CHANGFENG ENERGY INC.

Management's Discussion and Analysis
For the year ended December 31, 2015

Dated April 28th, 2016

Advisory

This Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to understand the financial position and operations of Changfeng Energy Inc. ("Changfeng" or the "Company") as at and for the year ended December 31, 2015. This information should be read in conjunction with the accompanying audited Consolidated Financial Statements of the Company and the notes thereto for the year ended December 31, 2015. "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 or GAAP") 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 of them are city piped natural gas distribution projects, and one is a compressed natural gas ("CNG") vehicle refueling station. Changfeng has a 30 year concession right to operate the gas distribution business in Sanya City, Hainan Province, and a 50 year operating right for its 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 its operations.

Since 2008 Changfeng has been actively exploring emerging market opportunities in mainland China which resulted from the construction of PetroChina's Second West-East Pipeline ("WEP II"). Today, Changfeng has grown through the 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 with wholly-owned gas distribution pipeline networks and associated facilities;
  - Secured gas supply through its annual gas quota of approximately 25 million cubic meters (m^3) (883 million cubic feet (ft^3)) until December 31, 2016 at a favorable price;
  - Serving more than 169,276 residential and 833 commercial/industrial customers (primarily hotels and restaurants);
  - Serving 12 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");
  - Commenced the sale of natural gas to five ceramics manufacturers and five other industrial customers in the Park;
  - Completed the installation of the main and service pipeline connecting to a gated community.

- **In Changsha City, Hunan Province, China**
  - Continuing to grow its customer base.

The Company's primary goal is to become one of the predominant natural gas service providers in China. In pursuit of this goal, Changfeng continually strives to advance effective execution of its 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 value for its shareholders and clients.

Vision

Changfeng is committed to contributing to a cleaner China and improving the quality of life by providing clean and safe energy to its customers.

Its vision is to become one of the predominant natural gas service providers in China.

History

Changfeng was founded in 1995 as a privately-owned natural gas utility serving residential, commercial and industrial customers in Sanya City. In 2007, 30-year exclusive concession rights were granted to Changfeng by the local government to operate pipeline construction and gas distribution operations in the city.

Since 2003, Changfeng has been building an extensive pipeline network in the main district of Sanya City. In December 2010, Changfeng completed the extension of a 26.6 km of high-to-medium pressure pipeline linking Sanya City with the Haitang Bay region together with 21.2 km of low-pressure pipeline, and commenced the supply of gas to this newly- developed district of Sanya City. The company is continuing expanding its pipeline network in Haitang Bay region and currently is serving 12 hotels.

Since 2010, the Company completed the construction of its first CNG filling station in Changsha City and commenced its operations. In 2012, the Company upgraded its CNG retail station's capacity to meet the increasing demand.

The Company commenced the construction of a CNG/LNG refueling retail station in Sanya City, Hainan Province, China since December 2015 and expected the completion and operation in 2016. The CNG/LNG station will have a daily capacity of 30,000 m^3.

As of the end of 2015, the company is selling natural gas to ten industrial customers in the Park and completed the installation of the main and service pipeline connecting to a gated community for its Xiangdong project. The company is continuing expanding its pipeline network in the Park and administrative region of Xiangdong District.

Growth Strategy

Changfeng's corporate strategy is to maximize operating cash flow of its existing operations, and to pursue long-term growth opportunities that add long-term shareholder value while focusing on its core operations in the natural gas business in China. The following initiatives are central to Changfeng`s growth strategy:

- Maximize operating cash flow from its Pipeline Gas Distribution in Sanya through securing additional gas quotas and from its pipeline connection service by increasing its customer base; and
- Focus on commercial and industrial -intensive, underdeveloped markets in medium and small cities in mainland China.

It is critical to successfully execute its growth strategies in order to achieve its vision. Below and throughout this MD&A, Changfeng will discuss the execution of its business strategy for 2016 and beyond.

Maximize operating cash flow from its Pipeline Gas Distribution in Sanya through securing additional gas quotas and from its pipeline connection service by increasing its customer base

The Company's strategy is to continue to grow its business in the Sanya Region where Changfeng has strong secular growth trends in tourism and real estate development. However, ever since 2010, demand for natural gas in this region has greatly exceeded its annual quota gas ("Quota Gas") due to both urban expansion and rapid development of coastal tourism even with an increased annual Quota Gas in 2016 of approximately 25 million m^3. The price under the 2016 contract with approximately 25 million m^3, while higher than under the previous 24 million m^3 gas quota, remains favorable compared with the market price. It is expected that the gross margin for gas distribution utility in Sanya for 2016 will be lower than in previous years.

Changfeng anticipates that the gas shortage situation in Sanya Region will not be significantly mitigated when CNOOC completes construction and commences operation of its LNG receiver terminal that is currently under construction in Hainan Island. As a result, in 2016, its strategy is to maximize the profits and operating cash flows from its Sanya's operation through the gas supply management, which aims to maintain the reasonable gross margin on the sales of the extra gas beyond the 2016 Quota Gas.

At the same time, Changfeng has been working closely with the municipal government to find solutions to mitigate the negative effects of the gas shortage and higher gas pricing for other gas. Some practical measures to address the problem include a sales price increase to commercial and industrial customers, a government subsidy, and additional temporary gas quota, have been implemented successfully. The construction of Gas to Electricity Exchange Program was completed in 2015 and a 5 million m^3 exchanged gas had been sold to the Company in 2015.

Changfeng's strategy is also to continue to grow its customer base for its pipeline connection services in the Sanya Region. With the strong growth trends in tourism and real estate development, the Company has connected various hotels, restaurants, hospitals and gated communities and generated continuingly increasing cash flow from these pipeline connection services.

Focus on commercial and industrial-intensive, underdeveloped markets in medium and small cities along the WEP II in mainland China

Changfeng will continue to explore and develop gas distribution business opportunities in the emerging markets in mainland China, especially along WEP II. As a major national project of the China's 11th Five-Year Plan, construction of WEP II started on February 22, 2008. The trunk pipeline of WEP II has been completed and commenced the supply of gas in June 2011, and is to bring additional 30 billion m^3 gas annually to China over the next 30 years. As a result, there is a significant need for natural gas distribution utilities to provide a distribution solution to take new gas from national pipelines and deliver it to end users.

The Company's focus continues to be on commercial and industrial-intensive, underdeveloped markets in medium and small cities in these regions. Changfeng believes that this focused growth strategy enables us to grow its business rapidly, but at the same time, to minimize its capital expenditure requirements by limiting the potential size and length of gas pipelines through directly connecting the vast natural gas users such as industrial companies and gas-fired plants to the existing and/or planned national or provincial gas pipelines.

Currently, two of the projects are in commercial operation, which are the CNG refueling station in Changsha City, and Piped Gas Distribution in Xiangdong district, Pingxiang City. The Company is also pursuing a potential gas distribution opportunity in the Western Guangdong Area of Guangdong Province, China.

