

**CHANGFENG ENERGY INC.**

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

Dated November 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 nine months ended September 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 nine months ended September 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](http://www.sedar.com) or on its website at [www.changfengenergy.com](http://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. Changfeng is also running a CNG refueling retail station which is serving public transportation vehicles in Changsha City, Hunan 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 (m<sup>3</sup>) (848 million cubic feet (ft<sup>3</sup>)) until December 31, 2015 at a favorable price;
- Additional 5 million cubic meters (m<sup>3</sup>) gas supply a year from Gas to Electricity Exchange Program;
- Serving 157,589 residential and 819 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 m<sup>3</sup> (1,765 million ft<sup>3</sup>);
- 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.

For the three and nine months ended September 30, 2015

## Selected Quarterly Financial Information

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

<i>In thousands of Canadian dollars except percentages and per share amounts</i>	Three month ended September 30,				Nine month ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
Revenue	13,158	12,094	1,064	9%	43,576	36,250	7,326	20%
<b>Gross margin</b>	<b>6,197</b>	<b>5,580</b>	<b>617</b>	<b>11%</b>	<b>22,777</b>	<b>18,108</b>	<b>4,669</b>	<b>26%</b>
<b>% of revenue</b>	<b>47.1%</b>	<b>46.1%</b>	<b>1.0%</b>		<b>52.3%</b>	<b>50.0%</b>	<b>2.3%</b>	
General and administrative	3,000	2,872	128	4%	8,426	8,021	405	5%
% of revenue	22.8%	23.7%	-1%		19.3%	22.1%	-2.8%	
Travel and business development	746	735	11	1%	2,558	2,622	(64)	-2%
% of revenue	5.7%	6.1%	-0.4%		5.9%	7.2%	-1.4%	
Stock based compensation	95	87	8	9%	173	262	(89)	-34%
% of revenue	0.7%	0.7%	0.0%		0.4%	0.7%	-0.3%	
<b>Total expenses</b>	<b>3,841</b>	<b>3,695</b>	<b>146</b>	<b>4%</b>	<b>11,157</b>	<b>10,905</b>	<b>252</b>	<b>2%</b>
<b>% of revenue</b>	<b>29.2%</b>	<b>30.6%</b>	<b>-1.4%</b>		<b>25.6%</b>	<b>30.1%</b>	<b>-4.5%</b>	
<b>Income from operations</b>	<b>2,356</b>	<b>1,886</b>	<b>470</b>	<b>25%</b>	<b>11,620</b>	<b>7,204</b>	<b>4,416</b>	<b>61%</b>
<b>% of revenue</b>	<b>17.9%</b>	<b>15.6%</b>	<b>2.3%</b>		<b>26.7%</b>	<b>19.9%</b>	<b>6.8%</b>	
Interest on long term debt	447	458	(11)	-2%	1,449	1,397	52	4%
% of revenue	3.4%	3.8%	-0.4%		3.3%	3.9%	-0.5%	
Interest income	(20)	(17)	(3)	18%	(83)	(37)	(46)	124%
% of revenue	-0.2%	-0.1%	0.0%		-0.2%	-0.1%	-0.1%	
Share of loss of investment in associate	6	-	6		7	8	(1)	-13%
<b>Income before income taxes</b>	<b>1,923</b>	<b>1,444</b>	<b>479</b>	<b>33%</b>	<b>10,247</b>	<b>5,835</b>	<b>4,412</b>	<b>76%</b>
<b>% of revenue</b>	<b>14.6%</b>	<b>11.9%</b>	<b>2.7%</b>		<b>23.5%</b>	<b>16.1%</b>	<b>7.4%</b>	
Income tax	926	748	178	24%	4,436	2,602	1,834	70%
% of revenue	7.0%	6.2%	0.9%		10.2%	7.2%	3.0%	
<b>Net income</b>	<b>997</b>	<b>696</b>	<b>301</b>	<b>43%</b>	<b>5,811</b>	<b>3,233</b>	<b>2,578</b>	<b>80%</b>
% of revenue	7.6%	5.8%	1.8%		13.3%	8.9%	4.4%	
<b>EBITDA (1)</b>	<b>3,544</b>	<b>2,876</b>	<b>668</b>	<b>23%</b>	<b>15,148</b>	<b>10,280</b>	<b>4,868</b>	<b>47%</b>
<b>% of revenue</b>	<b>26.9%</b>	<b>23.8%</b>	<b>3.2%</b>		<b>34.8%</b>	<b>28.4%</b>	<b>6.4%</b>	
Non-controlling interest	123	96	27	28%	332	205	127	62%
Basic EPS	0.02	0.01	0.01	200%	0.09	0.05	0.04	75%
Diluted EPS	0.02	0.01	0.01	200%	0.09	0.05	0.04	75%
Weighted average number of common shares outstanding - Basic	62,919	63,099	(180)	-0.3%	62,937	63,618	(681)	-1%
Weighted average number of common shares outstanding - Diluted	63,766	63,954	(188)	-0.3%	63,492	64,603	(1,111)	-2%

