cash provided by financing activities	**80,250**	200,000	**161,958**	659,501
Cash flows from investing activity				
Vehicle	**-**	(11,927)	**-**	(11,927)
Net cash provided by investing activity	**-**	(11,927)	**-**	(11,927)
Increase (decrease) in cash	**(41,313)**	(187,003)	**35,907**	76,724
Cash, beginning of period	**85,285**	411,447	**8,065**	147,720
Cash, end of period	**43,972**	224,444	**43,972**	224,444
Non-cash financing activities				
Fair value of warrants issued	**-**	-	**12,240**	32,505

The accompanying notes are an integral part of these condensed consolidated financial statements.

Note 1 Nature and Continuance of Operations

AFG Flameguard Ltd. ("AFG" or the "Company") was incorporated under the Canada Business Corporations Act on September 10, 2010. The Company's principal office and registered and records office is located at 1150-750 West Pender Street, Vancouver, BC, V6C 2T8.

Effective October 12, 2011 AFG and Orca Power Corp. ("Orca") amalgamated (the "Amalgamation") to form a corporation that adopted AFG's name. Based on the relative ownership percentages of the amalgamated company by former AFG shareholders and their representation on the Board of Directors of the combined entity, AFG is considered to have gained control of the amalgamated entity and therefore AFG is considered to be the acquirer for accounting purposes (commonly referred to as a "Reverse Takeover"). For financial reporting purposes, the Company is considered to be a continuation of AFG. As these condensed consolidated financial statements are a continuation of AFG, the comparative balances in the condensed consolidated financial statements are those of AFG. The consolidated financial statements as at December 31, 2011 and the year then ended include the accounts of AFG from January 1, 2011 to December 31, 2011 and the accounts of Orca from October 12, 2011 (the amalgamation date) until December 31, 2011. Orca was not considered to be an acquired business under accounting guidance set out in IFRS 3. Therefore, the amalgamation has been accounted for as an asset acquisition and not a business combination.

On April 11, 2012, the common shares of AFG were listed and posted on the Canadian National Stock Exchange ("CNSX") and commenced trading under the symbol "AFG".

AFG has a strategic business relationship with Netherlands-based, AFG Group Nijmegen BV. Through this relationship the Company markets and distributes an environmentally friendly range of fire safety products which include a dry sprinkler powdered aerosol extinguishing system marketed under the brand name "DSPA", and a fire suppression system marketed under the brand name "NOFIQ".

The Company acquired all of the distribution rights ("Rights") and territories ("Territories") from 1787450 Ontario Ltd. doing business as Remote Response Station ("Remote"). The Rights refer to an entitlement to act as the exclusive distributor for a fire extinguishing system based on aerosol techniques known as "NOFIQ", and aerosol extinguishing systems under the brand name "DSPA". The Territories refer to Canada, Kurdistan, Iraq, Guyana, and Panama; parties may also, subject to a mutual agreement, include Mexico. In consideration for the Rights, Territories, and inventory acquired from Remote, the Company issued 5,692,334 common shares on October 3, 2010.

The Company acquired all of the distribution rights ("Rights"), territories ("Territories") and intellectual property ("Property") from Zero Combustion Inc. ("Zero"). The Rights refer to an entitlement to act as the exclusive distributor for all fire resistant coatings and fire retardants under the brand name HCA. In addition to the Rights, the Company acquired all Property with respect to flame spread tests which Zero used to support the certificates issued to Zero by BC Hydro and other parties. The Territories refer to Canada, Kurdistan, Iraq, Guyana, and Panama; parties may also, subject to a mutual agreement, include Mexico. In consideration for the Rights, Territories and Property from Zero, the Company issued 3,529,412 common shares on October 3, 2010.

Note 1 Nature and Continuance of Operations (continued)

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis which presumes the realization of assets and settlement of liabilities in the normal course of operations in the foreseeable future. The Company has incurred operating losses since inception and has a cumulative deficit of $3,288,370 at June 30, 2012. The ability of the Company to continue as a going concern is dependent upon a number of factors including obtaining additional financing as required and seeking profitable operations.

These condensed consolidated financial statements are presented in Canadian dollars, unless otherwise indicated.

Note 2 Significant Accounting Policies

Principles of consolidation

These condensed consolidated financial statements include the accounts of the Company and its subsidiaries Castagra Products Corp. ("CPC"), Orca Fire Safety Products Corp. ("OFSP"), and Orca Tidal Power Corp. ("OTP"). All inter-company transactions and balances have been eliminated.

Basis of presentation

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. Certain information and note disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. As a result, these condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011 ("Annual Financial Statements").

These condensed interim consolidated financial statements were prepared using the same accounting policies as set out in the Company's Annual Financial Statements, with the exception of the changes in accounting policies described below.

Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies and 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 income and expenses during the reported periods. The Company reviews its estimates and assumptions regularly; however, actual results could differ from those estimates. Significant judgments are used in the Company's assessment of its ability to continue as a going concern which is described in note 1. Significant accounting estimates are used in the determination of fair value and value in use for purposes of the recoverability of the carrying value of mineral properties, valuation of share-based payments, and the valuation of deferred income taxes. Key estimates made by management with respect to these areas have been described in the notes to these financial statements as appropriate.

Note 2 Significant Accounting Policies (continued)

Reclassification

Certain amounts reported for prior periods have been reclassified to conform to the current period's presentation.

New standards and interpretations not yet effective

IFRS 7, "Financial Instruments: Disclosures" (Amended in 2011)

The IASB amended the disclosure requirements in IFRS 7, "Financial Instruments: Disclosure" to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32 "Financial Instruments: Presentation".

The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognized financial assets and recognized financial liabilities, on the entity's financial position.

The amended standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13, "Fair Value Measurement"

IFRS 13, "Fair Value Measurement", is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The new converged fair value framework is effective for annual periods beginning on or after January 1, 2013.

The IASB also issued the following new and revised standards addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements with other entities:

- IFRS 10, Consolidated Financial Statements ("IFRS 10") – replaces the consolidation guidance in IAS 27 (2008), Consolidated and Separate Financial Statements, and SIC-12, Consolidated Special Purpose Entities, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee.
- IFRS 11, Joint Arrangements ("IFRS 11") – replaces IAS 31, Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed.
- IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12") – requires enhanced disclosures about the entity's interests in subsidiaries, joint arrangements and associates, and unconsolidated structured entities.
- IAS 27 (2011), Separate Financial Statements – the consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10.
- IAS 28 (2011), Investments in Associates and Joint Ventures – amended to conform to changes based on the issuance of IFRS 10, IFRS 11, and IFRS 12.

These five standards must be adopted concurrently and are effective for annual periods beginning on or after January 1, 2013.

(Unaudited – Expressed in Canadian Dollars)

Note 3 Inventory

	June 30, 2012 $	December 31, 2011 $
DSPA models	**598,178**	625,174
NOFIQ systems	**27,165**	27,165
HCA coating products	**11,064**	13,273
Miscellaneous inventory	**1,652**	1,652
	638,059	667,264

Note 4 Vehicle

		June 30, 2012 $	December 31, 2011 $
Cost	Balance, beginning of period	**11,927**	-
	Additions	**-**	11,927
	Balance, end of period	**11,927**	11,927
Depreciation	Balance, beginning of period	**1,789**	-
	Depreciated during the period	**1,789**	1,789
	Balance, end of period	**3,578**	1,789
Net value	Balance, beginning of period	**10,138**	-
	Balance, end of period	**8,349**	10,138

Note 5 Distribution Rights

	June 30, 2012 $	December 31, 2011 $
Distribution rights – Remote (5,692,334 common shares issued at a value of $0.02 per common share of which $49,246 was inventory and allocated to market development costs)	**64,601**	64,601
Distribution rights – Zero (3,529,412 common shares issued at a value of $0.02 per common share)	**70,588**	70,588
	135,189	135,189

Note 6 Related Party Transactions

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by management. Unless otherwise indicated, the period-end balances are unsecured, non-interest bearing, without specific terms of repayment and have arisen from advances or the provision of services and fees described.

During the three and six months ended June 30, 2012, the Company paid its President a bonus of $40,000 and $40,000 and incurred $898 and $1,357 (2011 - $nil and $nil) in expenses from this individual who is also a director and at June 30, 2012 the Company owes this individual $45,698, (December 31, 2011 - $nil) which has been included in due to related parties on the condensed consolidated statements of financial position.

During the three and six months ended June 30, 2012, the Company incurred $27,000 and $54,000 in salary ($nil and $nil) to its Chief Financial Officer and at June 30, 2012 the Company owes this individual $40,500 (December 31, 2011 - $13,977) for unpaid salary and expenses which has been included in due to related parties on the condensed consolidated statements of financial position.