2015 Accomplishments

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. The registered capital of the Joint Venture is RMB 200 million (approximately CAD $41 million). Changfeng and CFD Group respectively own 50% each of the Joint Venture. RMB 40 million of funding for the registered capital is required within 30 days of incorporation; the remaining RMB 160 million is required within 10 years of incorporation. 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.

In December 2015, the Company also commenced the construction of a CNG/LNG refueling retail station ("Sanya Station") in Sanya City, Hainan Province, China, which is scheduled for completion and operation in 2016. Sanya Station will have a daily capacity of 30,000 m^3, and this new project is greatly supported by the municipal government in order to lower the cost for vehicle users and to reduce vehicle emission as Sanya Station is designated for a total of 300 public buses and 200 taxis.

On December 30, 2015, Changfeng has obtained a land use right, received pipeline construction approval from the local government and passed the environmental assessments necessary to build the natural gas transmission pipelines, transmission stations and associated facilities to link the existing and/or planned provincial trunk lines to certain gas fueled power plants located in Gaoyao District, Zhaoqing City, Guangdong Province, China. The project consists of the installation of approximately 2.0 kilometres (1.4 miles) of pipeline connecting the existing and/or planned provincial trunk lines to gas fueled power plants belonging to Datang International Power Generation Co., Ltd, Guangdong Branch ("Datang - Guangdong"). The project, expected to be completed by the end of 2016, will potentially allow for Changfeng to be one of the major natural gas distributors to Datang – Guangdong's power plant in Gaoyao District and other possible industrial customers. To carry out the development and future operation of the project, Gaoyao Evergrowth Natural Gas Co., Ltd., a wholly-owned subsidiary of Changfeng, has been incorporated in Gaoyao District, Zhaoqing City, Guangdong Province, China. The Company is inviting engineering construction bids for the project. The Company intends to work to secure the gas source for this project and to conclude the gas sales and purchase agreements with the end users.

Event after the reporting period

On February 8, 2016, the Company received a letter on behalf of two former directors requesting that the Company commence an action against its board of directors to recover damages for the losses the Company incurred as a result of the board's actions with respect to the proposed transaction to issue Class A Preferred Shares to Mr. Huajun Lin, a significant shareholder as well as an officer and director of the Company. The former directors indicated that they would consider bringing a derivative action if the Company did not proceed with the requested action. No details with respect to such potential claim or the damages sought have been provided, and accordingly no amount has been accrued in respect of such claim as at December 31, 2015. If commenced, the Company intends to vigorously defend any such claim. The Company considered this is at a preliminary status and currently expected the financial impact of any such claim to be immaterial to the consolidated financial statements as at December 31, 2015.

On March 31, 2016, the Group signed a new gas supply contract with CNOOC. CNOOC is committed to supply up to approximately 25 million cubic metres of natural gas annually until December 31, 2016 with a fixed contractual price and same terms stated in original contract. The price under the 2016 contract with approximately 25 million m3, while higher than under the previous 24 million m3 gas quota, remains favorable compared with the market price.

On April 27, 2016, shareholder loans in the aggregate amount of $8.5 million (RMB40 million) (December 31, 2014 - $7.5 million (RMB40 million)) to the Group, through wholly owned subsidiaries, were renewed for one year with the same terms and conditions.

Business Segments

Changfeng's businesses are organized into two segments: Natural Gas Distribution Utility and CNG Refueling Retail Station.

Natural Gas Distribution Utility

The Natural Gas Distribution Utility consists of gas pipeline installation and connection and piped gas sales, which is currently in its primary operation.

Changfeng operates by installing and connecting gas pipelines and selling gas through its pipeline networks to the end users. Changfeng currently derives the majority of its revenue from installing and connecting services and distribution of natural gas through its pipeline networks in Sanya City, Hainan Province, China.

Since 2003, Changfeng has been building extensive pipeline networks in the main district of Sanya City. Over the last four years, Changfeng has committed significant resources to extend its gas pipeline networks from the main district of Sanya City to the Haitang Bay area, a newly developing, high growth tourist district in Sanya City. The rapid growth of the Haitang Bay district is mainly attributable to the commitment made by the China Central Government in late 2009 to build Hainan Province into an international tourism destination by 2020.

Since 2008, in order to add incremental value to its existing business, Changfeng has been actively pursuing its gas connections and pipeline gas business in selected cities in Jiangxi and Guangdong provinces in mainland China. These provinces represent potentially large, rapidly growing emerging-markets for Changfeng as a result of the full operation of the eight sub-lines of WEP II in 2012. Please refer to the Expansion Project section in this MD&A for further discussion of these projects.

CNG Refueling Retail Station

CNG Refueling Retail Station serves mainly for public transportation vehicles like buses and taxis in Changsha City, Hunan Province, China. Its first CNG refueling retail station was completed and commenced the supply of gas in April 2010.

Changsha City is the capital of Hunan Province with a population of approximately 7.4 million (2015), and it is an important commercial and trade center in central-south China. In 2006, the Changsha City municipal government began to encourage taxicab and public bus vehicles to be dual-fuel vehicles (gasoline and natural gas) in order to alleviate serious air pollution problems. Since 2012, the municipal government allowed private owners to switch to natural gas fueled vehicle.

Selected Annual Financial Information

In thousands of Canadian dollars except percentages and per share amounts	2015	2014	Change	%
Revenue	**62,127**	**53,128**	**8,999**	**17%**
Gross margin	**29,205**	**23,996**	**5,209**	**22%**
% of revenue	47.0%	45.2%	1.8%	
General and administrative	13,364	10,561	2,803	27%
% of revenue	21.5%	19.9%	1.6%	
Travel and business development	3,509	3,632	(123)	-3%
% of revenue	5.6%	6.8%	-1.2%	
Impairment losses recognized on trade receivables	204	58	146	252%
Stock-based compensation	167	272	(105)	-39%
Total expenses	**17,244**	**14,523**	**2,721**	**19%**
% of revenue	27.8%	27.3%	0.5%	
Income from operations	**11,961**	**9,473**	**2,488**	**26%**
Finance costs	1,507	1,704	(197)	-12%
Interest (income)	(110)	(257)	147	-57%
Share of loss of investment in associate	1	8	(7)	-88%
Share of loss of investment in a joint venture	81	-	81	
Income before income taxes	**10,482**	**8,018**	**2,464**	**31%**
% of revenue	16.9%	15.1%	1.8%	
Income taxes	4,067	3,976	91	2%
Net income	**6,415**	**4,042**	**2,373**	**59%**
% of revenue	10.3%	7.6%	2.7%	
EBITDA (1)	**16,443**	**13,509**	**2,934**	**22%**
% of revenue	26.5%	25.4%	1.1%	
Non-controlling interests	**448**	**259**	**189**	**73%**
Basic EPS	**0.10**	**0.06**	**0.04**	**67%**
Diluted EPS	**0.09**	**0.06**	**0.03**	**50%**
Weighted average number of shares for purpose of basic EPS	**62,693**	**63,455**	**(762)**	**-1%**
Weighted average number of shares for purpose of diluted EPS	**63,339**	**64,363**	**(1,024)**	**-2%**

