

CHANGFENG ENERGY INC.

**Management's Discussion and Analysis for the Three-
and Six-month Ended June 30, 2015**

Dated August 25, 2015

Advisory

The Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to assess material changes in financial condition and results of operations of Changfeng Energy Inc. ("Changfeng" or the "Company") for the three and six months ended June 30, 2015. This information should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the three and six months ended June 30, 2015 and the audited consolidated financial statements and related notes and the MD&A for the year ended December 31, 2014. "Changfeng" includes Changfeng Energy Inc. and its subsidiaries, unless otherwise indicated. Additional information related to Changfeng is available on SEDAR at www.sedar.com or on its website at www.changfengenergy.com.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Changfeng bases its estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

This MD&A contains certain non-IFRS financial measures to assist users in assessing its performance. Non-IFRS financial measures do not have any standard meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Non-IFRS Financial Measures".

Amounts are stated in Canadian dollars unless otherwise indicated.

Caution Regarding Forward-Looking Information

Certain statements in this MD&A may constitute "forward looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiaries, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward looking statements. Such forward looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward looking statements, such as significant changes in market conditions, the inability of the Company to realize sales and the inability of the Company to attract sufficient financing and the risk factors summarized below under the heading "Risk Factors". New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward looking statements as a prediction of actual results. Although the forward looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. The forward looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

Overview

Changfeng is a Canadian public company currently trading on the TSX Venture Exchange ("TSX-V") under the stock symbol "CFY". Changfeng is a natural gas distribution company (or natural gas utility) in the People's Republic of China ("the PRC" or "China").

Currently the Company has three projects in operation: two piped natural gas distribution projects, and one compressed natural gas ("CNG") vehicle refueling station. Changfeng has a 30 year concession right to operate gas distribution business in Sanya City, Hainan Province, and a 50 year operating right for gas distribution business in the Xiangdong District, Pingxiang City, Jiangxi Province. Its customer base and exclusive operation provide recurring revenue and operating cash flows to the Company and allow the Company to pursue future expansion of operations.

Changfeng has been actively exploring market opportunities which were brought by the PetroChina's Second West-East Pipeline ("WEP II"). Changfeng has grown with responsible development and reliable operation of natural gas distribution pipelines and associated facilities in China. Highlights include:

- ❖ **In Sanya City, Hainan Province, China**
 - 30-year exclusive concession rights (2007-2037) in Sanya City operated by wholly-owned gas distribution pipeline networks and associated facilities;
 - Secured gas supply through annual gas quota of 24 million cubic meters (m³) (848 million cubic feet (ft³)) until December 31, 2015 at a favorable price;
 - Additional 5 million cubic meters (m³) gas supply a year from Gas to Electricity Exchange Program;
 - Serving 152,570 residential and 812 commercial/industrial customers (primarily hotels and restaurants), including 7 hotels in Haitang Bay area, Sanya City.

- ❖ **In Xiangdong District, Pingxiang City, Jiangxi Province, China (Xiangdong Project)**
 - 50-year operation rights (2010-2060) in the administrative region of Xiangdong District, including the Pingxiang Industrial Ceramic Production Park (the "Park");
 - Secured gas supply through an approved gas quota of 2015: 50 million m³ (1,765 million ft³);
 - Commencing sales of natural gas to five ceramics manufacturers and four other industrial customers in the Park;
 - Completion of the installation of main and service pipeline connecting to a gated community.

- ❖ **In Changsha City, Hunan Province, China**
 - A CNG refueling retail station mainly serving public transportation vehicles like buses and taxis in Changsha City, Hunan Province;
 - Continuing to grow its customer base.

The Company's primary goal is to become an important natural gas service provider in Southern China. In pursuit of this goal, Changfeng continuously strives to advance effective execution of growth strategy by exploring strategic business development opportunities in mainland China along WEP II. The Company believes that its ongoing projects will add value, generate revenues and leverage its strength to create long-term sustainable benefits for its shareholders and clients.