During the three and six months ended June 30, 2012, the Company incurred $nil and $nil (2011 - $5,600 and $19,600) in consulting fees from a company owned by a director and Vice President, Corporate Development and at June 30, 2012 the Company owes this company $12.417 (December 31, 2011 - $26,712) for expenses and advances which has been included in due to related parties on the condensed consolidated statements of financial position.

During the three and six months ended June 30, 2012, the Company incurred $17,500 and $35,000 in salary ($nil and $nil) to an officer and corporate counsel and at June 30, 2012 the Company owes this individual $23,333 (December 31, 2011 - $9,065) for unpaid salary and expenses which has been included in due to related parties on the condensed consolidated statements of financial position.

During the three and six months ended June 30, 2012, the Company acquired $9,326 and $9,326 (2011 - $122,427 and $130,288) in inventory from companies controlled by a director. At June 30, 2012 the Company owes those companies $513,951 (December 31, 2011 - $561,043), $510,997 pursuant to an interest-free promissory note which has been included in due to related parties on the condensed consolidated statements of financial position. The promissory note is due June 30, 2013 and is subject to early payment provisions triggered by pre-determined sales levels and proceeds from the issuance of common shares. During the three and six months ended June 30, 2012, the Company paid down the note by $5,358 and $5,358.

During the three and six months ended June 30, 2012, the Company incurred $nil and $nil (2011 – $44,595 and $87,595) in management fees from a former director and officer and to companies controlled by this individual, and paid $500 and $500 (2011 - $35,625 and $56,147) to this individual and to companies controlled by this individual for expense reimbursements. Subsequent to quarter-end the former director and officer provided supporting documentation as required by the Company. The Company and former director and officer have since resolved all outstanding issues.

During the three and six months ended June 30, 2012, the Company charged $4,000 and $10,000 (2011 - $nil and $nil) in fees to a company with some common directors for rent; these fees are netted against occupancy costs recorded in the condensed consolidated statements of loss and comprehensive loss. At the 2011 year-end management wrote-down $42,766 in uncollectible rent acquired from Orca; accordingly at June 30, 2012, the Company is owed $33,886 (December 31, 2011 - $20,000) and is disclosed as due from related parties on the condensed consolidated statements of financial position.

Note 6 Related Party Transactions (continued)

During the three and six months ended June 30, 2012, the Company charged $nil and $3,000 (2011 - $nil and $nil) in fees to a company with a common director for rent; these fees are netted against occupancy costs recorded in the condensed consolidated statements of loss and comprehensive loss. As at June 30, 2012, the Company is owed $13,440 (December 31, 2011 - $10,080), which was acquired from Orca and is netted by an amount due to the same party in due to related parties on the condensed consolidated statements of financial position.

Key management personnel comprise the Company's Board of Directors and executive officers. During the six months ended June 30, 2012, key management share-based payments were $nil (2011 - $nil).

Note 7 Payable to Shareholders

Prior to the Amalgamation, the Board of Directors of Orca approved a plan of arrangement between Orca and its wholly-owned subsidiaries Castagra Products Corp ("CPC"), Orca Fire Safety Products Corp. ("OFSP"), Orca Wind Power Corp. ("OWP") and Orca Tidal Power Corp. ("OTP") (the "Arrangement"). The Arrangement received Orca shareholder approval on December 29, 2010 and approval by the Supreme Court of British Columbia on January 10, 2011.

Effective August 10, 2011 Orca transferred to OWP $15,000 in cash and all of its interest in and to the Wind Assets in exchange for 17,849,615 OWP shares, which shares were distributed to the Orca shareholders who held Orca shares as at December 29, 2010. Orca also recorded an obligation to pay Orca shareholders $15,000 for each of CPC, OFSP and OTP as agreed in the Arrangement upon its completion, for a total of $45,000 recorded in these condensed consolidated financial statements.

Note 8 Share Capital

Authorized

Unlimited number of common shares without par value

Common shares

The total number of common shares issued and outstanding as of June 30, 2012 is 28,653,992 (December 31, 2011 – 27,254,188).

Share subscriptions

During the period from late 2010 to early 2011 subscriptions were received for 3,533,334 units at $0.15 per unit ("2010 Unit") for proceeds of $530,000. Each 2010 Unit is comprised of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional common share of the Company at $0.25 per share, expiring July 11, 2012 (See Note 13). The fair value of the warrants issued was $32,505 and was allocated to reserves.

Note 8 Share Capital (continued)

Share subscriptions (continued)

During the year ended December 31, 2011, subscriptions were received for 1,036,702 units at $0.75 per unit ("2011 Unit") for proceeds of $777,526. On February 20, 2012, the Company issued an additional 1,184,804 units to the subscribers of 2011 Units pursuant to the amendments to the subscription agreements thereby effectively reducing the price paid from $0.75 per unit to $0.35 per unit as a total of 2,221,506 units ("2012 Unit") were issued for proceeds of $777,526. Each 2012 Unit is comprised of one common share and one common share purchase warrant. Two common share purchase warrants entitle the holder to purchase one additional common share of the Corporation at a price of $0.55 expiring April 11, 2013. The fair value of the warrants issued was $124,645 and was allocated to reserves in 2011.

On January 30, 2012, the Company issued 215,000 units at $0.35 per unit ("2012e Units") for gross proceeds of $75,250. Each 2012e Unit is comprised of one common share and one common share purchase warrant. Two common share purchase warrants entitle the holder to purchase one additional common share of the Company at a price of $0.55, expiring April 11, 2013, provided that if at any time the Company's shares have a closing price of $0.75 or more for ten (10) consecutive trading days on the stock exchange, the Company will be entitled to give notice to the holders of the warrants to the effect that the warrants will expire 30 days from the date of mailing of such notice unless exercised before the expiry of that period, and in such event all unexercised warrants will expire at 4:30 pm (Vancouver time) on the last day of such 30 day period. The Company issued 16,500 warrants and paid $4,043 as a finder's fee to Leede Financial Markets Inc. ("Leede") with respect to $57,750 raised by Leede. The fair value of the warrants issued was $12,240 and was allocated to reserves.

During the six month period ending June 30, 2012, subscriptions for $118,250 were received and have been recorded as subscriptions received on the condensed consolidated statements of financial position (See Note 13).

Amalgamation with Orca Power Corp.

Pursuant to the Amalgamation Agreement, the Company issued 4,462,406 common shares valued at $1,561,842 (See Note 9).

Escrow shares

As at June 30, 2012, 14,918,121 shares (December 31, 2011 – 16,371,636 shares) were being held in escrow by our transfer agent. These shares are subject to two escrow agreements and are released as follows: 10% on the listing date and 15% every six months thereafter subject to a performance escrow requirement on 1,836,502 shares ("Performance Escrow Shares") whereby the Performance Escrow Shares are released on the aforementioned schedule but only after the Company records $1,000,000 in sales. Should the Company not achieve $1,000,000 in sales within three years, the Performance Escrow Shares will be cancelled. On April 11, 2012, our listing date, 1,453,515 common shares were released from escrow.

(Unaudited – Expressed in Canadian Dollars)

Note 8 Share Capital (continued)

Warrants

	Period ended June 30, 2012		Year ended December 31, 2011	
	Warrants	**Weighted Average Exercise Price $**	Warrants	Weighted Average Exercise Price $
Outstanding, beginning of period	**2,285,024**	**0.44**	-	-
Issued	**708,154**	**0.55**	2,285,024	0.44
Expired	**-**	**-**	-	-
Exercised	**-**	**-**	-	-
Outstanding, end of period	**2,993,178**	**0.37**	2,285,024	0.44

As at June 30, 2012 there were 2,993,178 warrants outstanding; 1,766,670 exercisable at $0.25 per share expiring on July 11, 2012 (see Note 13) and 1,226,508 exercisable at $0.55 per share expiring on April 11, 2013. The value attributed to the warrants using the Black-Scholes model was $169,390 with the following assumptions: no dividends were paid, expected volatility of 100%, risk free rate of return of 1.27% and expected life of 0.67 years. The weighted average fair value of warrants issued during the period ended June 30, 2012 is $0.11 (December 31, 2011 - $0.07).

Note 9 Amalgamation with Orca Power Corp.

On July 26, 2011 Orca announced that they entered into an amalgamation agreement (the “Amalgamation Agreement”) with AFG. Both Orca and AFG sought and received shareholder approval at meetings held on August 19, 2011.

Effective October 12, 2011 AFG and Orca amalgamated (the “Amalgamation”) to form a corporation that adopted the name AFG Flameguard Ltd.