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

Results of Operations

Revenue

Total Revenue in RMB	**2015**	**2014**	**Change**	**%**
Gas distribution utility				
- Gas Sales	138,206,590	129,450,173	8,756,417	7%
- Pipeline Installation and Connection	124,007,991	117,617,664	6,390,327	5%
CNG vehicle refueling	43,230,283	49,241,098	(6,010,815)	-12%
Total Revenue in RMB	**305,444,864**	**296,308,935**	**9,135,929**	**3%**

Total Revenue in CAD	**2015**	**2014**	**Change**	**%**
- Gas Sales	28,111,221	23,210,416	4,900,805	21%
- Pipeline Installation and Connection	25,223,225	21,088,847	4,134,378	20%
CNG vehicle refueling	8,793,039	8,828,929	(35,890)	0%
Total Revenue in CAD	**62,127,485**	**53,128,192**	**8,999,293**	**17%**

Revenue for the year ended December 31, 2015 was $62.1million, an increase of $9.0 million, or 17%, from $53.1 million for the year 2014. This increase is mainly resulted from increased gas sales volume, connection revenue and appreciation of Chinese RMB to Canadian Dollar, and there is an increase of 3% in Chinese RMB for revenue.

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 customers newly connected and in gas volume consumed, revenue from gas sales has been growing steadily in recent years; and revenue from pipeline installation and connection was also in growth during 2015.

<u>Gas Sales</u>

Gas Volume Sold – Sanya Region

Sanya Region				
Gas volume sold (cubic meters)	**2015**	**2014**	**Change**	**%**
Residential customers	9,440,000	8,170,000	1,270,000	16%
Commercial customers	28,340,000	27,150,000	1,190,000	4%
Subtotal	**37,780,000**	**35,320,000**	**2,460,000**	**7%**

In 2015, the Company had an annual gas quota of 24.0 million m^3 for its Sanya Region operation. And an uncertain amount of extra gas quota made available each year through coordination with the local government in Sanya region. In 2015, the Company purchased 5.0 million m^3 exchanged pipeline gas from its Gas and Electricity Exchange Program which was completed at the end of 2013.

Gas sales volume for Sanya Region in 2015 was 37.8 million m^3, an increase of 2.5 million m^3 or 7%, compared to 35.3 million m^3 for the year 2014, of which 9.4 million m^3 was for residential customers at an annual growth rate of 16% and 28.3 million m^3 for commercial customers at an annual growth rate of 4%.

The Company's non-residential customers include commercial and industrial customers, mainly comprised of hotels, resorts and restaurants in Sanya City. Currently, approximately 75% of the total annual volume of gas in Sanya City is sold to these 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) 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				
Gas volume sold (cubic meters)	**2015**	**2014**	**Change**	**%**
Residential customers	195,155	57,387	137,768	240%
Commercial customers	1,646,894	909,255	737,639	81%
Subtotal	**1,842,049**	**966,642**	**875,407**	**91%**

Gas sales volume for Xiangdong district in 2015 was 1.8 million m^3, an increase of 0.8 million m^3 or 91%, compared to 1.0 million m^3 for 2014, of which 89% of gas volume was sold to non-residential customers.

Gas Sales

Gas Sales Revenue

Gas sales revenue in RMB	**2015**	**2014**	**Change**	**%**
Sanya	131,895,490	125,950,422	5,945,068	5%
Xiangdong	6,311,100	3,499,751	2,811,349	80%
Total	**138,206,590**	**129,450,173**	**8,756,417**	**7%**

Gas sales revenue in CAD	**2015**	**2014**	**Change**	**%**
Sanya	26,827,543	22,582,911	4,244,632	19%
Xiangdong	1,283,678	627,505	656,173	105%
Total	**28,111,221**	**23,210,416**	**4,900,805**	**21%**

Gas sales revenue for the year ended December 31, 2015 was $28.1 million, an increase of $4.9 million or 21%, from 23.2 million in 2014. The increase is mainly attributable to:

- the appreciation of exchange rate between Chinese RMB and Canadian dollar;
- the gas sales volume increased by 7% for Sanya region in 2015;
- the gas sales volume growth of 91% in Xiangdong district in 2015.

Pipeline Installation and Connection

Sanya Region	2015	2014	Change	%
Customers newly connected during the year of				
Residential customers	27,028	23,583	3,445	15%
Commercial customers	44	6	38	633%
Total customers connected at the end of the year of				
Residential customers	169,276	142,248	27,028	19%
Commercial customers	833	789	44	6%

Xiangdong Region	2015	2014	Change	%
Customers newly connected during the year of				
Residential customers	408	762	(354)	-46%
Commercial customers	3	2	1	50%
Total customers connected at the end of the year of				
Residential customers	1,435	1,027	408	40%
Commercial customers	10	7	3	43%

Pipeline connection revenue in RMB	2015	2014	Change	%
Sanya	123,161,564	116,534,509	6,627,055	6%
Xiangdong	846,427	1,083,155	(236,728)	-22%
Total	**124,007,991**	**117,617,664**	**6,390,327**	**5%**

Pipeline connection revenue in CAD	2015	2014	Change	%
Sanya	25,051,062	20,894,637	4,156,425	20%
Xiangdong	172,163	194,210	(22,047)	-11%
Total	**25,223,225**	**21,088,847**	**4,134,378**	**20%**

Pipeline installation and connection revenue for fiscal 2015 was $25.2 million, an increase of $4.1 million or 20%, from $21.1 million in 2014. The increase is mainly attributable to:

- the appreciation of exchange rate between Chinese RMB and Canadian dollar;
- comparatively higher amount of new residential customers connected during 2015 in Sanya region, which was in a total of 27,028, an increase of 3,445 or 15%, from 23,583 in 2014;
- significantly higher number of new commercial customers connected during 2015 in Sanya region, which was in a total of 44, an increase of 38 or 633%, from 6 in 2014;
- partly offset by the dropping number of new residential customers connected in 2015 in Xiangdong District, which was 408, a decrease of 354 or 46%, from 762 in 2014.

CNG vehicle refueling station

	2015	2014	Change	%
CNG sales volume (cubic meters)	11,314,354	13,010,884	(1,696,530)	-13%

CNG Sales Revenue	2015	2014	Change	%
Revenue in RMB	43,230,283	49,241,098	(6,010,815)	-12%
Revenue in CAD	8,793,039	8,828,929	(35,890)	-0.4%

Total revenue from CNG refueling retail station for 2015 was $8.8 million, with a slight decrease of $0.04 million, from 2014. The decrease was attributable to market competition and dropped sales volume of 1.7 million m^3, or 13% in 2015 with compared to 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 RMB. Accordingly, any fluctuation in the exchange rate between these two currencies will affect the reported financial information. The impact of the changes in foreign exchange rates has been recognized as other comprehensive income, and not as in net income. Excluding the foreign exchange effect, revenues for fiscal 2015 were RMB 305.4 million, an increase of RMB 9.1 million or 3%, from RMB 296.3 million in 2014.