Selected Quarterly Financial Information

The following table provides selected financial information for the three and six months ended June 30, 2015 and 2014:

<i>In thousands of Canadian dollars except percentages and per share amounts</i>	Three month ended June 30,				Six month ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Revenue	13,717	10,775	2,942	27%	30,418	24,155	6,263	26%
Gross margin	7,004	4,738	2,266	48%	16,579	12,528	4,051	32%
% of revenue	51.1%	44.0%	7.1%		54.5%	51.9%	2.6%	
General and administrative	2,315	2,410	(95)	-4%	5,426	5,149	277	5%
% of revenue	16.9%	22.4%	-5%		17.8%	21.3%	-3.5%	
Travel and business development	911	810	101	12%	1,812	1,887	(75)	-4%
% of revenue	6.6%	7.5%	-0.9%		6.0%	7.8%	-1.9%	
Stock based compensation	48	87	(39)	-44%	77	175	(98)	-56%
% of revenue	0.3%	0.8%	-0.5%		0.3%	0.7%	-0.5%	
Total expenses	3,274	3,307	(33)	-1%	7,315	7,210	105	1%
% of revenue	23.9%	30.7%	-6.8%		24.0%	29.8%	-5.8%	
Income before interest, equity loss and income taxes	3,730	1,431	2,299	161%	9,264	5,318	3,946	74%
% of revenue	27.2%	13.3%	13.9%		30.5%	22.0%	8.4%	
Interest on long term debt	487	449	38	8%	1,002	939	63	7%
% of revenue	3.5%	4.2%	-0.6%		3.3%	3.9%	-0.6%	
Interest (income) expense	(30)	(11)	(19)	176%	(63)	(20)	(43)	220%
% of revenue	-0.2%	-0.1%	-0.1%		-0.2%	-0.1%	-0.1%	
Share of loss of investment in associate	0.3	0.2	0.1	86%	0.7	8	(7)	-91%
Income before income taxes	3,273	992	2,281	230%	8,324	4,391	3,933	90%
% of revenue	23.9%	9.2%	14.7%		27.4%	18.2%	9.2%	
Income tax	1,368	385	983	255%	3,510	1,854	1,656	89%
% of revenue	10.0%	3.6%	6.4%		11.5%	7.7%	3.9%	
Net income	1,905	607	1,298	214%	4,814	2,537	2,277	90%
% of revenue	13.9%	5.6%	8.3%		15.8%	10.5%	5.3%	
EBITDA (1)	4,970	2,385	2,585	108%	11,603	7,404	4,199	57%
% of revenue	36.2%	22.1%	14.1%		38.1%	30.7%	7.5%	
Non-controlling interest	127	64	63	98%	209	109	100	92%
Basic EPS	0.03	0.01	0.02	200%	0.07	0.04	0.03	75%
Diluted EPS	0.03	0.01	0.02	200%	0.07	0.04	0.03	75%
Weighted average number of common shares outstanding - Basic	63,099	63,354	(255)	-0.4%	63,099	63,647	(548)	-1%
Weighted average number of common shares outstanding - Diluted	64,244	64,265	(21)	0.0%	64,070	64,590	(520)	-1%

Note: (1) EBITDA is identified and defined under the section "Non-IFRS Financial Measures".

Results of Operations

Total Revenue

Total Revenue in RMB	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Gas distribution utility								
- Gas Sales	29,810,432	27,700,640	2,109,792	8%	73,108,782	67,292,436	5,816,346	9%
- Pipeline Installation and Connection	28,338,187	22,048,125	6,290,062	29%	57,908,254	45,252,381	12,655,873	28%
CNG vehicle refueling	11,090,136	12,025,249	(935,113)	-8%	22,145,189	23,236,049	(1,090,860)	-5%
Total Revenue in RMB	69,238,755	61,774,014	7,464,741	12%	153,162,225	135,780,866	17,381,359	13%

Revenue in CAD	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
- Gas Sales	5,903,033	4,813,026	1,090,007	23%	14,519,404	11,971,324	2,548,080	21%
- Pipeline Installation and Connection	5,616,136	3,855,069	1,761,067	46%	11,500,579	8,050,399	3,450,180	43%
CNG vehicle refueling	2,198,079	2,106,763	91,316	4%	4,398,035	4,133,693	264,342	6%
Total Revenue in CAD	13,717,248	10,774,858	2,942,390	27%	30,418,018	24,155,416	6,262,602	26%

Revenue for the three months ended June 30, 2015 was \$13.7 million, an increase of \$2.9 million, or 27%, from \$10.8 million for the same period of 2014. Revenue for the six months ended June 30, 2015 was \$30.4 million, an increase of \$6.3 million, or 26%, from \$24.1 million for the same period of 2014. This increase is mainly attributable to gas sales volume growth resulting from continuously growing customer base, rapid growth of pipeline connection revenue, and appreciation of Chinese RMB to Canadian Dollar.

Further analysis is presented below for the Company's two business segments: Natural Gas Distribution Utility and CNG Vehicle Refueling Stations.

