

# **LINGXIAN CAPITAL INC.**

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

**FOR THE NINE MONTHS ENDED OCTOBER 31, 2014**

### **GENERAL**

The following information, prepared as of December 29, 2014, should be read in conjunction with the unaudited condensed interim financial statements of Lingxian Capital Inc ("the Company" or "Lingxian") for the nine months period ended October 31, 2014 as well as the audited financial statements for the year ended January 31, 2014. The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

During the nine months period ended October 31, 2014, the Company's critical accounting estimates and significant accounting policies have remained substantially unchanged and are still applicable to the Company unless otherwise indicated. All amounts are expressed in Canadian dollars unless noted otherwise.

The risk factors identified in the management's discussion and analysis (the "MD&A") recognise that the risk factor of future financings has assumed a greater importance to the Company in view of the current economic climate and stock market volatility. Management has assessed and will continue to address the implications of recent events in order to ensure that Lingxian can continue to achieve its long term objectives.

On May 21, 2014, the Company completed its initial public offering of 4,000,000 common shares at a price of \$0.10 per share for gross proceeds of \$400,000 (the "IPO"). On May 23, 2014, the Company's common shares were listed for trading on the TSX Venture Exchange (the "Exchange" or the "TSX-V") under the Exchange's capital pool program with the stock symbol "LXC.P".

On August 13, 2014, the Company has entered into a letter of intent (the "LOI") with Jinsili International Steel Holdings Co., Ltd. ("Jinsili"). The proposed transaction is intended to constitute the qualifying transaction. Pursuant to the LOI, Company will issue not greater than 22,000,000 common shares at \$0.19 per share to shareholders of Jinsili to acquire all of the issued and outstanding securities of Jinsili, which will result in Jinsili becoming a wholly-owned subsidiary of the resulting issuer. The Company intends to complete a non-brokered private placement which will close concurrently with the closing of the transaction. The Company plans to issue an aggregate of 2,500,000 common shares at a price of \$0.20 per share for gross proceeds of \$500,000. Upon closing of the transaction, a finder's fee will be paid in 500,000 common shares of the resulting issuer at the deemed price of \$0.19 together with 500,000 non-transferable finder's warrants (the "Finder's Warrants"). Each of Finder's Warrants entitles the finder to purchase one additional common share of the resulting issuer at a price of \$0.19 for a period of two years from the date of the closing of the transaction.

On December 12, 2014, the Company entered into the first amendment to the letter of intent previously entered into on August 14, 2014 to extend the date of the execution of a definitive agreement and closing of the transaction. In addition, Jinsili revised the terms regarding the finder in that a finder's fee will be payable to Qu Bo International Trading Company Limited, a private company registered in British Virgin Islands and an arm's length party.

### **CAUTIONARY NOTE REGARDING FORWARDING LOOKING STATEMENTS**

Certain statements contained in the foregoing management discussion & analysis (the "MD&A") constitutes forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below.

### **DESCRIPTION OF BUSINESS**

The Company is a capital pool company ("CPC") under the Exchange's capital pool program. As a CPC, the principal business of the Company is the identification and evaluation of assets or businesses with a view to

## **LINGXIAN CAPITAL INC.**

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

#### **FOR THE NINE MONTHS ENDED OCTOBER 31, 2014**

completing a "Qualifying Transaction" (the "QT") as defined in the Exchange Policy 2.4 once the Company's common shares are listed for trading on the Exchange. Accordingly, the Company has not commenced commercial operations and has no assets other than its cash and cash equivalents.

Under the CPC policies of the Exchange, the Company must identify and complete a QT within 24 months from the date the Company's shares are listed for trading on the Exchange. There is no assurance that the Company will be able to complete a QT within 24 months of being listed or that it will be able to secure the necessary financing to complete a QT. The Exchange may suspend or de-list the Company's shares from trading should it not meet these requirements.

#### **OVERALL PERFORMANCE**

The following discussion of the Company's financial performance is based on the unaudited condensed interim financial statements for the nine months period ended October 31, 2014 and the audited financial statements for the year ended January 31, 2014.

