

**CHANGFENG ENERGY INC.**

**Management's Discussion and Analysis for the  
Three-month and Nine-month Ended September 30, 2017**

Dated November 27, 2017

**Advisory**

The Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to understand the financial condition and operations of Changfeng Energy Inc. ("Changfeng" or the "Company") for the three and nine months ended September 30, 2017. 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, 2017 and the audited consolidated financial statements and related notes and the MD&A for the year ended December 31, 2016. "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 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 Chinese Renminbi (RMB) and 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 Energy Inc (hereafter referred to as "Changfeng", "we" or the "Company") is a Canadian public company currently trading on the TSX Venture Exchange ("TSX-V") under the stock symbol "CFY". Changfeng is primarily involved in natural gas distribution and sustainable energy utilization in the People's Republic of China ("the PRC" or "China").

Currently, the Company has four revenue generating projects in operation: two pipeline natural gas distribution projects, and two compressed natural gas ("CNG") vehicle refueling stations. Changfeng has a 30-year exclusive concession right to distribute natural gas in Sanya City, Hainan Province, and a 50-year operating right for gas distribution in Xiangdong District, Pingxiang City, Jiangxi Province.

Early 2017, Changfeng began a three year plan to strategically shift its corporate focus to sustainable energy in combination with natural gas to become an integrated energy provider in the PRC. Changfeng has always strived to provide natural gas to our customers, a cleaner alternative to coal since the company's inception over 20 years ago. As the Chinese economy is moving away from coal dependency in correspondence with central government guidance, Changfeng looks to sustainable energy and clean technology to complement the usage of natural gas. As forecasted by British Petroleum (BP), China is the largest source of renewables growth over the next 20 years, adding more renewable power than the EU and US combined<sup>1</sup>.

On August 2nd, 2017, Changfeng entered into a Statement of Intent for Cooperation with the Sanya municipal government and EDF (China) Holding Ltd., a wholly owned subsidiary of the EDF Group to jointly pursue the integrated smart energy system program in Sanya City, Hainan Province. The tender for the project and the 30 year operating franchise right for the Sanya Haitang Bay region was officially awarded to EDF (China) Holding Ltd. and Changfeng on August 8, 2017; the joint venture was established on November 9, 2017. Once the Haitang Bay pilot project is proven successful, Changfeng looks to expand the energy efficient system to cities across China.

In November 2017, the Company signed a ten (10) years agreement with WISE (Waterloo Institution of Sustainable Energy) of Waterloo University. According to the agreement, WISE will provide technical support and advice to Changfeng for its future projects in China and North America in the field of sustainable energy.

Within the next three years, the Company also plans to complete its public offering on the Hong Kong Stock Exchange (HKEx). Changfeng has discharged its outstanding loan to the related party in compliance with the listing requirement, and restructured its stake in the Pingxiang project to free up capital. In further anticipation for the HK IPO, the management team is working to restructure the company's project portfolio to spinoff poor performing assets and reinvesting capital into projects that are already or soon to be generating cash flow. Furthermore, the Company is working with a consultant firm in Hongkong to enforce the Company's internal control and audit procedure to better meet the requirements of the HKEx. The IPO in Hong Kong will serve to broaden Changfeng's investor base, increase stock liquidity, and allow the company to gain access to strategic investors in the Chinese market.

The management team is determined to do what is necessary to increase shareholder value as well as company performance. With the company's strong cash flow, experienced management team, and foresight into the Chinese energy market, we are confident that Changfeng will become a leader in providing natural gas and sustainable energy to cities across the PRC.

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<sup>1</sup> "BP Energy Outlook 2017 Edition". <https://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2017/bp-energy-outlook-2017.pdf>.