Pursuant to the Amalgamation Agreement all Orca issued and outstanding shares were exchanged for AFG shares on a four-for-one basis and all AFG issued and outstanding common shares and warrants were exchanged on a one-for-one basis.

The property, liabilities, legal claims and business operations of each of Orca and AFG became those of AFG.

(Unaudited – Expressed in Canadian Dollars)

Note 9 Amalgamation with Orca Power Corp. (continued)

AFG is considered the acquirer for accounting purposes; as such, these condensed consolidated financial statements accounts for the purchase of Orca by AFG as a reverse take-over using the purchase method as follows:

	Carrying Value ($)
Cash	1,172
Receivables and due from related parties	84,899
Deposits and investments	17,304
Liabilities	(118,943)
Net value of acquired Orca assets	(15,568)
Share listing cost	1,577,410
Consideration – 4,462,406 common shares	1,561,842

Note 10 Commitments

The Company entered into a new two year operating lease agreement for office facilities in North York, Ontario commencing January 1, 2011 for approximately $1,219 per month for the 24 month term of the lease.

Upon Amalgamation the Company assumed a five year operating lease agreement entered into by Orca for office facilities in Vancouver, British Columbia that commenced on January 1, 2009. Effective April 30, 2012, the Company terminated this lease, which was in its fourth year at $5,600 per month plus operating costs and applicable taxes. The Company paid an early termination fee equivalent to one-month's rent.

Effective May 1, 2012, the Company entered into a new three year operating lease for office facilities in Vancouver, British Columbia for approximately $2,400 per month for the first 24 months and approximately $2,500 per month for the last 12 months plus operating costs and applicable taxes. A security deposit of $9,831 applicable to this lease is recorded in prepaid expenses and deposits on the consolidated statement of financial position.

The Company entered into a distribution agreement with Flameguard b.v. to sell fire resistant coatings and fire retardants under the brand name "HCA" and to act as exclusive distributor of these products for the industrial, wholesale and retail markets in Canada, Kurdistan, Iraq, Guyana and Panama. The term of this agreement is for three years commencing September 27, 2010 and unless otherwise terminated will renew automatically for one year terms after the first period of three years expires. The Company is required to purchase an initial amount of 25,000 Euro within one month of the date of the agreement, and for each year of the agreement thereafter the minimum product turnover amount will be mutually agreed upon by both parties. The Company has met its obligation for the current year of the agreement.

Note 10 Commitments (continued)

The Company entered into a distribution agreement with DSPA.nl b.v. to sell NOFIQ extinguishing systems and to act as exclusive distributor of these products for the industrial, wholesale and retail markets in Canada, Kurdistan, Iraq, Guyana and Panama. The term of this agreement is for three years commencing September 27, 2010 and unless otherwise terminated will renew automatically for one year terms after the first period of three years expires. The Company is required to purchase an initial amount of 25,000 Euro within three months of the date of the agreement, and for each year of the agreement thereafter the minimum product turnover amount will be mutually agreed upon by both parties. The Company has met its obligation for the current year of the agreement.

The Company entered into a distribution agreement with DSPA.nl b.v. to sell DSPA aerosol extinguishing systems and to act as exclusive distributor of these products for the industrial, wholesale and retail markets in Canada, Kurdistan, Iraq, Guyana and Panama. The term of this agreement is for three years commencing September 27, 2010 and unless otherwise terminated will renew automatically for one year terms after the first period of three years expires. The Company is required to purchase an initial amount of 60,000 Euro within three months of the date of the agreement, and for each year of the agreement thereafter the minimum product turnover amount will be mutually agreed upon by both parties. The Company has met its obligation for the term of the agreement.

Note 11 Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support future business opportunities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In the management of capital, the Company includes cash balances and components of equity.

The Company has had some sales to date, however they do not provide enough capital to exclusively provide the Company with enough capital to maintain operations.

Thus, in order to carry out future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed; however, the Company can provide no assurance that the necessary funds will be raised. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended June 30, 2012. The Company is not subject to externally imposed capital requirements.

Note 12 Financial Instruments

The fair value of the Company's receivables and payables and accruals approximates their carrying value due to the relatively short periods to maturity of the instruments. The Company's other financial instrument, cash, under the fair value hierarchy is based on level one quoted prices in active markets for identical assets or liabilities. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk:

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. Of the Company's receivables recorded, $33,886 is due from Abbastar Resources Corp. for a monthly office rental fee. Management is of the view that this amount is fully collectible.

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 June 30, 2012, the Company had a cash balance of $43,972 (December 31, 2011 - $8,065) to settle current liabilities of $338,325 (December 31, 2011 - $803,298). As such, management plans to raise funds and settle debts where possible. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms, other than the 400,000 Euro ($510,997 CDN) interest free promissory note issued to a company with a common director. The promissory note is due on June 30, 2013 and is subject to early payment provisions triggered by pre-determined sales levels and proceeds from the issuance of common shares.

Market risk:

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and equity prices.

(a) Interest rate risk - the Company has cash balances and only fixed interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk - the Company's activities that resulted in exposure to fluctuations in foreign currency exchange rates consisted of inventory purchases from suppliers invoiced in foreign currencies. Of the Company's liabilities at June 30, 2012, 60% are denominated in the European Euro converted to Canadian dollars. The Company currently believes it has no other significant foreign exchange risk.

(c) Price risk - the Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market.

Sensitivity Analysis:

The carrying amount of cash, amounts receivables and payables and accruals approximates their fair value due to their short term nature. The Company does not have any deposits with fixed interest rates and it therefore does not have significant exposure to changing interest rates.

Note 13 Subsequent Events

On July 11, 2012, 1,766,670 warrants issued pursuant to the 2010 Unit, exercisable at $0.25 per share, expired unexercised.

On August 16, 2012, the Company issued 1,129,000 units at $0.15 per unit ("Unit") for a total consideration of $169,350, consisting of cash and past services. Each Unit is comprised of one common share and one common share purchase warrant. Two common share purchase warrants entitle the holder to purchase one additional common share of the Company at a price of $0.30, expiring 12 months from the date of issuance. Proceeds from the private placement were used to pay down debt.

AFG FLAMEGUARD LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended June 30, 2012

As at August 28, 2012

GENERAL

AFG Flameguard Ltd. ("AFG" or the "Company") and its subsidiaries are headquartered in Vancouver, BC. The Company was incorporated under the Canada Business Corporations Act on September 10, 2010.

Basis of Discussion & Analysis

This management discussion and analysis ("MD&A") of the financial highlights, recent developments, consolidated results of operations, consolidated quarterly results trend, liquidity and capital resources, and other financial information of AFG Flameguard Ltd. is dated as of August 28, 2012.

This MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three month and six month periods ended June 30, 2012 ("Condensed Financial Statements"), our audited consolidated financial statements for the year ended December 31, 2011 ("Annual Financial Statements"), and our MD&A for the year ended December 31, 2011. The Condensed Financial Statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, ("IAS 34"). Certain information and note disclosures normally included in the Annual Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. Unless expressly stated otherwise, all financial information is expressed in Canadian dollars.

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements and forward-looking information (collectively, "forward-looking statements") within the meaning of applicable Canadian securities legislation. These statements relate to future events or the future activities or performance of the Company. All statements, other than statements of historical fact are forward-looking statements. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. These forward looking statements include, but are not limited to, statements concerning:

- the Company's strategies and objectives, both generally and in respect of its products;
- general business and economic conditions;
- the potential market for the Company's products;
- the expected performance and market acceptance of its products;
- the expectation that the products will continue to receive positive feedback from firefighters, insurance companies, governments, industry and the public;
- the ability to apply the results of European test results to obtain necessary certification in North America;
- the Company's future cash requirements;
- the Company's ability to meet its financial obligations as they come due, and to be able to raise the necessary funds to continue operations;
- the timing and pricing of proposed financings if applicable;
- the anticipated completion of financings;
- the anticipated use of proceeds from the financings;

Although the Company believes that such statements are reasonable it can give no assurance that such expectations will prove to be correct. Inherent in forward looking statements are risks and uncertainties beyond the Company's ability to predict or control, including, but not limited to, risks related to our limited operating history and history of no earnings; competition from other companies in various consumer industries; changes to government regulations; dependence on key personnel; general economic conditions; local economic conditions, including the marketing of similar products and services in close proximity to our licensed territories; timely introduction of these newly licensed products or services; the uncertainties in acceptance of such products or services by the market; approvals we may require in having the agreements and interests being assigned to them; interest rates; availability of equity and debt financing; increased development costs, including costs of labour, equipment and environmental compliance, and other risks identified herein under "Risk Factors".