The statement of financial position as at October 31, 2014 indicates a cash position of \$610,065 (January 31, 2014 - \$55,142) and total current assets of \$610,065 (January 31, 2014 - \$55,142). Total assets at October 31, 2014 total \$610,065 (January 31, 2014 - \$82,231). The increase in cash and current assets was mainly due to the subscription receipts pursuant to the LOI.

Current liabilities at October 31, 2014 total \$6,917 (January 31, 2014 - \$34,820). Shareholders' equity is comprised of capital stock of \$828,333 (January 31, 2014 - \$100,000) and an accumulated deficit of \$225,185 (January 31, 2014 - (\$52,589) for a net of \$603,148 (January 31, 2014 - \$47,411) in shareholders' equity.

Working capital, which is current assets less current liabilities, is \$603,148 at October 31, 2014 compared to \$20,322 at January 31, 2014. Management believes that there is sufficient working capital to maintain its day-to-day operations.

On May 21, 2014, the Company completed its initial public offering raising gross proceeds of \$400,000. A total of 4,000,000 common shares of the Company were issued at a price of \$0.10 per share pursuant to the final prospectus of the Company dated April 14, 2014. Pursuant to an amended and restated agency agreement dated April 8, 2014 between the Company and Leede Financial Market Inc. (the "Agent"), the Company paid to the Agent a cash commission equal to 10% of the gross proceeds and a corporate finance fee of \$8,000 plus taxes, reimbursed for its reasonable expenses and legal fees plus disbursements, and issued Agent's warrants to acquire up to 400,000 common shares at \$0.10 per share exercisable for a period of 24 months from the date the common shares of the Company are listed on the TSX-V. The warrants were valued at fair value of \$23,258.

The Company's shares commenced trading on the TSX Venture Exchange under the trading symbol "LXC.P" on May 23, 2014.

In connection with IPO, In connection with IPO, the Company records a total of \$104,073 share issuance cost, which consists of \$40,000 agent commission, \$18,563 corporate finance and disbursement fees, \$22,252 legal fees, and \$23,258 fair value of agent warrants issued.

On May 23, 2014, the Company granted 280,000 stock options to directors and officers at the closing of its IPO. Each option will be exercisable into one common share of the Company at a price of \$0.10 per share for five years from the date of grant and the options will vest on the grant date. The options were valued at fair value of \$35,254.

During the nine months period ended October 31, 2014, the Company reported a net loss of \$172,596 (\$0.04) basic and diluted loss per share). Losses in the nine months period ended October 31, 2014 mainly represent audit & accounting fees, filing fees, legal fees, share-based payment, and office and general expenses.

## LINGXIAN CAPITAL INC.

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

#### FOR THE NINE MONTHS ENDED OCTOBER 31, 2014

The weighted average number of common shares outstanding for the nine months period ended October 31, 2014 was 4,388,278 (January 31, 2014 – 400,001).

#### RESULTS OF OPERATIONS

##### Current Quarter

During the three months period ended October 31, 2014, the Company incurred a net loss of \$86,552 compared to a net loss of \$2,523 for the three months period ended October 31, 2013. The net loss of \$86,552 (2013 - \$2,523) was mainly due to legal fees of \$28,343 (2013 - \$2,523), meals and travel of \$12,020 (2013 - \$Nil), and professional fees of \$63,767 (2013 - \$Nil).

##### Year-to-date

During the nine months period ended October 31, 2014, the Company incurred a net loss of \$172,596 compared to a net loss of \$2,523 for the nine months period ended October 31, 2013. The net loss of \$172,596 (2013 - \$2,523) was mainly due to filing fees of \$18,554 (2013 - \$Nil), legal fees of \$28,343 (2013 - \$2,523), meals and travel of \$12,020 (2013 - \$Nil), office and general expense of \$6,216 (2013 - \$Nil), professional fees of \$91,793 (2013 - \$Nil), share-based payment of \$35,254 (2013 - \$Nil) and transfer agent fees of \$1,852 (2013 - \$Nil).

The Company's business is to identify and evaluate businesses and assets with a view to completing a "Qualifying Transaction" as defined in the policies of the Exchange. Any proposed QT must be accepted by the Exchange and, in the case of a non-arm's length QT, is also subject to "majority of the minority approval" in accordance with Exchange Policy 2.4 – Capital Pool Companies.