## Selected Quarterly Financial Information

The following tables provide selected financial information for the three and nine months ended September 30, 2017 and 2016 in Chinese RMB:

<i>In thousands of Chinese RMB except percentages and per share amounts</i>	Three months ended September 30,				Nine months ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
<b>Revenue</b>	<b>114,816</b>	<b>83,652</b>	<b>31,164</b>	<b>37%</b>	<b>308,448</b>	<b>239,204</b>	<b>69,244</b>	<b>29%</b>
<b>Gross profit</b>	<b>49,449</b>	<b>35,125</b>	<b>14,324</b>	<b>41%</b>	<b>129,182</b>	<b>106,679</b>	<b>22,503</b>	<b>21%</b>
% of revenue	43%	42%	1%		42%	45%	-3%	
General and administrative	15,563	15,334	229	1%	46,929	43,685	3,244	7%
% of revenue	14%	18%	-4%		15%	18%	-3%	
Selling and marketing	4,379	3,488	891	26%	15,837	13,074	2,763	21%
% of revenue	4%	4%	0%		5%	5%	0%	
Stock-based compensation	2,931	-	2,931		4,023	-	4,023	
<b>Total expenses</b>	<b>22,873</b>	<b>18,822</b>	<b>4,051</b>	<b>22%</b>	<b>66,789</b>	<b>56,759</b>	<b>10,030</b>	<b>18%</b>
% of revenue	20%	23%	-3%		22%	24%	-2%	
<b>Income from operations</b>	<b>26,576</b>	<b>16,303</b>	<b>10,273</b>	<b>63%</b>	<b>62,393</b>	<b>49,920</b>	<b>12,473</b>	<b>25%</b>
% of revenue	23%	19%	4%		20%	21%	-1%	
Finance costs	1,293	1,937	(644)	-33%	4,678	5,993	(1,315)	-22%
Other income	(189)	(73)	(116)	159%	(704)	(277)	(427)	154%
Other gains and losses	260	32	228	-713%	1,938	2,436	(498)	-20%
Share of loss of an associate	1	2	(1)	-50%	4	5	(1)	-20%
Share of loss of a joint venture	-	2,113	(2,113)		-	6,617	(6,617)	
<b>Profit before tax</b>	<b>25,211</b>	<b>12,292</b>	<b>12,919</b>	<b>105%</b>	<b>56,477</b>	<b>35,146</b>	<b>21,331</b>	<b>61%</b>
% of revenue	22%	15%	7%		18%	15%	3%	
Income taxes	8,391	4,536	3,855	85%	20,897	18,094	2,803	15%
% of revenue	7%	5%	2%		7%	8%	-1%	
<b>Profit for the period</b>	<b>16,820</b>	<b>7,756</b>	<b>9,064</b>	<b>117%</b>	<b>35,580</b>	<b>17,052</b>	<b>18,528</b>	<b>109%</b>
% of revenue	15%	9%	6%		12%	7%	5%	
<b>EBITDA (1)</b>	<b>33,285</b>	<b>19,695</b>	<b>13,590</b>	<b>69%</b>	<b>76,675</b>	<b>59,312</b>	<b>17,363</b>	<b>29%</b>
% of revenue	29%	24%	5%		25%	25%	0%	
Non-controlling interest	213	657	(444)	-68%	1,289	1,305	(16)	-1%
<b>Basic EPS</b>	<b>0.26</b>	<b>0.11</b>	<b>0.15</b>	<b>136%</b>	<b>0.54</b>	<b>0.25</b>	<b>0.29</b>	<b>116%</b>
<b>Diluted EPS</b>	<b>0.26</b>	<b>0.11</b>	<b>0.15</b>	<b>136%</b>	<b>0.54</b>	<b>0.25</b>	<b>0.29</b>	<b>116%</b>

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

The following tables provide selected financial information for the three and nine months ended September 30, 2017 and 2016 in Canadian Dollars:

<i>In thousands of CAD (for reference only) except percentages and per share amounts</i>	Three months ended September 30,				Nine months ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
<b>Revenue</b>	<b>21,638</b>	<b>16,394</b>	<b>5,244</b>	<b>32%</b>	<b>59,222</b>	<b>48,080</b>	<b>11,142</b>	<b>23%</b>
<b>Gross profit</b>	<b>9,327</b>	<b>6,867</b>	<b>2,459</b>	<b>36%</b>	<b>24,803</b>	<b>21,442</b>	<b>3,360</b>	<b>16%</b>
% of revenue	43%	42%	1%		42%	45%	-3%	
General and administrative	2,922	3,006	(83)	-3%	9,010	8,781	230	3%
% of revenue	14%	18%	-4%		15%	18%	-3%	
Selling and marketing	817	676	141	21%	3,041	2,628	413	16%
% of revenue	4%	4%	0%		5%	5%	0%	
Stock-based compensation	560	-	560	100%	772	0	772	100%
<b>Total expenses</b>	<b>4,299</b>	<b>3,682</b>	<b>618</b>	<b>17%</b>	<b>12,823</b>	<b>11,409</b>	<b>1,415</b>	<b>12%</b>
% of revenue	20%	22%	-2%		22%	24%	-2%	
<b>Income from operations</b>	<b>5,027</b>	<b>3,186</b>	<b>1,842</b>	<b>58%</b>	<b>11,979</b>	<b>10,034</b>	<b>1,947</b>	<b>19%</b>
% of revenue	23%	19%	4%		20%	21%	-2%	
Finance costs	241	379	(137)	-36%	898	1,205	(306)	-25%
Other income	(35)	(14)	(21)	157%	(135)	(56)	(79)	143%
Other gains and losses	47	(0)	47		372	490	(118)	-24%
Share of loss of an associate	-	0	(0)		1	1	(0)	-24%
Share of loss of a joint venture	-	412	(412)		-	1,330	(1,330)	
<b>Profit before tax</b>	<b>4,774</b>	<b>2,409</b>	<b>2,365</b>	<b>98%</b>	<b>10,844</b>	<b>7,064</b>	<b>3,779</b>	<b>53%</b>
% of revenue	22%	15%	7%		18%	15%	3%	
Income taxes	1,585	875	710	81%	4,012	3,637	375	10%
% of revenue	7%	5%	2%		7%	8%	-1%	
<b>Profit for the period</b>	<b>3,189</b>	<b>1,534</b>	<b>1,655</b>	<b>108%</b>	<b>6,831</b>	<b>3,427</b>	<b>3,404</b>	<b>99%</b>
% of revenue	15%	9%	6%		12%	7%	5%	
<b>EBITDA (1)</b>	<b>6,299</b>	<b>3,936</b>	<b>2,363</b>	<b>60%</b>	<b>14,722</b>	<b>11,922</b>	<b>2,800</b>	<b>23%</b>
% of revenue	29%	24%	5%		25%	25%	0%	
Non-controlling interest	40	130	(90)	-69%	247	262	(15)	-6%
<b>Basic EPS</b>	<b>0.05</b>	<b>0.02</b>	<b>0.04</b>	<b>200%</b>	<b>0.10</b>	<b>0.05</b>	<b>0.06</b>	<b>120%</b>
<b>Diluted EPS</b>	<b>0.05</b>	<b>0.02</b>	<b>0.04</b>	<b>200%</b>	<b>0.10</b>	<b>0.05</b>	<b>0.06</b>	<b>120%</b>

## Results of Operations

### Total Revenue

Total Revenue (in RMB'000)	Three months ended September 30,				Nine months ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Gas distribution utility								
- Gas Sales	61,742	34,846	26,896	77%	171,548	117,523	54,025	46%
- Pipeline Installation and Connection	37,009	33,155	3,854	12%	92,738	87,702	5,036	6%
CNG vehicle refueling	16,065	15,651	414	3%	44,162	33,979	10,183	30%
<b>Total Revenue in RMB'000</b>	<b>114,816</b>	<b>83,652</b>	<b>31,164</b>	<b>37%</b>	<b>308,448</b>	<b>239,204</b>	<b>69,244</b>	<b>29%</b>
<b>Total Revenue in CAD'000</b>	<b>21,638</b>	<b>16,394</b>	<b>5,244</b>	<b>32%</b>	<b>59,222</b>	<b>48,080</b>	<b>11,142</b>	<b>23%</b>

Revenue for the three months ended September 30, 2017 was RMB 114.82 million, an increase of RMB 31.16 million, or 25%, from RMB 83.65 million for the same period of 2016.

Revenue for the nine months ended September 30, 2017 was RMB 308.45 million, an increase of RMB 69.24 million, or 29%, from RMB 239.2 million for the same period of 2016.

The nine months ended operating results indicates that the main driver of growth is due to an increased sale of natural gas through pipeline distribution and refueling stations, with an increase of 46% and 30% respectively; growth of revenues from pipeline connections has slowed due to pipeline construction issues.