The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results are likely to differ, and may differ materially, from those expressed or implied by forward looking statements contained in this MD&A. Such statements are based on a number of assumptions which may prove incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- the ability to raise necessary funding;
- the potential market for the Company's products;
- the continued performance and acceptance of the Company's products; and
- the Company's ability to attract and retain key personnel;

These forward looking statements are made as of the date hereof and the Company does not intend and does not assume any obligation to update these forward looking statements except as required by applicable law. For the reasons set forth above, investors should not attribute undue certainty to or place undue reliance on forward-looking statements.

Historical results of operations and trends that may be inferred from the following discussion and analysis may not necessarily indicate future results from operations. In particular, the current state of the global securities markets may cause significant reductions in the price of the Company's securities and render it difficult or impossible for the Company to raise the funds necessary to continue operations.

THE COMPANY AND BUSINESS

The Company was founded in September 2010 to market and distribute an environmentally friendly range of fire safety products which include an aerosol extinguishing system marketed under the brand name "DSPA", a fire suppression system marketed under the brand name "NOFIQ", a line of safe, non-toxic and easy to apply intumescent paints, coatings and fabric sprays which are designed for a wide variety of applications under the brand name "HCA", and a line of photo luminescent products used for emergency lighting, signs and markings, way finding systems and novelty products with applications in marine, commuter rail, subway, building and toy markets. In addition to these products, the Company offers a series of remote response stations and lock boxes outfitted with firefighting equipment including DSPA handheld units designed for first responders on the scene to access tools and equipment to control fires in remote areas until additional help arrives.

AFG has forged a strategic business relationship with Netherlands based AFG Group Nijmegen B.V ("AFG Group") in order to access AFG Group's fire-fighting technologies which includes all of the above mentioned products.

Amalgamation with Orca Power Corp.

On July 26, 2011 AFG and Orca Power Corp. ("Orca") a publicly traded company listed on the CNSX under the stock symbol "OP", announced that they had entered into an amalgamation agreement (the "Amalgamation Agreement"). Both Orca and AFG sought and received shareholder approval at meetings held on August 19, 2011 ("AGSMs"). Shareholders of both Orca and AFG received a joint information circular (the "Circular") for the AGSMs containing full particulars with respect to the Amalgamation, business of AFG and financial position of Orca and AFG before and after the amalgamation. The Circular is available at www.sedar.com.

The result of the amalgamation of AFG and Orca (the "Amalgamation") was the formation of an amalgamated corporation that has adopted the name AFG Flameguard Ltd.

Orca Plan of Arrangement

Prior to the Amalgamation, the Board of Directors of Orca approved a plan of arrangement between Orca and its wholly-owned subsidiaries Castagra Products Corp ("CPC"), Orca Fire Safety Products Corp. ("OFSP"), Orca Wind Power Corp. ("OWP") and Orca Tidal Power Corp. ("OTP") (the "Arrangement"). The details of the Arrangement and all other relevant supporting documents are provided in an information circular which is available at www.sedar.com.

As AFG completes this Arrangement the $45,000 due to shareholders and debts associated with the subsidiaries will be eliminated from AFG's books.

Market for AFG Products

AFG has rights to distribute its products in Canada, Mexico, Guyana, Panama, Iraq and Kurdistan. At this stage of development, Canada is the primary target market for AFG's products.

AFG's products apply to many markets both at the manufacturing and new product stage and to any structure or closed space already in existence or undergoing revision or upgrade of their fire protection systems. AFG is prioritizing its target markets which include fire departments, heavy industry, marine and shipping companies, mobile home manufacturers, government institutions and buildings, computer and data centers, manufacturers, emergency response services, and military markets throughout our territories.

AFG believes that its products will be in high demand because they substantially reduce the damage to structures and contents caused by fires and by water which is widely used to extinguish fires. The data from insurance companies suggests that water, typically applied under high-pressure while extinguishing fires causes major damage in addition to the damage caused by fire. Furthermore, AFG's products are friendly to the environment and reasonably priced. AFG's products have received positive feedback from insurance companies, governments, industry and the public.

AFG initially introduced DSPA technology to fire departments through its unique Roll-Out Program. The objective of this program is to ensure that DSPA technology is actively used in Canada by firefighters. The active use and successful deployments of DSPA is expected to assist the Company in its efforts to market its entire line of DSPA products including the fully installed DSPA system which can be a viable alternative to water-based sprinkler systems and other fire suppression systems including halon and carbon dioxide systems.

DSPA Roll-Out Program

AFG has developed the Roll-Out Program that primarily targets volunteer fire departments and was designed to supply a limited number of DSPA-5 units to qualified fire stations across Canada on a deferred payment basis allowing fire departments to pay for the DSPA-5 units after they are used. This program resulted in over 400 DSPA-5 units distributed to over 180 fire halls in Ontario, Quebec, Nova Scotia, Prince Edward Island, New Brunswick and Saskatchewan. The Roll-Out Program has afforded fire departments with the opportunity to utilize the DSPA-5 without having to purchase the units in advance for agreeing to complete field reports to document savings and benefits realized as well as assist in supporting our claim to be reimbursed and reorder. In an indirect way the program assists departments with tight budgets and expedites the procurement approval process as it allows time for the fire departments to achieve savings related to the use of the DSPA-5 and time to recover the cost of the DSPA-5 from insurance companies or municipalities. The Roll-Out Program is intended to not only secure a positive reputation for AFG and DSPA technology within the firefighting community but also create a statistical and field record that can be utilized by government and industry to develop more effective procedures and bylaws to accommodate and encourage its use.

The initial Roll-Out Program focused on central and eastern Canada and AFG is now preparing to introduce the program to Western Canada. AFG has identified the need for firefighters to have the DSPA-5 on hand so that they can utilize it in active, daily fire occurrences. Through the Roll-Out Program, AFG has found that firefighters utilizing the unit are realizing significant savings. The savings and data collected from its use and testimonials provided show significant benefits to the victims, firefighters, communities, insurance companies and the environment. AFG's field experience is already providing impetus for improved fire policies and procedures that will enhance savings to property and insurance rates through outfitting fire departments with DSPA technology.

In order to qualify for the Roll-Out Program the department must identify the number of structural fires attended to by the fire department in the previous twelve month period. This information will be used by AFG to estimate the likelihood of at least one DSPA-5 being used by the fire department per year. Each incident utilizing the DSPA-5 has the potential to report dramatic savings as a result of structure repair versus structure replacement, replacing less contents, shorter time for displacement of the property owner (including housing, meals, and transportation), less clean-up, easier investigation and time and equipment savings for firefighters resulting from a more efficient overhaul of the fire. It can create a safe environment for firefighters and can prevent instances of flashover and backdraft.

The incident commander has the advantage of obtaining information from the property owner and the insurance company, as well as experience in similar fire scenes. To qualify for the Roll-Out Program, the person in authority, typically the Chief agrees that if a DSPA-5 is used they must submit a full incidence report in a prescribed format. This report will include an estimate of the savings realized by using the DSPA-5.

The insurance carriers for both the fire victims and the fire departments should have vested interests in participating in the Roll-Out Program given that the DSPA-5 can reduce insurance losses with every fire allowing the insurance companies to retain a greater percentage of the premium because of lower payouts.

After a DSPA-5 is deployed, AFG will assist the department with the reimbursement of the unit through insurance companies and/or municipalities, on the basis of the savings realized through the lower cost of damage, time and equipment use. Many insurance policies have an ”extraordinary measures” clause to replace equipment deployed in suppressing a fire. This allows claim payout to include the cost of the DSPA-5. However, given both the savings benefit to the insurance provider of the property owner and general savings to the local community, AFG is also reaching out to the insurers of municipalities for broader coverage across its markets.

In addition, AFG is working with some municipalities that are using the services of an insurance indemnity company to recover costs from insurance companies for firefighting services used during a call through the “emergency cost recovery proceeds” covered in many insurance policies. This procedure should facilitate the reimbursement of the cost to the fire departments of the DSPA-5.

Also, AFG is negotiating with municipalities and insurance companies for the purchase of DSPA-5 units. At present there are three municipalities that have passed or proposed by-laws recognizing the DSPA as a recognized procurement and insurable item for their fire department.

In Ontario, Grimsby, West Lincoln County and Haldimand County are among the first areas to amend their emergency and rescue cost recovery by-laws to reflect the use of a DSPA-5 as a budgetary item and a recognized tool used for the suppression and containment of fire during an incident.

AFG is suggesting similar municipal by-law amendments in areas where deployments occur and where over 400 units are currently rolled out to 180 fire halls. Such amendments, if passed, would assist the municipalities in recovering the cost of the DSPA-5 and further simplify the purchase process of units and assist in the insurance recovery program.