To date, the Company has not conducted commercial operations. Until completion of a QT, the Company will not carry on any business other than the identification and evaluation of businesses or assets with a view to completing a QT. There is no assurance that the Company will identify a QT within the time limitations permissible under the policies of the Exchange, at which time the Exchange may suspend or delist the Company's shares from trading.

#### SUMMARY OF QUARTERLY RESULTS

The following table sets out selected unaudited quarterly financial information of the Company for the eight most recently quarters of operation. This information is derived from unaudited quarterly financial statements prepared by management.

	<b>Qtr3 October 31, 2014 \$</b>	<b>Qtr 2 July 31, 2014 \$</b>	<b>Qtr 1 April 30, 2014 \$</b>	<b>Qtr 4 January 31, 2014 \$</b>	<b>Qtr 3 October 31, 2013 \$</b>	<b>Qtr 2 July 31, 2013 \$</b>	<b>Qtr 1 April 30, 2013 \$</b>	<b>Qtr 4 January 31, 2013 \$</b>
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Loss	(172,596)	(72,877)	(13,167)	(30,793)	(2,523)	(Nil)	(Nil)	(847)
Basic and diluted loss per share	(0.04)	(0.01)	(0.03)	(0.00)	(2,523)	(0.00)	(0.00)	(847)
Total assets	610,065	323,385	48,974	82,231	32,704	80,227	81,074	81,074
Working Capital	603,148	315,806	2,792	47,411	28,204	75,727	75,727	75,727

The financial data for all quarters are prepared in accordance with IFRS.

#### Net Loss

Overall, audit & filing fees, legal fees, professional fees and share-based payment were the major components that caused variances in net losses from quarter to quarter.

## **LINGXIAN CAPITAL INC.**

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

**FOR THE NINE MONTHS ENDED OCTOBER 31, 2014**

#### **FINANCING ACTIVITIES**

The Company has engaged in the following financing activities:

- (i) Upon incorporation on July 16, 2012, the Company issued one (1) common share at \$0.05. On November 19, 2013, the Company completed a non-brokered private placement of 1,999,999 common shares at \$0.05 per share for total cash proceeds of \$100,000. The 2,000,000 common shares is held in escrow and released pro-rata to the shareholders as to 10% of the escrow shares upon issuance of a Final Exchange Bulletin by the TSX-V and as to the remainder in six equal tranches of 15% every six months thereafter for a period of 36 months. These escrow shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities. If a Final Exchange Bulletin is not issued the shares will not be released from escrow and if the Company is delisted, the shares will be cancelled.

The 2,000,000 common shares outstanding as of July 31, 2014 are contingently cancelable as per TSX-V Policy 2.4.

- (ii) On May 21, 2014, the Company completed its initial public offering raising gross proceeds of \$400,000. A total of 4,000,000 common shares of the Company were issued at a price of \$0.10 per share pursuant to the final prospectus of the Company dated April 14, 2014. Pursuant to an amended and restated agency agreement dated April 8, 2014 between the Company and Leede Financial Market Inc., the Company paid to the Agent a cash commission equal to 10% of the gross proceeds and a corporate finance fee of \$8,000 plus taxes, reimbursed for its reasonable expenses and legal fees plus disbursements, and issued Agent's warrants to acquire up to 400,000 common shares at \$0.10 per share exercisable for a period of 24 months from the date the common shares of the Company are listed on the TSX-V. The warrants were valued at fair value of \$23,258.

#### **LIQUIDITY AND CAPITAL RESOURCES**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2014, the Company's cash balance was recorded as \$610,065 (January 31, 2014 - \$55,142), and the Company had a working capital of \$603,148 (January 31, 2014 - \$20,322). At October 31, 2014, the Company has share capital of \$395,927 (January 31, 2014 - \$100,000), subscription receipts of \$373,894 (January 31, 2014 - \$Nil), reserves of \$58,512 (January 31, 2014 - \$Nil) representing 6,000,000 (January 31, 2014 - 2,000,000) common shares, and an accumulated deficit of \$225,185 (January 31, 2014 - \$52,589).