Sales Volume (m <sup>3</sup> )	Three months ended September 30,				Nine months ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Sanya region	9,229,553	8,417,333	812,220	10%	34,092,034	30,209,678	3,882,356	13%
Xiangdong Region	7,559,885	1,933,118	5,626,767	291%	16,670,821	4,728,975	11,941,846	253%
<b>Total Gas Sales Volume (m<sup>3</sup>)</b>	<b>16,789,438</b>	<b>10,350,451</b>	<b>6,438,987</b>	<b>62%</b>	<b>50,762,855</b>	<b>34,938,653</b>	<b>15,824,202</b>	<b>45%</b>
Changsha CNG	2,029,918	2,027,622	2,296	0%	5,420,489	5,994,871	(574,382)	-10%
Sanya CNG/LNG	1,622,958	1,546,050	76,908	5%	4,577,522	2,214,891	2,362,631	107%
<b>Total Sales Volume (m<sup>3</sup>)</b>	<b>3,652,876</b>	<b>3,573,672</b>	<b>79,204</b>	<b>2%</b>	<b>9,998,010</b>	<b>8,209,762</b>	<b>1,788,248</b>	<b>22%</b>

The increase in revenue is mainly attributable to the growing natural gas sales:

1. Sanya Pipeline Distribution: For the nine months ended, new residential connections totaled 14,626 while new commercial connections totaled 35, contributing to the increase in the sale of natural gas in Sanya.

2. Xiangdong Pipeline Distribution: For the nine months ended September 30, 2017, commercial customers total 89, 27 customers more than 2016 year end, and an accumulated 2824 new residential customers for 2017, all contribute to the sharp increase in natural gas usage in Xiangdong;

3. Changsha CNG Refueling Station: For the three months ended September 30, 2017 gas sales has remained relatively constant. For the nine months ended, gas sales have decreased by 10% mainly due to the government's efforts in increasing the availability of subway lines as well as the rising usage of shared bicycles as a mode of transportation thus reducing the competitiveness of city cabs; city cabs are the main users of CNG refueling stations. Another reason for the gradual decline of revenues from the CNG refueling station is due to the increasing competitiveness in Changsha as the number of CNG refueling stations increase.

4. Sanya CNG Refueling Station: For the three months ended September 30, 2017 gas sales increased slightly, for the nine months ended, gas sales increased 107%. However, due to the gas station only becoming operational in May 2016, this comparative data cannot fully reflect the changes in gas sales. Total quantity of gas sold increased slightly. The CNG refueling station in Sanya uses Kilograms (KG) as the unit of measurement.

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 periods; and revenue from pipeline installation and connection has also grown steadily during the nine months ended September 30, 2017.

**Management's Discussion and Analysis**

For the three and nine months ended September 30, 2017

Gas Sales

## Gas Volume Sold – Sanya Region

Sanya Region Gas volume sold (m <sup>3</sup> )	Three months ended September 30,				Nine months ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Residential customers	1,864,713	1,584,360	280,353	18%	8,717,213	7,268,273	1,448,940	20%
Commercial customers	7,364,840	6,832,973	531,867	8%	25,374,821	22,941,405	2,433,416	11%
<b>Subtotal (Sanya Region)</b>	<b>9,229,553</b>	<b>8,417,333</b>	<b>812,220</b>	<b>10%</b>	<b>34,092,034</b>	<b>30,209,678</b>	<b>3,882,356</b>	<b>13%</b>

Gas sales volume for Sanya Region during the three months ended September 30, 2017 was 9.23 million m<sup>3</sup>, an increase of 0.81 million m<sup>3</sup> or 10%, compared to 8.42 million m<sup>3</sup> for the same period of 2016, of which 1.86 million m<sup>3</sup> was for residential customers at a growth rate of 18% and 7.36 million m<sup>3</sup> was for commercial customers at a growth rate of 8%.

Gas sales volume for Sanya Region during the nine months ended September 30, 2017 was 34.09 million m<sup>3</sup>, an increase of 3.88 million m<sup>3</sup> or 13%, compared to 30.21 million m<sup>3</sup> for the same period of 2016, of which 8.72 million m<sup>3</sup> was for residential customers at a growth rate of 20% and 25.37 million m<sup>3</sup> was for commercial customers at a growth rate of 11%.

Market activity and pricing for Sanya real estate increased significantly beginning from the end of 2016 causing a surge in tourism that increased commercial customers' gas usage. For the nine months ended, 14, 626 new residential customers were added. Comparatively, residential user increase far exceeds commercial customer growth.