Natural Gas Distribution Utility

Natural Gas Distribution Utility segment consists of two components: Gas Sales and Pipeline Installation and Connection. With the stable growth in new customers connected and in gas volume consumed, revenue from gas sales has been growing steadily in recent years; revenue from pipeline installation and connection continues to grow as well.

Gas Sales

Sanya Region	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Gas volume sold (m ³)								
Residential customers	1,510,000	1,220,000	290,000	24%	4,990,000	4,080,000	910,000	22%
Commercial customers	6,470,000	6,000,000	470,000	8%	15,130,000	14,160,000	970,000	7%
Subtotal (Sanya Region)	7,980,000	7,220,000	760,000	11%	20,120,000	18,240,000	1,880,000	10%

Currently, the Company has an annual gas quota of 24.0 million m³ and 5.0 million m³ exchanged gas for its Sanya region operation. In addition it has an uncertain amount of extra gas quota made available each year through coordination with the local government in Sanya region. During the six months ended June 30, 2015, the Company utilized approximately 19 million m³ of its gas quota.

Gas sales volume for Sanya Region during the three months ended June 30, 2015 was 8.0 million m³, an increase of 0.8 million m³ or 11%, compared to 7.2 million m³ for the same period of 2014, of which 1.5 million m³ was for residential customers at a growth rate of 24% and 6.5 million m³ was for commercial customers at a growth rate of 8%. Gas sales volume for Sanya Region during the six months ended June 30, 2015 was 20.1 million m³, an increase of 1.9 million m³ or 10%, compared to 18.2 million m³ for the same period of 2014, of which 5.0 million m³ was for residential customers at a growth rate of 22% and 15.1 million m³ was for commercial customers at a growth rate of 7%.

The Company's non-residential customers include commercial and industrial customers, mainly comprised of hotels, resorts and restaurants in Sanya City. Approximately 81% and 75% of the gas sold in Sanya City during the three months ended June 30, 2015 (75% for the six months then ended) was to those non-residential customers. Sanya municipal government's approval of the sales price increase related to the implementation of the long-term Budget Process (the "Budget Process"), which was implemented as part of the solution to address the ongoing gas deficit issue in the Sanya region. The Budget Process is intended to provide (a)

For the three and six months ended June 30, 2015

potential subsidy for the loss, if any, on the gas sales to its residential customers; and (b) periodic sales price adjustments for its commercial customers enabling the sales prices to reflect the interaction between supply and demand; however, there is no guarantee that the Budget Process will be successfully implemented by the government in the future.

Xiangdong Region	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Gas volume sold (m ³)								
Residential customers	45,905	12,000	33,905	283%	90,189	21,100	69,089	327%
Commercial customers	547,305	247,200	300,105	121%	789,167	497,400	291,767	59%
Subtotal (Xiangdong District)	593,210	259,200	334,010	129%	879,356	518,500	360,856	70%

The Company also has secured its gas supply in Xiangdong district through the approval of one year gas quota of 50.0 million m³ for 2015. The Company started to sell natural gas to residential customers in the gated community in the downtown area of Xiangdong region since 2013 and is now serving nine industrial customers in the Xiangdong region. The Company expects to eventually connect 2,000 new residential customers and to serve 8,000 more residential customers by upgrading their coke gas fueled facilities to natural gas fueled facilities in downtown Xiangdong region.

Gas sales volume for Xiangdong district during the three months ended June 30, 2015 was 0.6 million m³, an increase of 0.3 million m³ or 129%, compared to 0.3 million m³ for the same period of 2014, of which 93% of gas volume was sold to non-residential customer. Gas sales volume for Xiangdong district during the six months ended June 30, 2015 was 0.9 million m³, an increase of 0.4 million m³ or 70% compared to 0.5 million m³ for the same period of 2014.

Gas sales revenue in RMB	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Sanya	27,964,701	26,772,687	1,192,014	4%	70,187,361	65,547,752	4,639,609	7%
Xiangdong	1,845,731	927,953	917,777	99%	2,921,421	1,744,684	1,176,737	67%
Total	29,810,432	27,700,640	2,109,793	8%	73,108,782	67,292,436	5,816,346	9%

Gas sales revenue in CAD	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Sanya	5,536,901	4,650,312	886,589	19%	13,939,210	11,660,945	2,278,265	20%
Xiangdong	366,132	162,714	203,417	125%	580,194	310,379	269,815	87%
Total	5,903,033	4,813,026	1,090,006	23%	14,519,404	11,971,324	2,548,080	21%