Recent deployments of the DSPA-5

Deployments of the DSPA-5 device by fire departments in Canada resulted in significantly less property damage and environmental contamination, lower associated costs and personal safety.

The recent successful deployments of the DSPA-5 in Canada have established DSPA technology as an effective tool to battle fires. AFG expects that the tributes and success stories related to DSPA technology will assist AFG’s marketing and sales of DSPA installed systems that can be used in a variety of applications and structures. Virtually any enclosed structure, specifically those lacking water sprinkler systems or where fire service access is limited is a candidate for fixed DSPA systems.

Deployments of the DSPA-5 in Canning, Chatsworth, Durham, Meaford, Mildmay, Oromocto, Port Elgin, Roberval and Trenton resulted in savings as reported by the attending fire chief of over $3 million in potential structural damage that would have resulted if traditional methods were used to extinguish the fires. These reported savings do not include other benefits, such as savings to insurance companies related to lower payouts, savings to property and business owners related to interruption of business and savings to fire departments related to the reduced use of other equipment, minimal use of water, less exposure to injury and toxins by firefighters and residents. Savings on occupant displacement expense, reduced environmental damage, reduced business interruption and saving irreplaceable personal property and records are all positive benefits of the DSPA-5 that multiply the savings reported on the scene.

Market Development

AFG is of the view that there is a need for DSPA technology as a modern fire prevention and suppression tool not only for fire departments but also for the residential, marine, industrial and commercial markets as well as the military, health care and government institutions. These markets encompass the next phase of AFG's market development in Canada.

The introduction of DSPA to fire departments in Canada has resulted in property savings that would have never been achieved using only the conventional method of fighting fires with water. DSPA technology has been successfully demonstrated in Canada.

AFG is now embarking on a strategy to market the whole line of DSPA models including fully installed systems that come in various sizes for dozens of applications. This market can include virtually any location an extinguisher or fire suppression system is required particularly in closed spaces. AFG believes that the DSPA installed systems are a viable alternative to other fire suppression systems including water-based sprinkler systems as well as halon and carbon dioxide systems.

The initial target markets AFG is pursuing are home, business and cottage owners who are at risk because of the distance from fire departments and water sources. AFG will offer a safe and simple option to protecting buildings and belongings from the devastation of fire. There are hundreds of thousands of vacation homes across Canada that are at risk because of their remote locations. A fire grows very rapidly and every second counts. AFG has started this targeted market initiative in the Muskoka region of Ontario where there is a high concentration of valuable properties without timely or adequate fire response capability.

The initial campaign for industry will concentrate in the areas where water and other firefighting materials are either not available or can sometimes cause more damage than the fire itself. AFG will target data centers with sophisticated and sensitive equipment, archive storage facilities, museums, hospitals, power stations and military departments.

AFG is working with and seeking additional wholesale fire product distributors and independent industry specialists to access the industry and residential market. The DSPA and HCA fire retardant paints and coatings can provide a cost effective solution to otherwise prohibitively expensive alternatives to ensure compliance with fire codes, as we work with code examination officials, industry, homeowners and government organizations. AFG will mobilize specialists in each of these sectors to ensure prompt market penetration. AFG has demonstrated and proven its products for active fire situations and plans to enter the much larger passive fire prevention sales market.

The expansion of the market for DSPA installed systems is being made possible by the progress towards Underwriters Laboratory (“UL”) certification of the DSPA model line. Through its supplier and affiliated company AFG Group, AFG will benefit from AFG Group’s efforts to obtain certification to UL standards on the installed or fixed DSPA models. AFG intends to utilize the certification obtained in Europe, which has been in progress for over a year and is near completion, to expedite certification in Canada.

The fixed installation DSPA units are being tested by a world recognized independent testing agency, KIWA Netherlands (Kiwa N.V. and Kiwa Nederland B.V). KIWA is accredited to certify the performance of the DSPA fixed models in accordance with Underwriters Laboratory Standard 2775: FIXED CONDENSED AEROSOL EXTINGUISHING SYSTEM UNITS. AFG may seek to apply the results of the European tests to obtain UL certification in North America and will benefit by time and cost savings by being able to use the AFG Group results. That certification enables the next phase of the Company's marketing plan to develop beyond the first responder market.

DSPA installed systems can be customized to protect enclosed spaces of any size, without risk of harm to equipment or inventory in the event of a deployment and are cost effective compared to water based sprinklers, carbon dioxide and other fire suppression systems. Installed systems can protect warehouses, industrial and manufacturing environments, computer/electrical equipment, water and land-based transportation systems, technical rooms in hotels and high-rise buildings, power plants, construction and development projects. Installed model systems vary in size and capacity depending on the volume of area to be protected and the classification of the fire to be suppressed, including Class A, B, C and K fires – a DSPA is effective in each class.

RESULTS OF OPERATIONS

	Three months ended June 30,			Six months ended June 30,		
	2012	2011	Chg	**2012**	2011	Chg
	$	$	%	**$**	$	%
Sales	**12,628**	10,348	22	**38,257**	18,641	105
Cost of sales	**4,377**	5,225	(16)	**15,605**	10,160	54
Gross profit	**8,251**	5,123	61	**22,652**	8,481	167
Depreciation	**894**	596	50	**1,789**	596	200
Bank charges	**434**	285	52	**740**	2,453	(70)
Consulting fees	**29,500**	31,880	(7)	**55,600**	54,568	2
Contract labour	**17,500**	46,950	(63)	**38,460**	60,780	(37)
Foreign exchange	**(16,525)**	-	--	**(41,513)**	-	--
Management fees	**40,000**	53,656	(25)	**40,000**	98,251	(59)
Market development	**14,612**	71,115	(79)	**23,556**	122,584	(81)
Occupancy costs	**20,833**	5,159	304	**58,679**	9,784	500
Operating supplies	**12,840**	27,667	(54)	**19,014**	36,611	(48)
Professional fees	**20,190**	25,554	(21)	**20,190**	25,554	(21)
Salaries	**47,764**	-	--	**95,520**	-	--
Transfer agent and filing fees	**15,581**	-	--	**22,705**	-	--
Travel and promotion	**2,059**	14,897	(86)	**2,687**	21,827	(88)
	205,682	277,759	(26)	**337,427**	433,008	(22)
Net loss and comprehensive loss	**(197,431)**	(272,636)	(28)	**(314,775)**	(424,527)	(26)

Sales for the three and six months ended June 30, 2012 were $12,628 and $38,257 (2011 - $10,348 and $18,641) and included sales of DSPA-5 units and carrying cases, HCA products and miscellaneous fire-suppression related products. Gross margin for the three and six months ended June 30, 2012 was $8,251 [65%] and $22,652 [59%] (2011 - $5,123 [50%] and $8,481 [45%]).

Total expenses for the three and six months ended June 30, 2012 (net of a foreign exchange gain) amounted to $222,207 and $378,940, an decrease of $55,552 and $54,068 or 20% and 12% over the 2011 comparative periods despite the requirement to incur additional costs for administration associated with becoming a reporting issuer in 11Q4 and a public company in 12Q2. During 12Q1 the Company replaced certain staff/start-up personnel roles with more experienced/professional administrators. In addition, during 2012, the focus shifted to sales and away from the Roll-Out Program.

Consulting fees for the three and six months ended June 30, 2012 were $29,500 and $55,600 (2011 - $31,880 and $54,568). Consulting fees were incurred by individuals with experience in corporate restructuring, fire retardant paints and coatings, and administration of public company records.

Contract labour fees for the three and six months ended June 30, 2012 were $17,500 and $38,460 (2011 - $46,950 and $60,780). Contract labour fees were incurred by individuals overseeing the administration of the Roll-Out Program and the Company's Toronto office and warehouse.

Management services provided by a founder and former director and officer during the early start-up period in 2011 have been replaced by a professional management team which includes the President and CEO, CFO, VP Corporate Development and corporate counsel. During 12Q2, a $40,000 fee was approved and accrued to the President who had yet to be compensated for his services since his appointment in December 2011.

During the three and six months ended June 30, 2012, market development costs were $56,503 and $99,028 lower than the comparative periods in 2011. Market development costs are comprised of the cost of product purchased, not included in inventory, used to develop its market and all associated demonstration and testing costs less any incidental net sales. During the three and six months ended June 30, 2012, there was $14,313 and $22,756 in expenditures related to purchase of our products. These costs were offset by a sale of one of our lockboxes net of cost of sales. For the three and six months ended June 30, 2011, market development costs were comprised of $55,452 and $66,480 in cost of product purchased and not included in inventory, $12,144 and $52,585 in demonstration and set-up costs, and $3,519 and $3,519 in testing costs.