Management believes that the Company has sufficient cash to meet its current obligations for the next 12 months. There are no commitments for capital expenditures or contractual obligation as at October 31, 2014. Reference should be made to the section titled "Overall Performance".

The Company currently has no established credit lines with any chartered banks or other financial institutions. The Company expects to rely upon equity financing as its primary source of funding. There are no assurances that the Company will be able to negotiate equity financings on terms acceptable to management of the Company or at all.

##### *Financial Instruments Liquidity Risk*

Reference should be made to the section below entitled "Financial Instruments".

#### **OFF BALANCE SHEET ARRANGEMENTS**

To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

# **LINGXIAN CAPITAL INC.**

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

**FOR THE NINE MONTHS ENDED OCTOBER 31, 2014**

### **TRANSACTIONS WITH RELATED PARTIES**

a) Related party transactions:

At October 31, 2014, the amount due to related party was Nil (January 31, 2014 - \$4,500). The related party payable of \$4,500 at January 31, 2014 was due to the Chief Executive Officer ("CEO") of the Company. The amount was unsecured, non-interest bearing and with no fixed terms of repayment. The amount was paid during the nine months period ended October 31, 2014.

b) Key management compensation:

Key management includes directors and key officers of the Company, including the CEO and the Chief Financial Officer. There was no compensation paid to key management personnel for the period ended October 31, 2014 (2013 - \$nil).

### **PROPOSED TRANSACTIONS**

All current transactions are fully disclosed in the unaudited condensed interim financial statements for the nine months period ended October 31, 2014.

On August 13, 2014, the Company has entered into a letter of intent with Jinsili International Steel Holdings Co., Ltd. The proposed transaction is intended to constitute the QT. Pursuant to the LOI, Company will issue not greater than 22,000,000 common shares at \$0.19 per share to shareholders of Jinsili to acquire all of the issued and outstanding securities of Jinsili, which will result in Jinsili becoming a wholly-owned subsidiary of the resulting issuer. The Company intends to complete a non-brokered private placement which will close concurrently with the closing of the transaction. The Company plans to issue an aggregate of 2,500,000 common shares at a price of \$0.20 per share for gross proceeds of \$500,000. Upon closing of the transaction, a finder's fee will be paid in 500,000 common shares of the resulting issuer at the deemed price of \$0.19 together with 500,000 non-transferable finder's warrants. Each of Finder's Warrants entitles the finder to purchase one additional common share of the resulting issuer at a price of \$0.19 for a period of two years from the date of the closing of the transaction.

### **CHANGES IN ACCOUNTING POLICIES**

All significant accounting policies and critical accounting estimates are fully disclosed in Note 3 of the unaudited condensed interim financial statements for the nine months period ended October 31, 2014.

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. Financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both the current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following: the Company accounts for stock-based compensation expense and agent warrant value using the fair value based method determined by the Black Scholes Pricing Model with assumptions for risk-free interest rates, dividend

## LINGXIAN CAPITAL INC.

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

#### FOR THE NINE MONTHS ENDED OCTOBER 31, 2014

yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options and warrants.

#### FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

At October 31, 2014, the Company's financial instruments consist of cash and cash equivalents and accounts payable. The fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments. The fair value of cash and cash equivalents is based on level 1 inputs of the fair value hierarchy.

The Company is exposed to a variety of financial instrument related risks. 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 a counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents.

##### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash and cash equivalents. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at October 31, 2014, the Company had a cash and cash equivalents of \$610,065 (January 31, 2014 - \$55,142) to settle current liabilities of \$6,917 (January 31, 2014 - \$34,820).

##### *Interest rate risk*

The Company has cash balances and is not exposed to any significant interest rate risk.

#### OTHER MD&A DISCLOSURE REQUIREMENTS

##### Disclosure of Outstanding Share Data

The following information relates to share data of the Company as at the date of this MD&A.

##### **Common shares**

Authorized: Unlimited number of common voting shares without nominal or par value

Issued: The Company has 6,000,000 common shares issued and outstanding and its share capital is \$395,927.