Gas sales revenue for the three months ended June 30, 2015 was \$5.9 million, an increase of \$1.1 million or 23%, from 4.8 million for the same period of 2014. Gas sales revenue for the six months ended June 30, 2015 was \$14.5 million, an increase of \$2.5 million or 21%, from 12.0 million for the same period of 2014. The increase is mainly attributable to:

- the gas sales volume growth of 11% and 10% respectively in Sanya region for the three and six months periods ended June 30, 2015
- the gas sales volume growth of 129% and 70% respectively in Xiangdong district for the three and six months periods ended June 30, 2015
- the appreciation of Chinese RMB to Canadian dollar

Pipeline Installation and Connection

Pipeline connection revenue in RMB	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Sanya	27,683,067	21,956,906	5,726,161	26%	56,970,255	44,845,439	12,124,816	27%
Xiangdong	655,120	91,219	563,901	618%	937,999	406,942	531,057	130%
Total	28,338,187	22,048,125	6,290,062	29%	57,908,254	45,252,381	12,655,873	28%

Pipeline connection revenue in CAD	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Sanya	5,486,143	3,839,757	1,646,386	43%	11,314,293	7,978,004	3,336,289	42%
Xiangdong	129,993	15,312	114,681	749%	186,286	72,395	113,891	157%
Total	5,616,136	3,855,069	1,761,067	46%	11,500,579	8,050,399	3,450,180	43%

Sanya Region	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Customers newly connected								
Residential customers	4,462	3,038	1,424	47%	10,322	5,069	5,253	104%
Commercial customers	1	6	(5)	-83%	23	13	10	77%
Total customers connected								
Residential customers	152,570	123,734	28,836	23%	152,570	123,734	28,836	23%
Commercial customers	812	735	77	10%	812	735	77	10%

Xiangdong Region	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Customers newly connected								
Residential customers	66	93	(27)	-29%	184	162	22	14%
Commercial customers	-	-	-		2	1	1	100%
Total customers connected								
Residential customers	1,275	427	848	199%	1,275	427	848	199%
Commercial customers	9	5	4	80%	9	5	4	80%

Pipeline installation and connection revenue for the three months ended June 30, 2015 was \$5.6 million, a significant increase of \$1.8 million or 46%, from \$3.8 million for the same period of 2014. Pipeline installation and connection revenue for the six months ended June 30, 2015 was \$11.5 million, a significant increase of \$3.4 million or 43%, from \$8.1 million for the same period of 2014. The increase is mainly attributable to:

- higher number of new residential customers connected during the six months ended June 30, 2015 in Sanya region, which was in a total of 10,322, an increase of 5,253 or 104%, from 5,069 for the same period of 2014;
- significantly higher number of new commercial customers connected during the first six months of 2015 in Sanya region, which 23, an increase of 10 or 77%, from 13 for the same period of 2014, moreover, some of them are in high contract amounts;
- higher amount of new residential customers connected in Xiangdong district during the six months ended June 30, 2015 in a total of 1,275, an increase of 848 or 199%, from 427 for the same period of 2014.
- the appreciation of Chinese RMB to Canadian dollar

CNG vehicle refueling station

CNG sales volume (m3)	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
	3,139,364	3,295,114	(155,750)	-5%	5,987,828	6,356,214	(368,386)	-6%

CNG Sales Revenue	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Revenue in RMB	11,090,136	12,025,250	(935,114)	-8%	22,145,189	23,236,049	(1,090,860)	-5%
Revenue in CAD	2,198,079	2,106,763	91,316	4%	4,398,035	4,133,693	264,342	6%

Total revenue from CNG refueling retail station for the three months ended June 30, 2015 was \$2.2 million, an increase of \$0.1 million, or 4%, from \$2.1 million for the same period of 2014. Total revenue from CNG refueling retail station for the six months ended June 30, 2015 was \$4.4 million, an increase of \$0.3 million, or 6%, from \$4.1 million for the same period of 2014. The increase was totally attributable to Chinese RMB appreciation. Revenue in RMB was actually reduced by RMB 0.9 million or 8% for the three months ended June 30, 2015 and by RMB 1.1 million or 5% for the six months ended June 30, 2015. CNG sales volume dropped by 5% and 6% respectively during the three months and six months ended June 30, 2015 compared to the same periods of 2014.

Foreign exchange rates

Changfeng reports its financial results in Canadian dollars but earns all of its revenues and incurs most of its expenses in Chinese Renminbi ("RMB"). Accordingly, any fluctuation in the exchange rate between these two currencies will affect the reported financial information.