The exchange rate between Chinese RMB and Canadian dollar is summarized below.

One Chinese RMB to Canadian dollar	2015	2014	% change
Spot rate at the end of the year	0.2131	0.1869	14.0%
Average rate for the year	0.2034	0.1793	13.4%

Gross margin

Gross margin for 2015 was $29.2 million, an increase of $5.2 million, or 22%, from $24.0 million in 2014. The gross margin percentage of 47% for 2015 was slightly increased from that of 45% for 2014.

Natural gas distribution utility gross margin as a percentage of sales year-over-year kept steady at 50%. And the CNG refueling station gross margin as a percentage of sales year-over-year increased by 6% (27% for 2015 VS 21% for 2014).

Operating expenses

General and administrative expenses for 2015 were $13.4 million, an increase of $2.8 million, or 27%, from $10.6 million in 2014. The increase was attributable to higher employee salaries and benefits as a result of a higher inflation rate in China, additional employees, and higher conference and professional fees. General and administrative expenses as a percentage of sales for 2015 were 22%, higher than 20% in 2014.

Travel and business development expenses for 2015 were $3.5 million, a decrease of $0.1 million, or 3%, from $3.6 million in 2014. As a percentage of sales, travel and business development expenses for 2015 was 6%, a decrease from 7% in 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.

Impairment losses recognized on trade receivables for fiscal 2015 and 2014 were $0.2 million and $0.06 million, respectively, an increase of $0.14 million or 252%.

Finance costs for fiscal 2015 and 2014 was $1.5 million and $1.7 million, respectively, a decrease of $0.2 million. The decrease is mostly due to the repayment of long term debts and a decrease of effective interest rate in 2015.

EBITDA

EBITDA (non-IFRS measure as identified and defined under section "Non-IFRS Measures") for fiscal 2015 was $16.4 million, an increase of $2.9 million, or 22%, from $13.5 million in 2014. The increase was driven primarily by higher sales and connection revenue. EBITDA as a percentage of revenue for 2015 was 26%, an increase of 1% from 25% in 2014.

Net income

Net income for fiscal 2015 was $6.4 million, or $0.10 per share basic and $0.09 per share diluted compared to $4.0 million or $0.06 per share (basic and diluted) in 2014.

Expansion Projects

Changfeng has the following projects under development as part of its growth strategy.

Haitang Bay Pipelined Gas Project, Sanya City, Hainan Province

Haitang Bay is one of the five major bays in Sanya City, Hainan Province. It is a flagship project being promoted by the Hainan provincial government to build Hainan Island into an international tourism destination by 2020. The size of the Haitang Bay development area is estimated at 98.7 square km and includes approximately 24 km of beachfront. It is planned to build this area into a new township and house more than twenty (20) five-star hotels by 2020.

In December 2010, Changfeng completed the extension of a 26.6 km of high-to-medium pressure pipeline linking Sanya City with Haitang Bay district together with 21.2 km of low pressure pipeline and associated facilities, and began to supply gas for this district.

During 2015 and 2014, the construction of pipeline networks in this district was slowed due to the tightening of credit by the Central Government of China to address growing inflation in China. In the long term, Changfeng believe that the Haitang Bay would represent a high-growth potential area for its operation in Sanya Region as more luxury hotels are to be constructed and connected to its pipeline networks.

Currently, there are twelve newly built hotels, including the Hilton, and Sheraton-chains, in operation and using the natural gas supplied by the Company for cooking and hot water. The gas consumption in 2015 was 5.1 million cubic meters, accounting for 13 percent of the total gas sales in Sanya operation.

CNG Refueling Retail Stations Project, Changsha City, Hunan Province

CNG refueling stations represent Changfeng's first growth project in mainland China. However, further expansion and development of CNG refueling retail stations in Changsha beyond the first station has been delayed pending a secured gas source at a price that will provide a reasonable margin. In addition, other issues such as pricing of the lands to be either leased or purchased for construction of the CNG refueling stations, market size/development and capital budgeting are expected to play a role in the evolution of its CNG station initiative in Changsha City.

CNG and Piped Gas Distribution-Project, Xiangdong district, Pingxiang City, Jiangxi Province

In December 2014, the Company entered into a natural gas purchase and sale agreement with PetroChina Company Ltd. regarding the purchase and sale of piped natural gas of 50 million m^3 in 2015. Thereafter, Changfeng and PetroChina will negotiate the annual volume of natural gas to be purchased by the Company from PetroChina in five year periods. Under the terms of the Agreement, The Company is also required to commission contract with Jiangxi Provincial Natural Gas Investment Co., Ltd. (the "Carrier"), the official natural gas terminal receiver appointed by the Government of Jiangxi Province, for the Carrier to transmit the purchased gas from PetroChina's Second West-East Pipeline ("WEP II") to the Company's gate station. After the construction of the Carrier's branch pipeline is completed, the Agreement will allow the Company to significantly reduce the quantities of relatively expensive CNG it has been required to purchase to supply its operations in Xiangdong.

Pipelined Gas Project, in the Western Guangdong Area ("Yue Xi") of Guangdong Province, China

On December 30, 2015, Changfeng has obtained a land use right, received pipeline construction approval from the local government and passed the environmental assessments necessary to build the natural gas transmission pipelines, transmission stations and associated facilities to link the existing and/or planned provincial trunk lines to certain gas fueled power plants located in Gaoyao District, Zhaoqing City, Guangdong Province, China. The project consists of the installation of approximately 2.0 kilometres (1.4 miles) of pipeline connecting the existing and/or planned provincial trunk lines to gas fueled power plants belonging to Datang International Power Generation Co., Ltd, Guangdong Branch ("Datang - Guangdong"). The project, expected to be completed by the end of 2016, will potentially allow for Changfeng to be one of the major natural gas distributors to Datang – Guangdong's power plant in Gaoyao District and other possible industrial customers. To carry out the development and future operation of the project, Gaoyao Evergrowth Natural Gas Co., Ltd., a wholly-owned subsidiary of Changfeng, has been incorporated in Gaoyao District, Zhaoqing City, Guangdong Province, China. The Company is inviting engineering construction bids for the project. The Company intends to work to secure the gas source for this project and to conclude the gas sales and purchase agreements with the end users.