##### **Share purchase option compensation plan**

The Company has adopted a Stock Option Plan (the "Plan") pursuant to which options may be granted to directors, officers, employees and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding common shares at the time of the grant, and the exercise price of

## LINGXIAN CAPITAL INC.

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

#### FOR THE NINE MONTHS ENDED OCTOBER 31, 2014

each option is equal to or above the market price of the common shares on the grant date. Options granted under the Plan are determined by, and at the discretion of, the Board of Directors.

On May 23, 2014, the Company granted 280,000 stock options to directors and officers at the closing of its IPO (see Note 5b). Each option will be exercisable into one common share of the Company at a price of \$0.10 per share for five years from the date of grant and the options will vest on the grant date. The options were valued at fair value of \$35,254.

As at October 31, 2014 and the date of this MD&A, none of the stock options have been exercised.

#### **Agent's Warrants**

On April 14, 2014, the Company filed a final prospectus with the securities regulatory authorities in British Columbia and Alberta and with the TSX-V, offering 4,000,000 common shares at \$0.10 per share as the initial public offering. Pursuant to an amended and restated agency agreement dated April 8, 2014 between the Company and Leede Financial Market Inc., the Company issued Agent's warrants to acquire up to 400,000 common shares at \$0.10 per share exercisable for a period of 24 months from the date the common shares of the Company are listed on the TSX-V.

#### **Escrow shares**

Included in issued share capital are 2,000,000 shares subject to escrow restrictions. The 2,000,000 common shares will be released pro-rata to the shareholders as to 10% of the escrow shares upon issuance of a Final Exchange Bulletin by the TSX-V and as to the remainder in six equal tranches of 15% every six months thereafter for a period of 36 months. These escrow shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities. If a Final Exchange Bulletin is not issued the shares will not be released from escrow and if the Company is delisted, the shares will be cancelled.

#### **Additional Disclosure For Junior Issuers**

The Company has expensed the following material cost components:

	Nine months Ended October 31, 2014	Nine months Ended October 31, 2013
	\$	\$
Professional fees	91,793	Nil
Share-Based Payment	35,254	Nil
Filing Fee	18,554	Nil
Legal Fee	28,343	2,523
Meals and travel	12,020	Nil

During the nine months ended October 31, 2014, \$91,793 in professional fees was recorded in relation to the previous year's financial statements audit services, valuation fees, and sponsorship fees.

During the nine months ended October 31, 2014, \$35,254 in share-based payment was recorded in relation to the 280,000 stock options issued.

During the nine months ended October 31, 2014, \$18,554 in filing fees was mainly in relation to the Exchange listing fee.

During the nine months ended October 31, 2014, \$28,343 in legal fees was recorded due to the legal activities in relation to the LOI and general corporate matters.

## **LINGXIAN CAPITAL INC.**

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

#### **FOR THE NINE MONTHS ENDED OCTOBER 31, 2014**

During the nine months ended October 31, 2014, \$12,020 in meals and travel due to trips for the directors and management to perform due diligence pursuant proposed transaction.

#### **FUTURE ACCOUNTING STANDARDS AND INTERPRETATIONS**

Standards issued but not yet effective up to the date of issuance of the Company's condensed interim financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company does not expect the impact of such changes on the condensed interim financial statements to be material.

##### *IAS 32, Financial Instruments: Presentation*

IAS 32, effective for annual periods beginning on or after January 1, 2014, is amended to provide guidance on the offsetting of financial assets and financial liabilities.

##### *IFRS 9, Financial Instruments*

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company does not expect the impact of such changes on the condensed interim financial statements to be material.

#### **RISKS AND UNCERTAINTIES**

The Company's financial performance is likely to be subject to the following risks:

- a) The Company has not commenced commercial operations, and has no assets other than cash. The Company has no history of earnings and shall not generate earnings or pay dividends until at least after completion of its QT.
- b) Until completion of a QT, the Company is not permitted to carry on any business other than the identification and evaluation of potential QT; and
- c) The Company has only limited funds with which to identify and evaluate potential QT and there can be no assurance that the Company will be able to identify or complete a suitable QT.

#### **ADDITIONAL INFORMATION**

Additional information about the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).