During the three and six months ended June 30, 2012 occupancy costs totaled $20,833 and $58,679 (2011 - $5,159 and $9,784) and was comprised of rent and utilities of $18,314 and $42,055 (2011 - $4,477 and $8,751), communication costs of $2,519 and $6,230 (2011 - $682 and $1,033) and a one-time early lease termination fee of $nil and $10,394 (2011 - $nil and $nil). The increase in rent over the comparative period in 2011 is a result of leasing and maintaining two offices compared to one office. On April 30, 2012, the Company terminated the five year Orca operating lease agreement for office facilities in Vancouver, British Columbia. The lease was just entering the fourth year at $5,600 per month plus operating costs and applicable taxes. Effective May 1, 2012, the Company entered into a new three year operating lease for approximately $2,400 per month for the first 24 months and approximately $2,500 per month for the last 12 months plus operating costs and applicable taxes. The result is that the Company has lowered its lease commitment by $120,000 over the remaining two years of the original lease. The out-of-pocket cost to the Company was $2,925, the $10,394 early termination fee offset by a $7,469 lower deposit requirement. Our rent commitment was partially offset during the six months ended June 30, 2012 by two month-to-month sublease agreements, one for $1,000 per month terminating at the end of March and the second for $2,000 per month, reduced to $1,000 per month effective May 1, 2012.

During the three and six months ended June 30, 2012 operating supplies totaled $12,840 and $19,014 (2011 - $27,667 and $36,611). Operating supplies were comprised of various administrative expenditures involved in running and maintaining the Toronto office and warehouse and Vancouver office during the respective periods.

Professional fees for the three and six months ended June 30, 2012 totaled $20,190 and $20,190 (2011 - $25,554 and $25,554). Professional fees are comprised of accounting fees related to the Company's 2011 audits.

Salaries for the three and six months ended June 30, 2012 totaled $47,764 and $95,520 (2011 - $nil and $nil). Salaries are paid to the CFO and counsel, both of whom were previously with Orca.

During the three and six months ended June 30, 2012 regulatory and transfer agent fees totaled $15,581 and $22,705 (2011 - $nil and $nil) and were comprised of filing fees of $12,955 and $17,855 (2011 - $nil and $nil) and transfer agent fees of $2,626 and $4,850 (2011 - $nil and $nil). The filing fees are a result of the Company's application for listing on the CNSX and various filings with the Alberta, British Columbia and Ontario Securities commissions.

During the three and six months ended June 30, 2012, travel and promotion was comprised of travel costs of $1,479 and $1,827 (2011 - $11,970 and $18,900) and promotion expenses of $580 and $860 (2011 - $2,927 and $2,927). During 2012 travel costs were kept to a minimum due to the Company's limited resources. The promotion expenditures recorded in 2012 relate primarily to the cost of disseminating corporate news releases.

SUMMARY OF QUARTERLY RESULTS

	2012		2011				2010	
	Presented in Canadian Dollars and under IFRS							
	June 30	March 31	December 31	September 30	June 30	March 31	December 31	September 30
Net loss	(197,431)	(117,344)	(1,991,594)	(166,748)	(272,636)	(151,891)	(390,726)	n/a
Loss per share [(1)]	(0.01)	(0.00)	(0.10)	(0.01)	(0.01)	(0.01)	(0.02)	n/a

[(1)] Fully diluted loss per share has not been calculated, since it would be anti-dilutive.

Over the past seven quarters since inception results have fluctuated as the Company developed its marketing strategy and prepared to go public. During 11Q4 new management began to make changes to the marketing strategy and introduced new policies and procedures regarding internal controls. As a result certain expenditures made during the periods before the Amalgamation were reclassified to conform to the new policies and procedures.

Until such time as the Company is adequately financed we expect our operations to continue to incur no more than $40,000 per month in human resource, administrative and marketing expenses. Our focus is to increase monthly sales to offset these monthly expenditures and self-finance operations.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

As at	June 30, 2012 $	December 31, 2011 $	Change %
Cash	**43,972**	8,065	445
Other current assets	**706,703**	820,114	(14)
Other assets	**143,538**	145,327	(1)
	894,213	973,506	(8)
Current liabilities	**338,325**	803,298	(58)
Long-term liabilities	**510,997**	-	100
Equity	**44,891**	170,208	(74)
	894,213	973,506	(8)
Cash dividends declared per share	**-**	-	

Total assets have decreased from $973,506 as at December 31, 2011 to $894,213 as at June 30, 2012. The $79,293 decrease is attributed primarily to cash utilized to fund operations offset by HST refunds received during the period.

Total liabilities have increased by $46,024 since the 2011 year-end, all of which is related to the accrual of unpaid salaries, fees and administrative costs. In February the Company issued a 400,000 Euro interest-free promissory note due June 30, 2013 to settle liabilities related to inventory purchases made in 2011. As AFG completes the Arrangement the $45,000 due to shareholders and $22,000 in payables associated with the subsidiaries will be eliminated from AFG's books.

As at June 30, 2012, the Company had working capital of $412,350 (December 31, 2011 – $24,881) and equity of $44,891 (December 31, 2011 – $170,208). The increase in working capital is a direct result of the conversion of certain payables due to a related party into a long-term interest-free promissory note. Management plans to raise funds to pay down debt and supplement sales in order to meet its financial obligations; however there can be no guarantee that future fundraising efforts will be successful.

Changes in Cash Position

	Three months ended June 30,		Six months ended June 30,	
Cash flows:	**2012** **$**	2011 $	**2012** **$**	2011 $
From operating activities	**(121,563)**	(375,076)	**(126,051)**	(570,850)
From financing activities	**80,250**	200,000	**161,958**	659,501
From investing activities	**-**	(11,927)	**-**	(11,927)
Change in cash	**(41,313)**	(187,003)	**35,907**	76,724

The Company's cash balance at June 30, 2012 was $43,972, a $35,907 increase from the December 31, 2011 balance of $8,065. The $35,907 increase is attributed to cash received from CRA for HST refunds and funds received from share subscriptions less cash used to fund operations and to purchase inventory for resale.

The $121,563 and $126,051 net cash used in operating activities during the three and six months ended June 30, 2012 is $253,513 and $444,799 less than the 2011 comparative periods; the decreases were due to the lower net losses incurred versus the comparative periods and fluctuations between periods resulting from the timing of payments for receivables and payables. In addition, inventory purchases during the three and six month ended June 30, 2011 accounted for 47% and 30% of the change.

Cash inflow from financing activities for the three and six month period ended June 30, 2012 was $119,750 and $497,543 lower than the 2011 comparative periods. All cash flows from financing activities are the net proceeds from share issuances and subscription funds received.

There were no investing activities during the three and six months ended June 30, 2012. The investing activitiy for the comparative periods in 2011 was the purchase of a vehicle.

Financial Instruments

Financial assets

Financial assets are initially recognized at fair value and are classified into one of the following categories, depending on the purpose for which the asset was acquired.

Fair value through profit or loss – derivatives or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the condensed consolidated statement of financial position at fair value with changes in fair value recognized in the statement of operations.

Loans and receivables - non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at depreciated cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations.

Available-for-sale – non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at the minimum of at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories.

Fair value through profit or loss - derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the condensed consolidated statement of financial position at fair value with changes in fair value recognized in the statement of operations.

Other financial liabilities - includes amounts due to related parties, payable to shareholders and payables and accruals, all of which are recognized at depreciated cost.

Classification of financial instruments

The Company has classified its cash as fair value through profit or loss; receivables as loans and receivables; deposits as held-to-maturity and due to related parties, payables and accruals, and payable to shareholders as other financial liabilities.

<u>Share Capital</u>

As at the date of this MD&A, there are 29,782,992 common shares issued and outstanding. As at June 30, 2012 there were 28,653,992 (December 31, 2011 - 27,254,188) common shares issued and outstanding.

During the year ended December 31, 2011, subscriptions were received for 1,036,702 units at $0.75 per unit ("2011 Unit") for proceeds of $777,526. On February 20, 2012, the Company issued an additional 1,184,804 units to the subscribers of 2011 Units pursuant to the amendments to the subscription agreements thereby effectively reducing the price paid from $0.75 per unit to $0.35 per unit as a total of 2,221,506 units ("2012 Unit") were issued for proceeds of $777,526. Each 2012 Unit is comprised of one common share and one common share purchase warrant. Two common share purchase warrants entitle the holder to purchase one additional common share of the Corporation at a price of $0.55 expiring April 11, 2013. The fair value of the warrants issued was $124,645 and was allocated to reserves in 2011.