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

For the three and nine months ended September 30, 2015

## **Results of Operations**

### **Total Revenue**

Total Revenue in RMB	Three months ended September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
Gas distribution utility								
- Gas Sales	26,662,004	26,505,579	156,425	1%	99,770,785	93,798,015	5,972,770	6%
- Pipeline Installation and Connection	25,283,875	28,871,343	(3,587,468)	-12%	83,192,129	74,123,724	9,068,405	12%
CNG vehicle refueling	11,042,220	13,065,164	(2,022,944)	-15%	33,187,409	36,301,213	(3,113,804)	-9%
<b>Total Revenue in RMB</b>	<b>62,988,099</b>	<b>68,442,086</b>	<b>(5,453,987)</b>	<b>-8%</b>	<b>216,150,323</b>	<b>204,222,952</b>	<b>11,927,371</b>	<b>6%</b>

Revenue in CAD	Three months ended September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
- Gas Sales	5,594,386	4,677,823	916,563	20%	20,113,790	16,649,148	3,464,642	21%
- Pipeline Installation and Connection	5,270,954	5,106,563	164,391	3%	16,771,533	13,156,961	3,614,572	27%
CNG vehicle refueling	2,292,547	2,309,772	(17,225)	-1%	6,690,582	6,443,465	247,117	4%
<b>Total Revenue in CAD</b>	<b>13,157,887</b>	<b>12,094,158</b>	<b>1,063,729</b>	<b>9%</b>	<b>43,575,905</b>	<b>36,249,574</b>	<b>7,326,331</b>	<b>20%</b>

Total revenue for the three months ended September 30, 2015 was \$13.2 million, an increase of \$1.1 million, or 9%, from \$12.1 million for the same period of 2014. Revenue for the nine months ended September 30, 2015 was \$43.5 million, an increase of \$7.3 million, or 20%, from \$36.2 million for the same period of 2014. This increase is mainly resulted from 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**

##### **Gas Volume Sold – Sanya Region**

Sanya Region	Three months ended September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
Gas volume sold (m <sup>3</sup> )								
Residential customers	1,470,000	1,350,000	120,000	9%	6,460,000	5,430,000	1,030,000	19%
Commercial customers	5,620,000	5,810,000	(190,000)	-3%	20,750,000	19,970,000	780,000	4%
<b>Subtotal (Sanya Region)</b>	<b>7,090,000</b>	<b>7,160,000</b>	<b>(70,000)</b>	<b>-1%</b>	<b>27,210,000</b>	<b>25,400,000</b>	<b>1,810,000</b>	<b>7%</b>

Currently, the Company has an annual gas quota of 24.0 million m<sup>3</sup> and 5.0 million m<sup>3</sup> 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 nine months ended September 30, 2015, the Company utilized all its gas quota.