Selected Quarterly Results

The following set out the Company's consolidated quarterly results for the most recent eight quarters:
In thousands of Canadian dollars, except per share amounts:

Quarterly data ($000's)	**2015**				**2014**			
except per share amounts	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Foreign exchange rate one Chinese RMB to Canadian dollars	0.2034	0.2076	0.1982	0.199	0.1793	0.1767	0.1750	0.1808
Revenue	18,551	13,158	13,717	16,701	16,878	12,094	10,775	13,381
Gross profit	6,429	6,197	7,004	9,575	5,888	5,580	4,738	7,790
Net income	604	997	1,905	2,909	809	696	607	1,930
EPS								
- basic	0.01	0.02	0.03	0.04	0.01	0.01	0.01	0.03
- diluted	0.00	0.02	0.03	0.04	0.01	0.01	0.01	0.03

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
($000's)	**31-Dec-15**	**31-Dec-14**
Cash	14,183	12,120
Working capital (deficit)	(24,885)	(19,139)
Adjusted working capital (note1)	2,250	(2,126)
Plant and equipment	75,105	63,548
Total assets	115,361	88,986
Long term liabilities	23,818	24,345
Shareholders' equity	36,370	25,314

Notes: (1) These financial measures are identified and defined under the section "Non-IFRS Financial Measures".

Cash increased by $2.1 million to $14.2million at December 31, 2015 from $12.1 million at December 31, 2014. Cash change mainly originated from cash inflow provided by operating activities of $15.8 million, and cash withdrawal from bank loan of $10.2 million, but offset by cash outflow including repayments of bank indebtedness of $6.1 million and long term bank loan repayment of $3.7 million as well as capital expenditure of $10.2 million, investment in a joint venture of 4.3 million, placement of pledged bank deposits of 2.1 million and share buyback of $0.4 million.

Adjusted Working Capital

Its adjusted working capital (see "Non-IFRS Financial Measures") was $2.3 million at December 31, 2015. Adjusted working capital excludes $18.7 million of deferred revenue in connection with gas connection fees and $8.5 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 in the short and long term.

Long-term bank loans

On January 5, 2010, the Company entered into a RMB100.0 million term loan with the Bank of China, Sanya Branch ("BOC, Sanya"), maturing in January 2019 and bearing interest at the variable rate of the People's Bank of China, which is reset every six months the ("Term Loan 2010"). It is secured by 60% of the interest in CF China held by HEL, and certain gas connection and gas supply rights, and a maximum of $6.4 million (RMB30 million) guarantee from and trade receivables during 2012 to 2022 owned by CF Engineering. During the year, the Company made payments in the amount of $2.0 million (RMB 10.0 million) (2014 - $1.9 million (RMB 10.0 million)) in accordance with the semi-annual repayment provisions of the term loan agreement. At December 31, 2015, $14.9 million (RMB 70.0 million) (2014 - $15.0 million (RMB 80.0 million)) of the term loan is outstanding. At December 31, 2015, the Company had unamortized transaction costs of $ 99,382 (RMB 466,363) (2014 - $ 167,442 (RMB 895,891)), which has been offset against term loan. The effective interest rate on the loan was 5.8% (2014 - 7.0%).

On December 21, 2012, the Company entered into a term loan with the Bank of China, Pingxiang Branch ("BOC, Pingxiang") for RMB 20.0 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 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 year, the Company made payments in the amount of $639,300 (RMB 3.0 million) (2014 - $560,700 (RMB 3.0 million)). At December 31, 2015, $3.0 million (RMB 14.0 million) (December 31, 2014 - $3.2 million (RMB 17 million) of the term loan is outstanding. The effective interest rate of the loan was 5.9% (2014 – 7.9%).

On January 15, 2013, the Company entered into an agreement with the BOC, Sanya to secure a bank loan facility in the amount of RMB 50.0 million (the "Term Loan 2013"). The bank loan facility provides that the proceeds of the Term Loan 2013 would 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 Term Loan 2013 is secured by the same securities of the Term Loan 2010. During the year, The Company made payments in the amount of $1.0 million (RMB 5.0 million) (2014-Nil) in accordance to the repayment terms stated in the agreement. As at December 31, 2015, the Company has withdrawn $ 7.5 million (RMB 35.0 million) (December 31, 2014 - $7.5 million (RMB 40.0 million)), which remains fully outstanding. The effective interest rate of the loan was 5.9% (2014 – 7.2%).

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.

Government grants

In 2012, the Company received $1.1 million (RMB 5 million) government grants to fund the construction of certain items of property and equipment for the Companyoperation in Sanya City. These government grants were recognized as a long-term liability and will be recognized in profit over the expected useful lives of these property and equipment when these property and equipment are ready for use. As of December 31, 2015 these property and equipment are not ready for use yet and government grants of $1.1 million (2014 - $1.0 million) was recognized as non-current liability.

Credit Agreement

Included in current liabilities is $2.1 million (RMB 10.0 million) (December 31, 2014 - $1.9 million (RMB 10.0 million)) relating to the Company's line of credit (the "Credit Line") with BOC, Sanya. This line of credit contains a financial covenant, which requires the Company's subsidiary, CF China's debt-to-total-assets ratio to be maintained below 75%. The effective interest rate of the loan was 4.4% (2014 – 6.9%).

Also included in current liabilities is $4.3 million (RMB 20.0 million) (December 31, 2014 - Nil) relating to the Company's line of credit (the "Credit Line") with Minsheng Bank, Sanya granted during the year. This credit line bears fixed interest rate of 5.35% per annum and is guaranteed by personal guarantee by Mr. Lin.

Also included in current liabilities is $ 2.1 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 on October 6, 2015 (the "US Term Loan") was secured by the pledged bank deposit of $2.1 million (RMB 10.0 million). The US Term Loan was 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 US Term Loan has a one-year term from the date of the withdrawal and bears annual interest of six-month LIBOR rate plus 250bps. The effective interest rate of the loan was 2.3%.

As at December 31, 2015, the Company was in compliance with all of its debt covenants.

Cash Flow from Operations

Net cash provided by operations was $15.8 million for fiscal 2015 compared to $5.6 million in 2014.

Cash Flow from Financing Activities

Cash used in financing activities in 2015 included a $3.7 million long term loan repayment, $0.4 million paid for the share buyback, an increase in bank indebtedness of $10.2 million and a decrease in bank indebtedness of $6.1 million.

Investing Activities

Cash used in investing activity included capital expenditures of $10.2 million for fiscal 2015 compared to $5.7 million in 2014, a placement of pledged bank deposits of 2.1 million, and investment in a joint venture of $4.3 million. The expenditures were mainly related to the purchase of equipment and new office building construction for the Xiangdong project, and 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 the BOC and BOC, Pingxiang, as well as operating cash flow from its existing operations.

Contractual Obligations and Commitments

Pipeline Construction and Equipment:

The Company has capital commitments for the purchase of property and equipment and the construction of pipelines under development contracted for but not provided in the consolidated financial statements amounting to $4.5 million (RMB 21.1 million) (2014 - $3.1 million (RMB 16.5 million).

Natural Gas Purchase Commitments:

The following tables summarize its contractual obligations and commitments as of December 31, 2015 in connection with its natural gas purchase contracts:

Year	**Gas source supplier**	**Gas volume quota**	**Location**
2016	Ya13-1 Gas Well (CNOOC)	Approximately 25 million m^3	Sanya city

Operating Lease Commitment:

Operating lease commitments represent rentals payable for certain of its staff quarters and land. Leases of staff quarters are negotiated for an average term of 1 to 5 years with fixed rental. Leases of lands are negotiated for a term of 20 years with the rental fee fixed for the first 4 and 5 years from signing the lease contracts, respectively and progressively increased by 5% and 10% thereafter.