One Chinese RMB to Canadian dollars	Q2'2015	Q2'2014	% change	Q1'2015	Q1'2014	% change
Spot rate at the end of the quarter	0.2012	0.1721	16.9%	0.2044	0.1778	15.0%
Average rate for the quarter	0.1982	0.1750	13.3%	0.1990	0.1808	10.1%

Gross margin

Gross margin for the three months ended June 30, 2015 increased \$2.3 million, or 48%, compared to the same period in 2014, increased 4.1 million or 32% for the six months ended June 30, 2015 compared to the same periods in 2014. The gross margin percentage of 55% for the first half of 2015 is an increase of 3% from 52% for the first half of 2014.

As a percentage of revenue, the gross margin of the gas distribution utility of 60% for the first half of 2015 is an increase of 2% from 58% for the first half of 2014. As a percentage of revenue, the gross margin of the CNG refueling station for the first half of 2015 was 24%, an increase of 4% from 20% in the same period of 2014.

Operating expenses

General and administrative expenses for the three months ended June 30, 2015 were \$2.3 million, a decrease of \$0.1 million, or 4%, from \$2.4 million in the same period of 2014. For the six months ended June 30, 2015, general and administrative expenses were \$5.4 million, an increase of \$0.3 million, or 5%, from \$5.1 million in the same period of 2014. General and administrative expenses as a percentage of sales for the three and six month periods ended June 30, 2015 were 17% and 18%, compared to 22% and 21% for the same periods of 2014, respectively. The decrease for the second quarter of 2015 was a result of more stringent and efficient expense management.

Travel and business development expenses for the three months ended June 30, 2015 were \$0.9 million, an increase of \$0.1 million, or 12%, from \$0.8 million in the same period of 2014. Travel and business development expenses for the six months ended June 30, 2015 were \$1.8 million, a decrease of \$0.1 million, or 4%, from \$1.9 million in the same period of 2014. As a percentage of sales, travel and business development expenses for the three and six month periods ended June 30, 2015 were 6.6% and 6.0% respectively, decreased from 7.5% and 7.8% in the same periods of 2014. These expenses normally fluctuate with travel and business development activities in mainland China as the Company seeks to develop new projects in close proximity to the new national pipelines. The decrease in percentage of sales was attributed to more stringent and efficient expense management.

Interest on long term debt of \$0.5 million for the three months ended June 30, 2015 was an increase of 0.1 million compared to 0.4 million for the same period of 2014. Interest on long-term debt of \$1.0 million for the six months ended June 30, 2015 was an increase of 0.1 million compared to 0.9 million for the same period of 2014.

EBITDA

EBITDA (non-IFRS measure as identified and defined under section "Non-IFRS Measures") for three months ended June 30, 2015 was \$5.0 million, an increase of \$2.6 million, or 108% from \$2.4 million for the same period of 2014. EBITDA for the six months ended June 30, 2015 was \$11.6 million, an increase of \$4.2 million, or 57%, from \$7.4 million for the same period of 2014. The increase was driven primarily by higher sales and appreciation of Chinese RMB to Canadian dollar.

Net income

Net income for the three months ended June 30, 2015 was \$1.9 million, or \$0.03 per share (basic and diluted) compared to \$0.6 million or \$0.01 per share (basic and diluted) for the same period in 2014. Net income for the six months ended June 30, 2015 was \$4.8 million, or \$0.07 per share (basic and diluted) compared to \$2.5 million or \$0.04 per share (basic and diluted) for the same period in 2014. These increases are primarily driven by an increase in sales.

Selected Quarterly Results

The following sets out the Company's consolidated quarterly results for the most -recently completed quarters:

Quarterly data (\$000's) except per share amounts	2015		2014				2013	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Foreign exchange rate one Chinese RMB to Canadian dollars	0.1982	0.1990	0.1793	0.1767	0.1750	0.1808	0.1675	0.1660
Revenue	13,717	16,701	16,878	12,094	10,775	13,381	12,996	10,240
Gross profit	7,004	9,575	5,888	5,580	4,738	7,790	5,230	4,867
Interest	487	516	307	458	449	490	316	443
Net income	1,905	2,909	809	696	607	1,930	345	571
Net income per share								
- basic	0.03	0.04	0.01	0.01	0.01	0.03	0.00	0.01
- diluted	0.03	0.04	0.01	0.01	0.01	0.03	0.00	0.01

Seasonality can impact the Company's natural gas distribution sales. The Company's current operations are primarily located in Sanya City, an international tourist destination in the PRC's only tropical province. Sanya City attracts more tourists in the winter than the rest of the year. The Company's natural gas sales are higher during this high tourism season, as a large portion of the Company's natural gas sales are made to hotels and restaurants. Seasonality can also impact the Company's CNG retail station sales due to vehicles being in need of more gas during the warmer seasons for air-conditioning.