On January 30, 2012, the Company issued 215,000 units at $0.35 per unit (“2012i Units”) for gross proceeds of $75,250. Each 2012i Unit is comprised of one common share and one common share purchase warrant. Two common share purchase warrants entitle the holder to purchase one additional common share of the Company at a price of $0.55, expiring April 11, 2013, provided that if at any time the Company’s shares have a closing price of $0.75 or more for ten (10) consecutive trading days on the stock exchange, the Company will be entitled to give notice to the holders of the warrants to the effect that the warrants will expire 30 days from the date of mailing of such notice unless exercised before the expiry of that period, and in such event all unexercised warrants will expire at 4:30 pm (Vancouver time) on the last day of such 30 day period. The Company issued 16,500 warrants and paid $4,043 as a finder’s fee to Leede Financial Markets Inc. (“Leede”) with respect to $57,750 raised by Leede.

On August 16, 2012, the Company issued 1,129,000 units at $0.15 per unit (“2012ii Units”) for the total consideration of $169,350. Each 2012ii Unit consists of one common share and one common share purchase warrant. Two common share purchase warrants entitle the holder to purchase one common share of AFG for $0.30, expiring August 16, 2013. The proceeds of the private placement are to be used for general working capital purposes.

As at the date of this MD&A there were 1,791,008 (Jun 30, 2011 – 2,993,178) shares reserved for issuance pursuant to warrant exercises; 1,226,508 exercisable at $0.55 per share, expiring on April 11, 2013 and 564,500 exercisable at $0.30, expiring August 16, 2013. On July 11, 2012, 1,766,670 shares reserved for issuance pursuant to warrants exercisable at $0.25 per share expired unexercised.

As at the date of this MD&A and June 30, 2012, 14,918,121 shares (December 31, 2011 – 16,371,636 shares) were being held in escrow by our transfer agent. These shares are subject to two escrow agreements and are released as follows: 10% on the listing date and 15% every six months thereafter subject to a performance escrow requirement on 1,836,502 shares (“Performance Escrow Shares”) whereby the Performance Escrow Shares are released on the aforementioned schedule but only after the Company records $1,000,000 in sales. Should the Company not achieve $1,000,000 in sales within three years, the Performance Escrow Shares will be cancelled. On April 11, 2012, our listing date, 1,453,515 common shares were released from escrow.

Future Cash Requirements

The Company’s future capital requirements will depend on many factors, including, among others, cash flow from operations. The Company believes that its current capital plans and requirements can be funded from existing cash on hand and proceeds from recent financings. To the extent that the Company continues to incur losses and these resources are insufficient to fund the Company’s recurring losses until profitability is reached, or the Company pursues other business opportunities, the Company will need to raise additional funds through debt or equity financing. Current market conditions have made it more difficult to raise additional funds. If additional funds are raised through the issuance of equity securities, the percentage ownership of current shareholders will be reduced and such equity securities may have rights, preferences, or privileges senior to those of the holders of the Company’s common stock. No assurance can be given that additional financing will be available, or that it can be obtained on terms acceptable to the Company and its shareholders.

Commitments

The Company entered into a new two year operating lease agreement for office facilities in North York, Ontario commencing January 1, 2011 for approximately $1,219 per month for the 24 month term of the lease.

Upon Amalgamation the Company assumed a five year operating lease agreement entered into by Orca for office facilities in Vancouver, British Columbia that commenced on January 1, 2009. Effective April 30, 2012, the Company terminated this lease, which was in its fourth year at $5,600 per month plus operating costs and applicable taxes. The Company paid an early termination fee equivalent to one-month's rent.

Effective May 1, 2012, the Company entered into a new three year operating lease for office facilities in Vancouver, British Columbia for approximately $2,400 per month for the first 24 months and approximately $2,500 per month for the last 12 months plus operating costs and applicable taxes. A security deposit of $9,831 applicable to this lease is recorded in prepaid expenses and deposits on the consolidated statement of financial position.

The Company entered into a distribution agreement with Flameguard b.v. to sell fire resistant coatings and fire retardants under the brand name "HCA" and to act as exclusive distributor of these products for the industrial, wholesale and retail markets in Canada, Kurdistan, Iraq, Guyana and Panama. The term of this agreement is for three years commencing September 27, 2010 and unless otherwise terminated will renew automatically for one year terms after the first period of three years expires. The Company is required to purchase an initial amount of 25,000 Euro within one month of the date of the agreement, and for each year of the agreement thereafter the minimum product turnover amount will be mutually agreed upon by both parties. The Company has met its obligation for the current year of the agreement.

The Company entered into a distribution agreement with DSPA.nl b.v. to sell NOFIQ extinguishing systems and to act as exclusive distributor of these products for the industrial, wholesale and retail markets in Canada, Kurdistan, Iraq, Guyana and Panama. The term of this agreement is for three years commencing September 27, 2010 and unless otherwise terminated will renew automatically for one year terms after the first period of three years expires. The Company is required to purchase an initial amount of 25,000 Euro within three months of the date of the agreement, and for each year of the agreement thereafter the minimum product turnover amount will be mutually agreed upon by both parties. The Company has met its obligation for the current year of the agreement.

The Company entered into a distribution agreement with DSPA.nl b.v. to sell DSPA aerosol extinguishing systems and to act as exclusive distributor of these products for the industrial, wholesale and retail markets in Canada, Kurdistan, Iraq, Guyana and Panama. The term of this agreement is for three years commencing September 27, 2010 and unless otherwise terminated will renew automatically for one year terms after the first period of three years expires. The Company is required to purchase an initial amount of 60,000 Euro within three months of the date of the agreement, and for each year of the agreement thereafter the minimum product turnover amount will be mutually agreed upon by both parties. The Company has met its obligation for the term of the agreement.

RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by management. Unless otherwise indicated, the period-end balances are unsecured, non-interest bearing, without specific terms of repayment and have arisen from advances or the provision of services and fees described.

During the three and six months ended June 30, 2012, the Company paid its President $40,000 and $40,000 and incurred $898 and $1,357 (2011 - $nil and $nil) in expenses from this individual who is also a director and at June 30, 2012 the Company owes this individual $45,698, (December 31, 2011 - $nil) which has been included in due to related parties on the condensed consolidated statements of financial position.

During the three and six months ended June 30, 2012, the Company incurred $27,000 and $54,000 in salary ($nil and $nil) to its Chief Financial Officer and at June 30, 2012 the Company owes this individual $40,500 (December 31, 2011 - $13,977) for unpaid salary and expenses which has been included in due to related parties on the condensed consolidated statements of financial position.

During the three and six months ended June 30, 2012, the Company incurred $nil and $nil (2011 - $5,600 and $19,600) in consulting fees from a company owned by a director and Vice President, Corporate Development and at June 30, 2012 the Company owes this company $12.417 (December 31, 2011 - $26,712) for expenses and advances which has been included in due to related parties on the condensed consolidated statements of financial position.

During the three and six months ended June 30, 2012, the Company incurred $17,500 and $35,000 in salary ($nil and $nil) to an officer and corporate counsel and at June 30, 2012 the Company owes this individual $23,333 (December 31, 2011 - $9,065) for unpaid salary and expenses which has been included in due to related parties on the condensed consolidated statements of financial position.

During the three and six months ended June 30, 2012, the Company acquired $9,326 and $9,326 (2011 - $122,427 and $130,288) in inventory from companies controlled by Frans Vogelzangs. At June 30, 2012 the Company owes those companies $513,951 (December 31, 2011 - $561,043), $510,997 pursuant to an interest-free promissory note which has been included in due to related parties on the condensed consolidated statements of financial position. The promissory note is due June 30, 2013 and is subject to early payment provisions triggered by pre-determined sales levels and proceeds from the issuance of common shares. During the three and six months ended June 30, 2012, the Company paid down the note by $5,358 and $5,358.

During the three and six months ended June 30, 2012, the Company incurred $nil and $nil (2011 – $44,595 and $87,595) in management fees from a former director and officer and to companies controlled by this individual, and paid $500 and $500 (2011 - $35,625 and $56,147) to this individual and to companies controlled by this individual for expense reimbursements. Subsequent to quarter-end the former director and officer provided supporting documentation as required by the Company. The Company and former director and officer have since resolved all outstanding issues.

During the three and six months ended June 30, 2012, the Company charged $4,000 and $10,000 (2011 - $nil and $nil) in fees to a company with common directors (AFG's President, CFO and VP, Corporate Development) for rent; these fees are netted against occupancy costs recorded in the condensed consolidated statements of loss and comprehensive loss. At the 2011 year-end management wrote-down $42,766 in uncollectible rent acquired from Orca; accordingly at June 30, 2012, the Company is owed $33,886 (December 31, 2011 - $20,000) and is disclosed as due from related parties on the condensed consolidated statements of financial position.