The Company has operating lease commitments as follows:

	RMB	Cdn. $
At December 31, 2015		
2016	1,154,846	246,098
2017	1,063,175	226,563
2018	950,175	202,482
2019	882,175	187,991
2020	858,493	182,945
Thereafter	11,140,141	2,373,964
	16,049,005	3,420,043

Minimum lease payments paid under the operating lease during the year is $0.2 million (RMB 1.1 million) (2014 – $0.2 million (RMB 1.3 million).

Caofeidian Evergrowth Energy Co., Ltd ("Evergrowth"):

At December 31, 2015, the Company is bounded by agreement to inject RMB 80.0 million funding to Evergrowth within 10 years of establishment of Evergrowth.

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

Related Parties Transactions

i. Included in current due to related parties as at December 31, 2015 amounted to $0.6 million (RMB3.0 million) (2014 - $0.6 million (RMB3.0 million)) was relating to an advance made by Shin-Ko Energy. Also included in current due to related parties, as at December 31, 2015, was $0.3 million (RMB1.2 million) (2014 - $0.2 million (RMB 1.2 million)) relating to a loan made to the Company by Shin-Ko Energy. The loans are interest-free unsecured and payable on demand.

ii. In 2007, Mr. Lin, advanced loans in the aggregate amount of $8.5 million (RMB 40.0 million) (December 31, 2014 - $7.5 million (RMB 40.0 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, noninterest 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 another year with the same terms and conditions. On April 27, 2016, these loans have been renewed for one year with the same terms and conditions.

iii. As at December 31, 2015, the Company owed an officer and director of the Company $0.3 million (2014 - $0.4 million) for unpaid salary.

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

v. During the year ended December 31, 2014, the amount due from the minority shareholder of Hunan CF CNPC amounted to $0.4 million (RMB 2.0 million) which used as funds to contribute the capital owed to Hunan CF CNPC and amount due from minority shareholder of $0.1 million has been net off with the dividend declared to the minority shareholder. As at December 31, 2014, the Company owed the non-controlling shareholder $0.05 million for unpaid dividend which was settled during the year ended December 31, 2015.

vi. As at December 31, 2015, Mr. Lin, provided personal guarantee to the Company for a $4.3 million (RMB20.0 million) credit line.

Share Capital

As of the date of this MD&A, the Company has 61,951,700 common shares outstanding, 5,490,000 stock options outstanding and exercisable at a weighted average exercise price of $0.31 per share. The Company has no warrants outstanding.

During 2015, the Company purchased for cancellation 1,197,500 of its common shares under its normal-course issuer bid (the "Bid") for cash of $407,152, inclusive of transaction costs. Subsequent to December 31, 2015, the Company purchased 614,000 shares pursuant for cash proceeds of $216,761.

Risks and Uncertainties

The Company is exposed to a variety of risks in the normal course of operations that could significantly affect its operating cash flow and profitability of operations and could cause its actual results to differ in material respects from its anticipated results. These risks may include, but are not limited to, those listed below. The Company seeks to manage the risks associated with its business operations; however, many of the factors affecting these risks are beyond the Company's control. The future effect of these risks and uncertainties cannot be quantified or predicted.

Country risks

As substantially all of the business of the Company is operated in China, the profitability, financial position and prospects of the Company are subject to the consideration and risks of operating in China. These include risks associated with the political and economic environment, foreign currency exchange and the legal system in China. Any changes in the policies of the Chinese government regarding the domestic economy (for example, changes affecting foreign exchange rates, inflation, taxation and trade) may have a material effect on the overall economy.

The Chinese government has been pursuing economic reforms since it first adopted its "open-door" policy in 1978. The current reforms are unprecedented, producing effects that are unpredictable, and are subject to further refinement and improvement. New political, economic and social developments and considerations may lead the Chinese government to make adjustments to these reform measures. Any change in governmental policies or any unfavourable change in the political, economic or social conditions, the laws or regulations, or the rate or method of taxation in China may have a material adverse effect on the business of the Company.

Many laws and regulations dealing with economic matters in general, and foreign investment in particular, have been enacted in China. However, China still does not have a comprehensive system of laws, and enforcement of existing laws may be uncertain and sporadic. In China, gas distribution companies invest in and operate the piped gas supply business in urban areas under the supervision of a number of government ministries and departments, including the Ministry of Commerce, the Ministry of Labor and Social Security and the Ministry of Public Security. The Company must comply with the relevant requirements of certain regulations, including the City Fuel Gas Administration Regulations, the Tentative Regulations in relation to the Supervision and Administration of the Safety of Petroleum and Natural Gas Pipelines and the Regulations of the Safety of City Fuel Gas Administration. In addition, the Company must comply with the relevant requirements and policies of local authorities where the Company's projects are situated. Rights or rights of first refusal to provide piped gas are granted by local governments pursuant to policies of promoting environmental protection and encouraging the use of natural gas and the construction of natural gas supply facilities. In addition, the natural gas distribution business in China is highly regulated and pricing is controlled by the Chinese government. Any change in such laws or regulations could have a material adverse effect on the business of the Company. There can be no assurance that the above regulatory regime and policies (including the granting of rights or rights of first refusal to supply piped gas) will not be changed. The Company's operations and profitability may be materially adversely affected if changes that occur are not favorable to the Company.

Changes in foreign exchange regulations

Since 1996, the Chinese government has promulgated various foreign exchange rules, regulations and notices (the "Policies") to raise the convertibility of the Chinese renminbi ("renminbi"). According to the Policies, a foreign-invested enterprise ("FIE") must open a "current account" and a "capital account" at a bank authorized to trade foreign exchange. A FIE may convert renminbi in the capital account into any foreign currency at any authorized bank with the prior approval of the State Administration for Foreign Exchange ("SAFE") . The income and expenditures of the Company are denominated in renminbi. At present, renminbi cannot be freely converted into other currencies. According to the Polices, upon producing the board resolution on the authorization of the distribution of profits or dividends or the commercial documents evidencing foreign exchange transactions, the Company may purchase the foreign exchange required for the distribution from a designated authorized bank. The Company cannot guarantee that the Policies will not be withdrawn or amended. The Company continues to have substantial requirements for foreign currency, including foreign currency denominated loans and purchases of imported equipment and materials. Repayment of the principal and interest on loans denominated in foreign currency shall be approved by SAFE in advance. Such approval requirements could affect the Company's ability to obtain foreign exchange through debt financing or to obtain foreign exchange for capital expenditure. In addition, according to the current foreign exchange control system, there can be no assurance that sufficient foreign exchange can be obtained pursuant to a specific exchange rate in order to satisfy the Company's needs. A shortage in the foreign exchange may prevent the Company from obtaining sufficient currency to pay dividends or limit its ability to satisfy its needs for foreign exchange.