Currently residential users have a three-step gas pricing system, gas usage under 260 m<sup>3</sup> is priced at 3.15 RMB/ m<sup>3</sup>, gas usage ranging from 261 m<sup>3</sup> to 390 m<sup>3</sup> is priced at 3.78 RMB/ m<sup>3</sup>, gas usage over 3.91 m<sup>3</sup> is priced at 3.96 RMB/ m<sup>3</sup>. Commercial customers include industrial customers and public services units. Currently commercial customers' gas price is 5.12 RMB/ m<sup>3</sup>, public services units' gas price is at 3.46 RMB/ m<sup>3</sup>; commercial customers mainly consists of motels, hotels, resorts, and restaurants while public services units mainly consists of government buildings, schools, and other state-owned enterprises. There are currently no industrial customers in Sanya.

Gas Sales

## Gas Volume Sold – Xiangdong Region

Xiangdong Region Gas volume sold (m <sup>3</sup> )	Three months ended September 30,				Nine months ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Residential customers	122,680	80,580	42,100	52%	414,438	228,771	185,667	81%
Industrial customers	7,382,983	1,820,388	5,562,594	306%	16,116,456	4,406,007	11,710,449	266%
Commercial customers	54,222	32,150	22,072	69%	139,927	94,197	45,730	49%
<b>Subtotal (Xiangdong District)</b>	<b>7,559,885</b>	<b>1,933,118</b>	<b>5,626,766</b>	<b>291%</b>	<b>16,670,821</b>	<b>4,728,975</b>	<b>11,941,846</b>	<b>253%</b>

Gas sales volume for Xiangdong District during the three months ended September 30, 2017 was 7.56 million m<sup>3</sup>, an increase of 5.63 million m<sup>3</sup> or 291%, compared to 1.93 million m<sup>3</sup> for the same period of 2016, of which 0.12 million m<sup>3</sup> volume of gas were sold to residential customers, 7.38 million m<sup>3</sup> to industrial customers, and 0.05 m<sup>3</sup> to commercial customers. Increase in natural gas usage for residential, industrial, and commercial customers are 52%, 306%, 69% respectively.

Gas sales volume for Xiangdong District during the nine months ended September 30, 2017 was 16.67 million m<sup>3</sup>, an increase of 11.94 million m<sup>3</sup> or 253% compared to 4.73 million m<sup>3</sup> for the same period of 2016, of which 0.41 million m<sup>3</sup> volume of gas were sold to residential customers, 16.12 million m<sup>3</sup> to industrial customers, and 0.14 m<sup>3</sup> to commercial customers. Increase in natural gas usage for residential, industrial, and commercial customers are 81%, 266%, 49% respectively.

Industrial customers comprise of the core of natural gas sales in the Xiangdong district. In 2017, industrial customers increased by 18, including the largest ceramic manufacturer in Xiangdong. The Pingxiang government

For the three and nine months ended September 30, 2017

issued an official mandate to close all the two stage coal gas furnaces by June 30, 2017, thereby contributing to the increased natural gas usage.

### Gas Sales

#### Gas Sales Revenue

Gas sales revenue (in RMB'000)	Three months ended September 30,				Nine months ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Sanya	43,226	29,432	13,794	47%	129,248	104,585	24,663	24%
Xiangdong	18,516	5,414	13,102	242%	42,300	12,938	29,362	227%
<b>Total</b>	<b>61,742</b>	<b>34,846</b>	<b>26,896</b>	<b>77%</b>	<b>171,548</b>	<b>117,523</b>	<b>54,025</b>	<b>46%</b>

The increase of quantity of gas sold directly resulted in the increase of gas sales revenue.

For the three months ended September 30, 2017, natural gas sales totals RMB 61.74 million, an increase of RMB 26.7 million or 77% compared to RMB 34.85 million for the same period ending in 2016. For the nine months ended September 30, 2017, natural gas sales totals RMB 171.55 million, an increase of RMB 54.03 million or 46% compared to RMB 117.52 million for the same period ending in 2016.