Gas sales volume for Sanya Region during the three months ended September 30, 2015 was 7.1 million m<sup>3</sup>, dropped by 0.1 million m<sup>3</sup> or 1%, compared to 7.2 million m<sup>3</sup> for the same period of 2014, of which 1.5 million m<sup>3</sup> was for residential customers at a growth rate of 9% and 5.6 million m<sup>3</sup> was for commercial customers at a decreased rate of 3% with compared to that of 2014. Gas sales volume for Sanya Region during the nine months ended September 30, 2015 was 27.2 million m<sup>3</sup>, an increase of 2.0 million m<sup>3</sup> or 7%, compared to 25.4 million m<sup>3</sup> for the same period of 2014, of which 6.5 million m<sup>3</sup> was for residential customers at a growth rate of 19% and 20.7 million m<sup>3</sup> was for commercial customers at a growth rate of 4%.

For the three and nine months ended September 30, 2015

The Company's non-residential customers include commercial and industrial customers, mainly comprised of hotels, resorts and restaurants in Sanya City. Approximately 80% and 76% of the gas sold in Sanya City during the three months and nine months ended September 30, 2015 was to those non-residential customers. Sanya municipal government's approval of the sales price adjustments 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) 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.

### Gas Sales

#### Gas Volume Sold – Xiangdong Region

Xiangdong Region	Three months ended September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
Gas volume sold (m <sup>3</sup> )								
Residential customers	43,387	13,945	29,442	211%	133,576	35,097	98,479	281%
Commercial customers	404,866	207,011	197,855	96%	1,194,033	704,436	489,597	70%
<b>Subtotal (Xiangdong District)</b>	<b>448,253</b>	<b>220,956</b>	<b>227,297</b>	<b>103%</b>	<b>1,327,609</b>	<b>739,533</b>	<b>588,076</b>	<b>80%</b>

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 upgrade 8,000 more residential customers from coke gas fueled facilities to natural gas fueled facilities in downtown Xiangdong region.

Gas sales volume for Xiangdong district during the three months ended September 30, 2015 was 0.4 million m<sup>3</sup>, an increase of 0.2 million m<sup>3</sup> or 103%, compared to 0.2 million m<sup>3</sup> for the same period of 2014, of which 90% of gas volume was sold to non-residential customer. Gas sales volume for Xiangdong district during the nine months ended September 30, 2015 was 1.3 million m<sup>3</sup>, an increase of 0.6 million m<sup>3</sup> or 80% compared to 0.7 million m<sup>3</sup> for the same period of 2014.

### Gas Sales

#### Gas Sales Revenue

Gas sales revenue in RMB	Three months ended September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
Sanya	25,205,179	25,711,567	(506,388)	-2%	95,392,540	91,259,319	4,133,221	5%
Xiangdong	1,456,825	794,012	662,813	83%	4,378,245	2,538,696	1,839,549	72%
<b>Total</b>	<b>26,662,004</b>	<b>26,505,579</b>	<b>156,425</b>	<b>1%</b>	<b>99,770,785</b>	<b>93,798,015</b>	<b>5,972,770</b>	<b>6%</b>

Gas sales revenue in CAD	Three months ended September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
Sanya	5,291,926	4,537,584	754,342	17%	19,231,136	16,198,529	3,032,607	19%
Xiangdong	302,460	140,240	162,220	116%	882,654	450,619	432,035	96%
<b>Total</b>	<b>5,594,386</b>	<b>4,677,824</b>	<b>916,562</b>	<b>20%</b>	<b>20,113,790</b>	<b>16,649,148</b>	<b>3,464,642</b>	<b>21%</b>

Gas sales revenue for the three months ended September 30, 2015 was \$5.6 million, an increase of \$0.9 million or 20%, from 4.7 million for the same period of 2014. Gas sales revenue for the nine months ended September 30, 2015 was \$20.1 million, an increase of \$3.5 million or 21%, from 16.6 million for the same period of 2014. The increase is mainly attributable to:

- the appreciation of Chinese RMB to Canadian dollar
- the gas sales volume increased by 7% for Sanya region for the nine months periods ended September 30, 2015, though dropped by 1% for the three months ended September 30, 2015;
- the gas sales volume growth of 103% and 80% respectively in Xiangdong district for the three and nine months periods ended September 30, 2015