Development projects and acquisitions

Changfeng continues to focus on growing its business segments through organic development projects or acquisitions. The Company capitalizes costs incurred on certain of its projects during the development period when the project meets specific criteria and is expected to proceed through to completion. The related capital costs of a project that does not proceed through to completion are expensed at the time it is discontinued to the extent that these costs and underlying materials cannot be utilized on another project. With respect to the Company's acquisition of assets and operations, there is a risk that certain business opportunities may not materialize as expected, resulting in asset impairment.

Substantial initial capital expenditure requirement

The nature of the Company's operations require it to make a substantial initial investment in the construction of gas pipeline infrastructure and the construction of CNG filling stations. The initial investment must be financed by internal resources of the Company, bank loans and/or equity fund raising. There can be no assurance that external sources of financing will be available to fund the Company's capital expenditure program. The failure to obtain such financing may hinder the Company's ability to continue its existing investments or make new investments. In addition, there are risks associated with the construction of new facilities, including risks that costs of construction may be greater than anticipated, and that construction may be delayed due to factors beyond the control of the Company.

Grant of additional licenses

The business objectives of the Company include the expansion of its operations by applying for distribution and construction permits for natural gas distribution rights in other cities in China. Applicants for such licenses are required to meet extensive criteria, and to submit to a detailed examination of their infrastructure and management to a special team appointed by the government body reviewing such applications. Notwithstanding the results of any such review, distribution and construction permits are granted to applicants at the sole discretion of the government body reviewing such applications, and such grants occur on an infrequent basis. Accordingly, there can be no assurance that the Company will be granted any distribution or construction permits for which it applies, which may in turn have a material adverse effect upon the operations and growth strategy of the Company.

Price control

Any increase in gas usage charges exceeding the original approved charge requires the approval of the local state price bureau. There is no assurance that any increases (except for an increase to offset the rise in the Company's purchase price of gas) will be approved. There is no assurance that the Company will be able to offset any increase in the purchase price of gas with an increase in the sales price, such that its profitability may be adversely impacted.

Obligations to purchase gas

The Company currently has a letter of intent with CNOOC for the purchase of 150 million m^3. The Company may, at its option, enter into a take or pay agreement with CNOOC which will leave it financially committed to purchase gas without any assurance that it will have sales to offset the purchase obligations. In addition, the agreement in principle between the Company and CNOOC is conditional upon the completion of a plant to be constructed by CNOOC, which is in turn subject to the receipt of various regulatory and governmental approvals. Failure by CNOOC to obtain the required approvals and/or to complete construction of its proposed plant may have a material adverse effect on the Company.

Reliance on the suppliers of natural gas

At present, the Company purchases natural gas solely from Hainan Petrol pursuant to the supply agreement. Currently, the Company has a contract to purchase approximately 25 million m^3 gas from this supplier in 2016. There can be no assurance that the Company will be able to obtain natural gas from suppliers on terms similar to those of the supply agreement or without material interruption.

Limited insurance coverage

As natural gas is an inherently flammable and explosive substance, the Company has implemented strict safety measures for the operation and maintenance of its facilities; however, the Company cannot guarantee that industry-related accidents will not happen in the future. Significant operational hazards and natural disasters may cause interruptions in the Company's operations that could have a material adverse impact on the financial condition of the Company. Although the Company may maintain insurance to protect against certain risks in such amounts as considered reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not be available or may not be adequate to cover any resulting liability. A successful claim made against the Company that is not covered by any of the Company's insurance policies or is in excess of its insurance coverage could have a material adverse effect on the Company's business and financial position.

Environmental risks and hazards

All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist in connection with the pipelines and distribution networks in which the Company holds interests that are unknown to the Company at present. Government approvals and permits are currently, and may in the future, be required to be obtained or renewed in connection with the Company's operations. To the extent such approvals are required and not obtained or existing permits are not renewed, the Company may be curtailed or prohibited from continuing its operations or from proceeding with planned development of its proposed projects. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing current or proposed operations and activities of the Company, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in development expenses, capital expenditures or production costs, or require abandonment or delays in development of new projects. The Company is subject to the Chinese environmental protection laws and regulations which impose fines for violations of laws, regulations or decrees and provide for the shutdown by the central, provisional or municipal governments of any facility not in compliance with governmental orders requiring the cessation or cure of certain activities causing environmental damage. As natural gas is an environmentally friendly form of fuel, the Company has not adopted any special environmental protection measures other than the measures taken in the ordinary course of business by companies in the industry.

Key executives

The Company is dependent upon the services of key executives, management of the Company and a small number of highly-skilled and experienced executives and personnel. In addition, in the event that the Company expands its operations to other jurisdictions in the Hainan and Guangdong Provinces as presently contemplated, it will be required to hire additional skilled personnel. Due to the relatively small size of the Company, the loss of these persons or the Company's inability to attract and retain additional highly-skilled employees may adversely affect its business and future operations.

Infrastructure

Natural gas distribution activities depend on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations. Any increase in the operating costs of the natural gas distribution networks of the Company could have a material adverse effect on the Company.

Competition

The natural gas distribution industry is competitive in all of its segments. The Company faces strong competition from other natural gas distribution companies in connection with the development of pipelines and acquisition of distribution rights for natural gas. Many of these companies have greater financial resources, operational experience and technical capabilities than the Company. As a result of this competition, the Company may be unable to maintain or acquire distribution rights on terms it considers acceptable, or at all. The ability of the Company to acquire natural gas distribution rights depends upon whether the Company is able to meet certain qualifications, the extent of competition, and the discretion of the MCC and other applicable government bodies. Factors beyond the control of the Company may affect its ability to obtain or retain distribution rights, or to secure exclusive concession rights with local municipalities, as well as the marketability of natural gas distributed by the Company. As a result of these and other factors, competitors of the Company may be granted shared or exclusive natural gas distribution rights in the target markets of the Company, either of which may adversely affect the Company's future growth plans and operations. Changfeng also competes for financing with other companies, many of whom have greater financial resources and/or more advanced operations. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company.

Substitute products

Coal, gas, liquid propane gas, liquid natural gas and electricity are the main substitutes for natural gas. Ultimate consumers will consider factors such as cost, reliability, convenience and safety when choosing a fuel. Connection fees, gas usage charges and heat content are the major factors affecting customers' choice of fuel. Save for newly built residential apartments that are required to be equipped with natural gas supply for cooking stoves, in most of the locations in which the Company has established a presence, there is no assurance that existing fuel users will shift to use piped natural gas. Continued growth of the Company is dependent upon the continued conversion by Chinese residential and business consumers to natural gas as a fuel source.

Commodity prices

The price of the securities of the Company, the Company's financial results and development activities may in the future be significantly and adversely affected by declines in the price of natural gas and other commodities. The price of natural gas and other commodities fluctuates widely and is affected by numerous factors beyond the Company's control, such as the sale or purchase of natural gas by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the ("US") dollar and other foreign currencies, global and regional supply and demand, the political and economic conditions of major oil-producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges. Future serious price declines in the market value of natural gas and other commodities could cause continued development of the Company's projects to be impracticable. Depending on the price of natural gas and other commodities, cash flow from operations may not be sufficient and the Company could be forced to discontinue development of, may lose its interest in, or may be forced to sell, some of its interests.