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
(\$000's)	30-Jun-15	31-Dec-14
Cash	15,496	12,120
Working capital (deficit)	(9,763)	(11,712)
Adjusted working capital (note 1)	10,464	5,300
Plant and equipment	72,160	65,526
Total assets	100,581	88,986
Long term liabilities	32,585	31,821
Shareholders' equity	32,523	25,314

Note 1: This financial measure is identified and defined under the section "[Non-IFRS Financial Measures](#)".

Cash increased by \$3.4 million to \$15.5 million at June 30, 2015 from \$12.1 million at December 31, 2014, primarily resulting from cash provided by operating activities of \$5.2 million, cash from bank indebtedness of \$5.9 million and 1.0 million from foreign exchange gain, but offset by \$1.8 million repayment of long-term debt and 4.0 million repayment of bank indebtedness, as well as cash used for capital expenditures of \$3.0 million.

Adjusted Working Capital

The adjusted working capital (see "[Non-IFRS Financial Measures](#)") was \$10.5 million at June 30, 2015. Adjusted working capital excludes \$14.4 million of deferred revenue in connection with gas connection fees and \$5.9 million of line of credit.

Liquidity and Capital Resources

Overview

The Company's principal sources of short-term funding are its existing cash balances, operating cash flows and borrowing under its line of credit. Its principal sources of long-term funding are its three term loans into which Changfeng entered in January 2010, December 2012 and January 2013, respectively.

The Company's principal sources of liquidity are cash provided by operations, including advance payments from residential and commercial and industrial customers related to construction contracts for gas connection, and access to credit facilities and capital resources.

The Company's primary short-term cash requirement is to fund working capital, and repay the remainder of its outstanding withdrawal on its line of credit.

The Company's medium and long-term cash goals are to fund construction of its pipeline networks and gas distribution facilities, to acquire capital and intangible assets for its growth initiatives in mainland China and to repay its long-term loans from the BOC, Sanya and BOC, Pingxiang.

In the short term, management does not expect to face any liquidity problems considering its ability to generate sustainable cash flow from operations. The Company has not experienced any difficulties in collecting its outstanding receivables from its customers and expects no such difficulties in the foreseeable future.

Long-term bank loans

On January 5, 2010, the Company entered into a term loan with the Bank of China, Sanya Branch ("BOC, Sanya") for \$20.1 million (RMB 100 million) (December 31, 2014 - \$18.7 million (RMB 100 million)), maturing in January 2019 and bearing interest at the prescribed lending rate of the People's Bank of China, which is reset every six months. It is secured by 60% of the interest in CF China held by HEL, and certain gas connection rights. During the six-month period ended June 30, 2015, the Company made repayments in the amount of \$1.5 million (RMB 7.5 million) (2014 - \$0.9 million (RMB 5 million)) in accordance with the semi-annual repayment provisions of the term loan agreement. At June 30, 2015, \$14.6 million (RMB 72.5 million) of the term loan was outstanding.

At June 30, 2015, the Company had unamortized transaction costs of \$0.2 million (RMB 0.7 million) (December 31, 2014 - \$0.2 million (RMB 0.9 million)), which has been offset against term loan.

On December 21, 2012, the Company entered into a term loan with the Bank of China, Pingxiang Branch ("BOC, Pingxiang") for \$4.0 million (RMB 20 million), maturing six years from the date of the first withdrawal, and bearing both fixed and variable interest at 120% of the prime rate of the People's Bank of China. The variable component of interest will be calculated initially on the date of withdrawal and will be reset every three months. This term loan is secured by the property and equipment of Pingxiang CF and guaranteed by CF China. The proceeds from this term loan will be used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang City, Jiangxi province. As of June 30, 2015, the Company had withdrawn \$4.0 million (RMB 20 million) (December 31, 2014 - \$3.7 million (RMB 20 million)). During the six-month period ended June 30, 2015, the Company made payments in the amount of \$0.3 million (RMB 1.5 million) (2014 - \$0.3 million (RMB 1.5 million)). At June 30, 2015, \$3.1 million (RMB 15.5 million) of the term loan was outstanding.