For the three and nine months ended September 30, 2015

**Pipeline Installation and Connection**

Sanya Region	Three months ended September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
<b>Customers newly connected</b>								
Residential customers	5,019	5,023	(4)	0%	15,341	10,092	5,249	52%
Commercial customers	7	26	(19)	-73%	30	39	(9)	-23%
<b>Total customers connected</b>								
Residential customers	157,589	128,757	28,832	22%	157,589	128,757	28,832	22%
Commercial customers	819	761	58	8%	819	761	58	8%

Xiangdong Region	Three months ended September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
<b>Customers newly connected</b>								
Residential customers	107	293	(186)	-63%	291	455	(164)	-36%
Commercial customers	-	-	-	-	2	-	2	-
<b>Total customers connected</b>								
Residential customers	1,382	720	662	92%	2,657	720	1,937	269%
Commercial customers	9	5	4	80%	9	5	4	80%

Pipeline connection revenue in RMB	Three months ended September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
Sanya	25,134,117	28,556,799	(3,422,682)	-12%	82,104,372	73,402,238	8,702,134	12%
Xiangdong	149,758	314,544	(164,786)	-52%	1,087,757	721,486	366,271	51%
<b>Total</b>	<b>25,283,875</b>	<b>28,871,343</b>	<b>(3,587,468)</b>	<b>-12%</b>	<b>83,192,129</b>	<b>74,123,724</b>	<b>9,068,405</b>	<b>12%</b>

Pipeline connection revenue in CAD	Three months ended September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
Sanya	5,237,949	5,050,894	187,055	4%	16,552,241	13,028,897	3,523,344	27%
Xiangdong	33,005	55,669	(22,664)	-41%	219,292	128,064	91,228	71%
<b>Total</b>	<b>5,270,954</b>	<b>5,106,563</b>	<b>164,391</b>	<b>3%</b>	<b>16,771,533</b>	<b>13,156,961</b>	<b>3,614,572</b>	<b>27%</b>

Pipeline installation and connection revenue for the three months ended September 30, 2015 was \$5.3 million, an increase of \$0.2 million or 3%, from \$5.1 million for the same period of 2014. Pipeline installation and connection revenue for the nine months ended September 30, 2015 was \$16.8 million, a significant increase of \$3.6 million or 27%, from \$13.2 million for the same period of 2014. The increase is mainly attributable to:

- higher number of new residential customers connected during the nine months ended September 30, 2015 in Sanya region, which was in a total of 15,341, an increase of 5,249 or 52%, from 10,092 for the same period of 2014;
- the appreciation of Chinese RMB to Canadian dollar;
- partly offset by the dropping number of new customers connected and connection revenue during the three months ended September 30, 2015 both in Sanya Region and Xiangdong District.

**CNG vehicle refueling station**

CNG sales volume (m3)	Three months ended September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
	2,845,347	3,487,586	(642,239)	-18%	8,833,176	9,939,304	(1,106,128)	-11%

CNG Sales Revenue	Three months ended September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
Revenue in RMB	11,042,221	13,065,162	(2,022,941)	-15%	33,187,409	36,301,212	(3,113,803)	-9%
Revenue in CAD	2,292,547	2,309,772	(17,225)	-1%	6,690,582	6,443,465	247,117	4%

Revenue from CNG refueling retail station for the three months ended September 30, 2015 was \$2.3 million, with a slight decrease of \$0.02 million, or 1%, from \$2.3 million for the same period of 2014. Revenue from CNG refueling retail station for the nine months ended September 30, 2015 was \$6.7 million, an increase of \$0.2 million, or 4%, from \$6.5 million for the same period of 2014. The increase was totally attributable to

For the three and nine months ended September 30, 2015

Chinese RMB appreciation. Revenue in RMB was actually reduced by RMB 2.0 million or 15% for the three months ended September 30, 2015 and by RMB 3.1 million or 9% for the nine months ended September 30, 2015. CNG sales volume dropped by 18% and 11% respectively during the three months and nine months ended September 30, 2015 compared to the same periods of 2014 due to the increased competition in the surrounding area.