Currency, interest rate and exchange fluctuations

The value of renminbi is subject to changes in the Chinese government's policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of the renminbi to US dollars has generally been stable, and renminbi has appreciated slightly against the US dollar. Any devaluation of renminbi may adversely affect the value of, and dividends payable on, the securities of the Company in foreign currency terms since the Company receives its revenues in renminbi. Results of operations and the financial condition of the Company may also be affected by changes in the value of certain currencies other than renminbi in which the Company's obligations are denominated. In particular, a devaluation of the renminbi is likely to increase the portion of the Company's cash flow required to satisfy its foreign currency-denominated obligations.

Government regulation

The construction and distribution activities of the Company are subject to various laws governing development, construction, distribution, taxes, labour standards and occupational health, toxic substances, land use, water use, and other matters. Although the Company's operations are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or distribution activities. Amendments to current laws and regulations governing natural gas distribution and related matters or more stringent implementation thereof could have a substantial adverse impact on the Company.

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 provide 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 expense, depreciation and 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 as follows:

In thousands (except for % figures)	2015	2014	Change	Change %
Net Income	**6,415**	**4,042**	**2,373**	**59%**
Add (less):				
Income tax	4,067	3,976	91	2%
Interest (income) expense	(110)	(257)	147	-57%
Share of loss of investment in associate	1	8	(7)	-88%
Share of loss of investment in a joint venture	81	-	81	
Stock-based compensation	167	272	(105)	-39%
Amortization	4,315	3,764	551	15%
Finance costs	1,507	1,704	(197)	-12%
EBITDA	**16,443**	**13,509**	**2,934**	**22%**

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 and due to related party. 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.

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

In $ thousands as at	31-Dec-15	31-Dec-14
Current assets	30,288	20,189
Less: Current liabilities	55,173	39,327
Working capital (deficit)	(24,885)	(19,138)
Add: Deferred revenue	18,666	13,403
Line of credit	8,469	3,609
Adjusted working capital (deficit)	**2,250**	**(2,126)**

Financial Instruments

Changfeng 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 the notes to the Consolidated Financial Statements. See the "Note to the Consolidated Financial Statements" for further details around these contracts.

Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

(a) Significant influence over Shin-Ko Energy:

Shin-Ko Energy is an associate of the Company although the Company has only 50% ownership interest and voting rights in Shin-Ko Energy. The Company has the 50% ownership since 2011 and the remaining 50% of shareholdings are owned by two shareholders that are unrelated to the Company.

The directors of the Company assessed whether or not the Company has control over Shin-Ko Energy based on whether the Company has the practical ability to direct the relevant activities of Shin-Ko Energy unilaterally. In making the judgement, the directors considered the Company's absolute size of holding in Shin-Ko Energy and the relative size of and dispersion of the shareholdings owned by the other shareholders. After assessment, the directors concluded that the Company do not have sufficiently dominant voting interest to direct the relevant activities of Shin-Ko Energy and therefore the Company has control over Shin-Ko Energy.

(b) Classification of Evergrowth:

Evergrowth is a limited liability company whose legal form confers separation between the parties to the join arrangement and the Company itself. Furthermore, there is no contractual arrangement or any other facts and circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. According Evergrowth is classified as a joint venture of the Company.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenue recognition

Revenue from natural gas sales is recognized when the gas is delivered to the customer. The Company determines the quantity of natural gas delivered through its readings of customer gas consumption meters, and estimates the quantity delivered at each period end where the date of the meter reading is prior to the period-end date. The estimation on the quantity delivered may have significant effect on the revenue recognition.

Revenue from gas connection contracts is recognized on the percentage of completion method, measured by reference to the value of work carried out during the year. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense in the period in which the expected loss is identified. Revenue recognition is dependent upon estimating the stages of completion and the outcome of the contract.

Long-lived assets

The Company's long-lived assets are amortized over their estimated useful economic lives on a straight-line basis. Useful lives are based upon management's estimates of the length of time that the assets will generate revenue, which is reviewed at least annually for appropriateness. Changes to these estimates can result in variations in the amounts charged for amortization and in the assets' carrying amounts.

Impairment

The Company assesses the carrying value of long-lived assets, which include property and equipment and intangible assets subject to amortization, for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated future cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

Estimated impairment of trade receivables

Trade receivables as at 31 December 2015 was $8.6 million, net of allowance for doubtful debts of $0.3 million (2014 - $5.3 million, net of allowance for doubtful debts of $0.1 million). Trade receivables of $3.5 million (2014 - $1.4 million) have been past due over 90 days as at 31 December 2015. A substantial negative impact on the Company's performance and cash flows would result if the amounts are not recovered. The Company considers that the credit risk on the amounts is limited based on historical experience, subsequent settlement and the financial position of its customers.

Income taxes

Provisions for income taxes are based on domestic and international statutory income tax rates and tax planning opportunities available to the Company in the jurisdictions in which it operates. Significant judgment is required in determining income tax provisions and the recoverability of deferred tax assets. The calculation of current and deferred income tax balances requires management to make estimates regarding the carrying values of assets and liabilities that include estimates of future cash flows and income related to such assets and liabilities, the interpretation of income tax legislation in the jurisdictions in which the Company operates, and the timing of reversal of temporary differences. The Company establishes additional provisions for income taxes when, despite management's opinion that tax positions are fully supportable, there is sufficient complexity or uncertainty in the application of legislation that certain tax positions may be reassessed by tax authorities. The Company adjusts these additional accruals in light of changing facts and circumstances.

Future Accounting Changes

New and revised IFRS issued but not yet effective

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[4]
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers[1]
Amendments to IAS 1	Disclosure Initiative[4]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[4]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[4]
Amendments to IAS 27	Equity Method in Separate Financial Statements[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[4]
Amendments to IAS 7	Disclosure Initiative[6]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[6]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for first annual IFRS financial statements beginning on or after 1 January 2016
[3] Effective for annual periods beginning on or after 1 January 2019
[4] Effective for annual periods beginning on or after 1 January 2016
[5] Effective for annual periods beginning on or after a date to be determined
[6] Effective for annual periods beginning on or after 1 January 2017

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Company performs a detailed review.

Except as described above, the directors of the Company consider that the application of other new and revised IFRS is unlikely to have a material impact on the Company's financial positon and performance as well as disclosure.

Outlook

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 2016 will continue to increase especially from its operations in the Sanya Region with the new CNG/LNG retailing station. While gross margin from gas distribution utility in Sanya Region may expect for dropping due to the relatively higher gas purchase price in 2016.

In 2016, Changfeng will continue to implement its long-term growth strategy through its proposed pipelined gas project in the Western Guangdong Area of the Guangdong Province, China as discussed in the Expansion Project section in this MD&A on page 12.