During the three and six months ended June 30, 2012, the Company charged $nil and $3,000 (2011 - $nil and $nil) in fees to a company with a common director (AFG's VP, Corporate Development) for rent; these fees are netted against occupancy costs recorded in the condensed consolidated statements of loss and comprehensive loss. As at June 30, 2012, the Company is owed $13,440 (December 31, 2011 - $10,080), which was acquired from Orca and is netted by an amount due to the same party in due to related parties on the condensed consolidated statements of financial position.

Key management personnel comprise the Company's Board of Directors and executive officers. During the six months ended June 30, 2012, key management share-based payments were $nil (2011 - $nil).

OTHER FINANCIAL INFORMATION

New standards and interpretations not yet effective

IFRS 7, "Financial Instruments: Disclosures" (Amended in 2011)

The IASB amended the disclosure requirements in IFRS 7, "Financial Instruments: Disclosure" to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32 "Financial Instruments: Presentation".

The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognized financial assets and recognized financial liabilities, on the entity's financial position.

The amended standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13, "Fair Value Measurement"

IFRS 13, "Fair Value Measurement", is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The new converged fair value framework is effective for annual periods beginning on or after January 1, 2013.

The IASB also issued the following new and revised standards addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements with other entities:

- IFRS 10, Consolidated Financial Statements ("IFRS 10") – replaces the consolidation guidance in IAS 27 (2008), Consolidated and Separate Financial Statements, and SIC-12, Consolidated Special Purpose Entities, by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee.
- IFRS 11, Joint Arrangements ("IFRS 11") – replaces IAS 31, Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed.
- IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12") – requires enhanced disclosures about the entity's interests in subsidiaries, joint arrangements and associates, and unconsolidated structured entities.
- IAS 27 (2011), Separate Financial Statements – the consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10.
- IAS 28 (2011), Investments in Associates and Joint Ventures – amended to conform to changes based on the issuance of IFRS 10, IFRS 11, and IFRS 12.

These five standards must be adopted concurrently and are effective for annual periods beginning on or after January 1, 2013.

RISK FACTORS

Due to the nature of the Company's business and the stage of development, the following risk factors, among others, will apply:

Competitive Factors. The life safety, fire extinguishing, paint and coatings industries are highly competitive and competition is expected to continue in the future. Many of AFG's competitors have longer operating histories and greater financial, technical and marketing resources, and such competitors could materially and adversely affect AFG's business, financial performance and financial condition.

Conflict of Interests. The directors and officers of AFG will not devote all of their time to the affairs of AFG, but will devote such time as is required to effectively manage AFG. Some of the directors and officers of AFG are engaged, and will continue to be engaged, in other businesses on their own behalf or on the behalf of others.

Early Stage Development. AFG is at an early stage of development. There can be no assurance that AFG will meet its objectives. As in any early stage development company, there is no assurance that AFG's business will be successful.

Environmental Hazards. AFG's products are complex and sophisticated and some contain chemicals that may be found to be hazardous to humans, animals and environment. In such event, the sale and use of AFG's products could result in liability claims. Any liability claims could have an adverse effect on AFG's business, financial performance and financial condition. There is no assurance that AFG's insurance coverage will be sufficient to cover one or more such claims.

Exchange Rate Fluctuations. AFG's costs and expenses are primarily incurred in Euros and Canadian dollars. A significant portion of AFG's future revenue, however, may be received in U.S. dollars, Euros and other foreign currencies. If the Euro and Canadian dollar gains value against these other currencies, AFG's financial performance and financial condition could be materially adversely affected.

General Economic Conditions. The industries in which AFG operates are affected by changes in general economic conditions, including international, national, regional and local economic conditions, all of which are outside of AFG's control. Economic slowdowns, adverse economic conditions, cyclical trends, increases in interest rates and other factors could have a material adverse effect on AFG's financial performance and financial condition.

Government Regulations. Government regulation affects the manufacture and marketing of AFG's products. Failures to comply with applicable regulatory requirements can, among other things, result in fines, suspension of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecutions. All of the foregoing regulatory matters will also be applicable to development, manufacturing and marketing undertaken by any collaborative partners or licensees of AFG.

History of Operating Losses. AFG has accumulated net losses since inception. Such losses are expected to decrease in the near term; however, there can be no assurance that AFG will generate positive net earnings in the future or at all.

Intellectual Property. The success of AFG will depend, in part, on its ability to maintain trade secret protection over its proprietary formulas and processes. AFG's products are not all currently protected by any patents and are therefore capable of being duplicated or improved upon by competitors. Accordingly AFG may be vulnerable to competitors who develop competing technology, whether independently or as a result of acquiring access to the proprietary products and trade secrets of AFG. In addition, effective patent, copyright and trade secret protection may be unavailable or limited in certain foreign countries and may be unenforceable under the laws of certain jurisdictions. Litigation may be necessary in the future to enforce AFG's intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on AFG's business, financial performance and financial condition.

Lack of Operating History. AFG was incorporated in September of 2010 and has a very short operating history. The likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays encountered in connection with the development of a business and in the areas in which AFG intends to operate and in connection with the formation and commencement of operations of a new business in general. These include, but are not limited to, unanticipated problems relating to securing agreements with insurance companies, regulatory approvals, marketing and competition, and additional costs and expenses that may exceed current estimates.

Market for Securities. There can be no assurance that an active market for the securities of AFG will develop and be maintained. The market price of the securities of AFG may be subject to significant fluctuations. Such factors as government regulations, interest rates, fluctuations in the prices of the securities of similar companies or competitors of AFG, as well as general market fluctuations, may have a significant impact on the market price of the securities of AFG. From time to time, stock exchanges have experienced extreme fluctuations in price and volume, which were in no way related to the operating results of specific companies.

Need for Funds. AFG is reliant upon and seeking additional equity financing in order to continue its businesses and operations. There is no guarantee that future sources of funding will be available to AFG. If AFG is not able to raise additional equity funding in the future it may be unable to carry on business in the future. AFG is currently at a stage where it seeks external capital to implement its plan to market its products through agents and to implement its plan to bring insurance companies on board to the DSPA Roll-Out Program.

Potential Product Liability. AFG is subject to the risk of exposure to product liability claims in the event that the use of its products results in adverse effects during residential or light commercial use. Although AFG intends to maintain sufficient product liability insurance, there can be no assurance that AFG will be able to obtain or maintain product liability insurance coverage at economically reasonable rates, or that such insurance will provide adequate coverage against all possible claims. An inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the further commercialization of AFG's products. A product liability claim brought against AFG or a product withdrawal could have a material adverse effect upon AFG and its financial condition.

Product Supply Interruption, Delay or Interruption. Products distributed by AFG are manufactured abroad including Russia and the European Union. There can be no guarantee that the supply will not be interrupted, discontinued or delayed, which may negatively impact AFG's performance. In addition there may be certain restrictions with respect to the procurement of products by the Canadian and other militaries.

Rapid Growth. If AFG were to experience substantial growth, this could result in significant personnel changes over the next few years and could put significant strain on its managerial, operational and financial resources.

Research and Market Development. The life safety, fire extinguishing, paint and coatings industry is subject to technological advances. The success of AFG in the long term will depend upon AFG's ability to continue to differentiate its products from those of its competitors in terms of product features and performance in the face of new or competing technologies. Although AFG is committed to researching and developing new markets and products and improving existing products, there can be no assurances that such research and market development activities will prove profitable or that the resulting markets and/or products, if any, will be commercially viable or successfully produced and marketed.

Reliance on Key Personnel. AFG is currently reliant on the management team to oversee the negotiations with insurance companies, product advertisements, operational and fund raising activities. The loss of any of these individuals in the short term would have a detrimental effect on the short-term ability of AFG to achieve its objectives.

Seasonality and Fluctuations in Operating Results. AFG's business has been subject to seasonal fluctuations in AFG's sales and consequently in operating results. Further, the sales cycle for AFG's products can be lengthy and unpredictable, ranging from 6 to 12 months. AFG's recent seasonality may not be a reliable indicator of AFG's future seasonality. Variations in AFG's net sales and income from operations are principally attributable to seasonal trends in the demand for AFG's products. Operating margins tend to be lower in quarters with lower sales, which are not fully offset by a corresponding reduction in expenses.

ADDITIONAL INFORMATION

For more information, please visit AFG's website at www.afg5.com and view AFG's disclosure record on the Canadian National Stock Exchange website at www.csnx.ca and on SEDAR at www.sedar.com.