**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	Three months ended September 30,		% change	Three months ended June 30,		% change	Nine months ended September 30,		% change
	2015	2014		2015	2014		2015	2014	
Spot rate at the end of the period	0.2107	0.1826	15.4%	0.2012	0.1721	16.9%	0.2107	0.1826	15.4%
Average rate for the period	0.2076	0.1767	17.5%	0.1982	0.1750	13.3%	0.2016	0.1775	13.6%

**Gross margin**

Gross margin for the three months ended September 30, 2015 increased \$0.6 million, or 11%, compared to the same period in 2014, and increased 4.7 million or 26% for the nine months ended September 30, 2015 compared to the same periods in 2014. The gross margin percentage of 52% for the first nine months of 2015 is an increase of 2% from 50% for the first nine months of 2014.

As a percentage of revenue, the gross margin of the gas distribution utility of 57% for the first nine months of 2015 is an increase of 1% from 56% for the first nine months of 2014. As a percentage of revenue, the gross margin of the CNG refueling station for the first nine months of 2015 was 26%, an increase of 5% from 21% in the same period of 2014.

**Operating expenses**

**General and administrative expenses** for the three months ended September 30, 2015 were \$3.0 million, an increase of \$0.1 million, or 4%, from \$2.9 million in the same period of 2014. For the nine months ended September 30, 2015, general and administrative expenses were \$8.4 million, an increase of \$0.4 million, or 5%, from \$8.0 million in the same period of 2014. General and administrative expenses as a percentage of sales for the three and nine month periods ended September 30, 2015 were 23% and 19%, compared to 24% and 22% for the same periods of 2014, respectively.

**Travel and business development expenses** for the three months ended September 30, 2015 were \$0.7 million, approximately the same as in the same period of 2014. Travel and business development expenses for the nine months ended September 30, 2015 were \$2.6 million, approximately the same as in the same period of 2014. As a percentage of sales, travel and business development expenses for the three and nine month periods ended September 30, 2015 were 5.7% and 5.9% respectively, decreased from 6.1% and 7.2% 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 \$0.4 million for the three months ended September 30, 2015 was the same as for the same period of 2014. Interest on long-term debt of \$1.4 million for the nine months ended September 30, 2015 was approximately the same as for the same period of 2014.



For the three and nine months ended September 30, 2015

### **EBITDA**

EBITDA (non-IFRS measure as identified and defined under section "Non-IFRS Measures") for three months ended September 30, 2015 was \$3.5 million, an increase of \$0.7 million, or 23% from \$2.8 million for the same period of 2014. EBITDA for the nine months ended September 30, 2015 was \$15.1 million, an increase of \$4.9 million, or 47%, from \$10.3 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 September 30, 2015 was \$1.0 million, or \$0.02 per share (basic and diluted) compared to \$0.7 million or \$0.01 per share (basic and diluted) for the same period in 2014. Net income for the nine months ended September 30, 2015 was \$5.8 million, or \$0.09 per share (basic and diluted) compared to \$3.2 million or \$0.05 per share (basic and diluted) for the same period in 2014. These increases are primarily driven by an increase in sales and appreciation of Chinese RMB to Canadian dollar.

### **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	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Foreign exchange rate one Chinese RMB to Canadian dollars	0.2076	0.1982	0.1990	0.1793	0.1767	0.1750	0.1808	0.1675
Revenue	13,158	13,717	16,701	16,878	12,094	10,775	13,381	12,996
Gross profit	6,197	7,004	9,575	5,888	5,580	4,738	7,790	5,230
Interest	447	487	516	307	458	449	490	316
Net income (loss)	997	1,905	2,909	809	696	607	1,930	345
Net income (loss) per share								
- basic	0.02	0.03	0.04	0.01	0.01	0.01	0.03	0.00
- diluted	0.02	0.03	0.04	0.01	0.01	0.01	0.03	0.00

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-Sep-15	31-Dec-14
Cash	16,615	12,120
Working capital (deficit)	(13,298)	(11,712)
Adjusted working capital (note 1)	12,944	5,300
Plant and equipment	75,359	65,526
Total assets	110,812	88,986
Long term liabilities	33,935	31,821
Shareholders' equity	34,906	25,314

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

For the three and nine months ended September 30, 2015

---

Cash increased by \$4.5 million to \$16.6 million at September 30, 2015 from \$12.1 million at December 31, 2014, primarily resulting from cash provided by operating activities of \$10.9 million, cash from bank indebtedness of \$6.0 million and \$1.3 million from foreign exchange gain, but offset by \$2.0 million repayment of long-term debt and \$4.0 million repayment of bank indebtedness, as well as cash used for capital expenditures of \$3.6 million and cash used in investment of associate of \$4.0 million.