On January 15, 2013, the Company entered into an agreement with the BOC, Sanya to secure a bank loan facility in the amount of \$10.1 million (RMB 50 million) (the "Term Loan"). The bank loan facility provides that the proceeds of the Term Loan will be used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City. It has a 10-year term from the date of the first initial withdrawal, and bears interest of 110% of the prime rate set by the People's Bank of China (the central bank of China). As at June 30, 2015, the Company had withdrawn \$8.0 million (RMB 40.0 million) (December 31, 2014 - \$7.5 million (RMB 40 million)), which remains fully outstanding.

The Company believes that its ability to obtain funding from these long-term debt bank loans and solid operating cash flows will continue to provide the cash flows necessary to satisfy our working capital and capital expenditure requirements, as well as meet its debt repayments and other financial commitments.

Credit Agreement

Included in current liabilities is \$4.0 million (RMB 19.8 million) (December 31, 2014 - \$1.9 million (RMB 10 million)) relating to the Company's line of credit (the "Credit Line") with BOC, Sanya. This loan contains a financial covenant, which requires the Company's subsidiary, CF China's debt-to-total-assets ratio to be maintained below 75%.

For the three and six months ended June 30, 2015

Also included in current liabilities is \$1.9 million (RMB 9.3 million) (December 31, 2014 - \$1.7 million (RMB 9.3 million)) relating to a U.S. \$1.5 million Term Loan from the Bank of China (Canada) pursuant to a Credit Facility Letter Agreement effective September 22, 2014. The Term Loan is secured by a Standby Letter of Credit provided by the Company and issued by the Bank of China Hainan Branch for the amount of RMB 10 million. The Term Loan has a one-year term from the date of the withdrawal and bears annual interest of six-month LIBOR rate plus 250bps.

Cash flow from operations

Net cash provided by operations was \$5.2 million for the six months ended June 30, 2015 compared to \$4.7 million for the same period of 2014.

Cash Flow from Financing Activities

Cash provided by financing activities for the six months ended June 30, 2015 was \$0.2 million, and included a cash inflow of \$2.0 million from a net increase in bank indebtedness, offset by a 1.8 million principle payment of long-term debt.

Investing Activities

Capital expenditures totaled \$3.0 million for the six months ended June 30, 2015 compared to \$3.6 million in the same period of 2014. The expenditures were mainly related to the purchase of equipment for the on-going construction of pipeline networks to connect new customers in the Sanya region and Xiangdong district.

Changfeng will finance the majority of the upcoming construction of projects under development in mainland China through its long-term bank loans with BOC Sanya and BOC Pingxiang, as well as operating cash flow from its existing operations.

Contractual Obligations and Commitments

As of June 30, 2015, there have been no significant changes to contractual obligations and commitments since December 31, 2014.

Off-Balance Sheet Arrangements

As a policy, Changfeng does not enter into off-balance sheet arrangements with special purpose entities, nor does it have any unconsolidated affiliates that have not been accounted for in these financial statements.

Share Capital

As at the date of this MD&A, the Company has 63,099,200 common shares outstanding, 5,940,000 stock options outstanding and exercisable at a weighted average exercise price of \$0.31 per share. The Company has no warrants outstanding.

Non-IFRS Financial Measures

This MD&A contains certain financial measures that do not have any standardized meaning prescribed by IFRS. Therefore, these financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned that these measures should not be construed as alternatives to net income or to cash provided by operating, investing, and financing activities determined in accordance with IFRS, as indicators of its performance. Changfeng provides these measures to assist investors in determining its ability to generate income and cash provided by operating activities, and to provide additional information on how these cash resources are used. These measures are listed and defined below:

EBITDA

EBITDA is defined herein as income before income tax expense, interest income and interest on borrowing, amortization, share of loss of investment in associate, as well as non-cash stock-based compensation expense. EBITDA does not have any standardized meaning prescribed by IFRS and therefore may not conform to the definition used by other companies.

A reconciliation of net income to EBITDA for each of the periods presented in this MD&A follows:

In thousands (except for % figures)	Three months ended June 30,				Six months ended June 30,			
	2015	2014	Change	%	2015	2014	Change	%
Net Income	1,905	607	1,298	214%	4,814	2,537	2,277	90%
Add (less):								
Income tax	1,368	385	983	255%	3,510	1,854	1,656	89%
Interest (income) expense	(30)	(11)	(19)	172%	(63)	(20)	(43)	216%
Share of loss of investment in associate	-	-	-		1	8	(7)	-92%
Stock-based compensation	48	87	(39)	-45%	77	175	(98)	-56%
Amortization	1,192	868	324	37%	2,262	1,911	351	18%
Interest on borrowing	487	449	38	8%	1,002	939	63	7%
EBITDA	4,970	2,385	2,585	108%	11,603	7,404	4,198	57%

Adjusted working capital

Adjusted working capital is calculated as current assets less adjusted current liabilities. Adjusted current liabilities is calculated as current liabilities, excluding deferred revenue in connection with gas connection fees, which are deferred when Changfeng receives payments from customers in advance of work having commenced and are recognized on the percentage of completion method, as well as the credit line. As is the practice with lines of credit in China, typically, they are renewed when due.