### **Adjusted Working Capital**

The adjusted working capital (see "Non-IFRS Financial Measures") was \$12.9 million at September 30, 2015. Adjusted working capital excludes \$20.1 million of deferred revenue in connection with gas connection fees and \$6.2 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 significant 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 \$21.1 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 nine-month period ended September 30, 2015, the Company made repayments in the amount of \$1.6 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 September 30, 2015, \$15.3 million (RMB 72.5 million) of the term loan was outstanding.

As of September 30, 2015, the Company had unamortized transaction costs of \$0.1 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 \$4.2 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. During the nine-month period ended September 30, 2015, the Company made payments in the amount of \$0.5 million (RMB 2.3 million) (2014 - \$0.3 million (RMB 1.5 million)). At September 30, 2015, \$3.1 million (RMB 14.8 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 \$10.5 million (RMB 50 million) (the "Term Loan"). The bank loan facility provides that

For the three and nine months ended September 30, 2015

---

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 September 30, 2015, the Company had withdrawn \$8.4 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 \$4.2 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%.

Also included in current liabilities is \$2.0 million (December 31, 2014 - \$1.7 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 October 6, 2015. 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 \$10.9 million for the nine months ended September 30, 2015 compared to \$6.0 million for the same period of 2014.

#### *Cash Flow from Financing Activities*

Cash used in financing activities for the nine months ended September 30, 2015 was \$0.1 million, and included a cash inflow of \$6.0 million from bank indebtedness, offset by repayments of \$4.0 million for bank indebtedness and \$2.0 million for long term debt as well as \$0.1 million used for share repurchase.

#### *Investing Activities*

Capital expenditures totaled \$3.6 million for the nine months ended September 30, 2015 compared to \$5.0 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. There was also an investment in associate totaled in \$4.0 million for the nine months ended September 30, 2015, which was nil during the same period in 2014.

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 September 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 62,919,292 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.

For the three and nine months ended September 30, 2015

On June 22, 2015, the Company received approval from the TSX-V to make a normal-course issuer bid (the "Bid") to periodically purchase, for cancellation, up to 3,000,000 common shares. The Bid commenced on June 24, 2015, to conclude on or about the earlier of June 23, 2016. During the first nine months of 2015, the Company purchased 242,500 of its common shares under the Bid for cash proceeds of \$91,840, inclusive of transaction costs. Subsequent to September 30, 2015, the Company purchased 35,000 shares pursuant for cash proceeds of \$12,075.

On May 27, 2015, 800,000 options expired. On July 23, 2015, 50,000 options were exercised. On July 31, 2015, the Company granted 490,000 options (the "Options") at an exercise price of \$0.36 per share which was the closing price of the Company's shares on the TSX Venture exchange on July 30, 2015. The fair value of these options at the grant date was \$0.19. Assumptions used to determine the value of the options using the Black-Scholes model were: dividend yield 0%; risk-free interest rate 1.45%; expected volatility 64%; and expected life of five years. The Options granted vested immediately on the grant date of July 31, 2015. The term of the Options is five years from the date of grant.