Changfeng believes that adjusted working capital is a useful supplemental measure as it provides an indication of its ability to settle its debt obligations as they come due.

The calculation of adjusted working capital is provided in the table below:

In \$ thousands		
As at	30-Jun-15	31-Dec-14
Current assets	25,711	20,139
Less: Current liabilities	35,474	31,851
Working capital (deficit)	(9,763)	(11,712)
Add: Deferred revenue	14,370	13,403
Line of credit	5,857	3,609
Adjusted working capital (deficit)	10,464	5,300

Financial Instruments

The Company does not have complex financial instruments, and the various risks related to these financial instruments, including foreign currency risk, commodity price risk, interest rate risk, concentration of credit risk and liquidity risk have been disclosed in our audited Consolidated Financial Statements and MD&A for the year ended December 31, 2014 and the notes thereto that are available at www.sedar.com.

Transactions With Related Parties

- I. Included in current due to related parties as at June 30, 2015, is a required capital contribution of \$0.6 million (RMB 3 million) (December 31, 2014 - \$0.6 million (RMB 3 million)) to be made to Shin-Ko Energy. Also included in current due to related parties, as at June 30, 2015, was \$0.3 million (RMB 1.2 million) (December 31, 2014 - \$0.2 million (RMB 1.2 million)) relating to a loan made to the Company by Shin-Ko Energy. The loan is interest-free and is not secured. It is payable on demand.

- II. In 2007, a significant shareholder, who is also an officer and director of the Company, advanced loans in the aggregate amount of \$8.0 million (RMB 40 million) (December 31, 2014, \$7.5 million (RMB 40 million)) to the Company, through wholly owned corporations, in accordance with a Subordination and Forbearance Agreement dated April 27, 2007, Consignment Loan Agreements dated May 23, 2007 and June 26, 2007, and other ancillary documentation. These loans are unsecured, non-interest bearing, are subordinated to the claims of all other creditors, including unsecured creditors of the Company and were due on demand only after April 27, 2010. Pursuant to the Subordination and Forbearance Agreement, the lenders agreed to take no steps to demand or recover payment under the loans for a period of three years, and to enter into an agreement with the Company with the same terms and conditions as the Subordination and Forbearance Agreement every three years in perpetuity.

On April 27, 2010, these loans were renewed for another three years with the same terms and conditions. On April 27, 2013, these loans were renewed for another two years with the same terms and conditions. On April 27, 2015, these loans were renewed for one year with the same terms and conditions.

- III. As at June 30, 2015, the Company owed an officer of the Company \$0.5 million (December 31, 2014 - \$0.4 million) for unpaid salary.

- IV. As at June 30, 2015, the Company owed certain directors nil (December 31, 2014 - \$0.07 million) for unpaid director's fees.

- V. As at June 30, 2015, the Company owed a minority shareholder of the Company nil (December 31, 2014 - \$0.05 million) for unpaid dividend.

Subsequent event

On July 21, 2015, the Company entered into a Joint Venture agreement with Tangshan Caofeidian Development Investment Group Co., Ltd. ("CFD Group") to jointly pursue liquefied natural gas ("LNG") trading, natural gas distribution, transportation, and related infrastructure construction. The Joint Venture is named Caofeidian Evergrowth Energy Co., Ltd. ("Evergrowth" or the "Joint Venture") and is based in Tangshan City, Hebei province. Changfeng and CFD Group respectively own 50% each of the Joint Venture. Under the joint venture agreement, both parties of the Joint Venture agree to work with a third party to establish an entity to operate and manage an energy resource exchange in Northern China.

Outlook

The outlook for the second half 2015 is positive. The Company expects to continue to add both residential and commercial and industrial customers to its existing pipeline networks in the Sanya Region and Xiangdong district, and the volume of gas sold during 2015 will continue to increase especially from its operations in the Sanya Region. Also revenue from gas pipeline connection and installation in Sanya Region is currently experience significant growth and will continue to be a prominent revenue contributor.

In 2015, Changfeng will continue to implement its long-term growth strategy for the pipelined gas project in the Western Guangdong Area of the Guangdong Province.