## **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 September 30,				Nine months ended September 30,			
	2015	2014	Change	%	2015	2014	Change	%
Net Income	997	696	301	43%	5,811	3,233	2,578	80%
Add (less):								
Income tax	926	748	178	24%	4,436	2,602	1,834	70%
Interest income	(20)	(17)	(3)	18%	(83)	(37)	(46)	124%
Share of loss of investment in associate	6	-	6		7	8	(1)	-13%
Stock-based compensation	95	87	8	9%	173	262	(89)	-34%
Amortization	1,093	904	189	21%	3,355	2,815	540	19%
Interest on borrowing	447	458	(11)	-2%	1,449	1,397	52	4%
<b>EBITDA</b>	<b>3,544</b>	<b>2,876</b>	<b>668</b>	<b>23%</b>	<b>15,148</b>	<b>10,280</b>	<b>4,868</b>	<b>47%</b>

### **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:

For the three and nine months ended September 30, 2015

<b>In \$ thousands</b>		
<b>As at</b>	<b>30-Sep-15</b>	<b>31-Dec-14</b>
Current assets	28,673	20,139
Less: Current liabilities	41,971	31,851
Working capital (deficit)	(13,298)	(11,712)
Add: Deferred revenue	20,061	13,403
Line of credit	6,181	3,609
<b>Adjusted working capital (deficit)</b>	<b>12,944</b>	<b>5,300</b>

## **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](http://www.sedar.com).

## **Transactions With Related Parties**

- I. Included in current due to related parties as at September 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 September 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 \$8.4 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 September 30, 2015, the Company owed an officer of the Company \$0.1 million (December 31, 2014 - \$0.4 million) for unpaid salary.
- IV. As at September 30, 2015, the Company owed certain directors nil (December 31, 2014 - \$0.1 million) for unpaid director's fees.
- V. As at September 30, 2015, the Company owed a minority shareholder of the Company nil (December 31, 2014 - \$0.1 million) for unpaid dividend.

## **Events subsequent to the reporting period**

- I. In 2007, a significant shareholder, who is also an officer and director of the Company, advanced loans in the aggregate amount of \$8.4 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.

On September 23, 2015 and October 14, 2015, the Company entered and amended a Loan Discharge Agreement (the "Agreement") with the Lenders. The Agreement provides for an absolute discharge of the Loans, in exchange for the issuance by Changfeng to the Lenders of 15,000,000 preferred shares of Changfeng. These preferred shares will be non-dividend bearing, are not convertible, will have one vote per share, will not be redeemable or retractable by the holder, will be redeemable at the option of Changfeng at \$0.32 per share until April 27, 2025, and thereafter at \$0.40 per share, must be redeemed by the Company at a price of \$0.32 per share until April 27, 2025, and thereafter \$0.40 per share, in the event of a change of control of the Company or a sale of substantially all of its assets, and would have a liquidation preference before the holders of the common shares, and have a fixed liquidation value of \$0.32 cents until November 15, 2030 and \$0.533 per share thereafter. In order to create the preferred shares to be issued pursuant to the Agreement, Changfeng will be required to amend its Articles of Incorporation to create the preferred shares. This will require a shareholder approval by Special Resolution, requiring the affirmative votes of not less than 66⅔% of shares voted on the Special Resolution. The transaction contemplated by Agreement had been accepted by the TSXV. Completion of the transactions contemplated by the Agreement remains subject to receipt of the above shareholder approval.

- II. On November 25, 2015, Company has entered into a natural gas purchase and sale agreement with Hainan Fuel Chemical Co., Ltd., a subsidiary of China National Offshore Oil Corporation ("CNOOC") to purchase 6.0 million cubic metres of natural gas during the remainder of 2015 (the "Additional Gas Quota"). The Additional Gas Quota is non-cumulative and any not eligible to be carried forward to 2016. The Company will be billed exclusively on the actual volume of natural gas received until December 31, 2015. The Additional Gas Quota will enable the Company to better supply its operation in Sanya region and to enhance its gross margin by reducing purchases of relatively expensive CNG and LNG.

## **Outlook**

The outlook for the fourth quarter of 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.

As the 24 million cubic meters gas quota with favorable price had been fully used in the first nine months of 2015, in the fourth quarter of 2015, the average gas purchase price will be significantly higher than the average gas purchase price in the first three quarters of 2015. The gross margin of the natural gas distribution utility segment in Sanya region in the last quarter of 2015 will be much lower than the same segment in other quarters of 2015.

In the rest of 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.