For the three months and nine months ended September 30, 2017, natural gas sales revenue in the Sanya region increased by 47% and 24% respectively. The revenue growth is increasing more than the growth of gas sales volume due to the natural gas price hike which began on May 1, 2017. The price hike increased gas prices for residential customers from 2.6 RMB/m<sup>3</sup> to 3.15 RMB/ m<sup>3</sup>, public services units from 2.86 RMB/ m<sup>3</sup> to 3.46 RMB/ m<sup>3</sup>, commercial customers from 4.7 RMB/ m<sup>3</sup> to 5.12 RMB/ m<sup>3</sup>.

For the three months and nine months ended September 30, 2017, Xiangdong natural gas sales revenue increased by 242% and 227% respectively. The annual natural gas sales revenue for the Xiangdong region has significantly risen.

### Pipeline Installation and Connection

Sanya Region	Three months ended September 30,				Nine months ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
<b>Customers newly connected</b>								
Residential customers	7,923	3,841	4,082	106%	15,800	21,472	(5,672)	-26%
Commercial customers	17	13	4	31%	39	57	(18)	-32%
<b>Total customers connected</b>								
Residential customers	215,875	180,482	35,393	20%	215,875	180,482	35,393	20%
Commercial customers	924	870	54	6%	924	870	54	6%
<b>Xiangdong Region</b>								
<b>Customers newly connected</b>								
Residential customers	166	415	(249)	-60%	1124	710	414	58%
Industrial customers	12	4	8	200%	19	19	-	0%
Commercial customers	3	3	-	0%	9	10	(1)	-10%
<b>Total customers connected</b>								
Residential customers	3,673	2,209	1,464	66%	3,673	2,209	1,464	66%
Industrial customers	48	26	22	85%	48	26	22	85%
Commercial customers	35	21	14	67%	35	21	14	67%
<b>Pipeline connection revenue</b> (in RMB'000)								
Sanya	36,018	30,613	5,405	18%	90,330	84,479	5,851	7%
Xiangdong	991	2,542	(1,551)	-61%	2,408	3,223	(815)	-25%
<b>Total</b>	<b>37,009</b>	<b>33,155</b>	<b>3,854</b>	<b>12%</b>	<b>92,738</b>	<b>87,702</b>	<b>5,036</b>	<b>6%</b>

Pipeline installation and connection revenue for the three months ended September 30, 2017 was RMB 37.01 million, an increase of RMB 3.85 million or 12%, from RMB 33.16 million for the same period of 2016. Pipeline

For the three and nine months ended September 30, 2017

installation and connection revenue for the nine months ended September 30, 2017 was RMB 92.74 million, an increase of RMB 5.04 million or 6%, from RMB 87.7 million for the same period of 2016.

For the three months ended September 30, 2017 in the Sanya region, 7923 new residential customers and 17 new commercial customers were connected, resulting in an increase in growth of 106% and 31% respectively. For the nine months ended September 30, 2017 in the Sanya region, 15,800 new residential customers and 39 new commercial customers were connected, a decrease of 26% and 32% in growth respectively. Despite the decrease in connected customers, revenue has maintained growth due to the increase of pricing. Beginning from May 20, 2017, pipeline connection and installation fee for residential customers rose from 2200 RMB/unit to 3200 RMB/unit, fee for commercial customers declined to 90% of the original pricing; residential customers comprise of more revenue resulting in the overall increase in pipeline connection and installation revenue.

For the three months ended September 30, 2017 in the Xiangdong area, 166 new residential customers and 3 new commercial customers were connected. For the nine months ended September 30, 2017 in the Xiangdong area, 1124 new residential customers, 9 new commercial customers, and 19 new industrial customers were connected. The total number of connections and installations has increased; however, installation revenues have declined due to pricing policies set in place. To quickly gain market share, installation for industrial customers is free of charge, for individual residential and group residential installations, the fee is 3400 RMB/unit and 2900 RMB/unit respectively. The natural gas sales of the region have dramatically increased, evidencing the effectiveness of the pricing strategy on installation fees.

### **CNG vehicle refueling stations**

CNG Sales Volume (m <sup>3</sup> )	Three months ended September 30,				Nine months ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Changsha CNG	2,029,918	2,027,622	2,296	0%	5,420,489	5,994,871	(574,382)	-10%
Sanya CNG/LNG	1,622,958	1,546,050	76,908	5%	4,577,522	2,214,891	2,362,631	107%
<b>Total Sales Volume (m<sup>3</sup>)</b>	<b>3,652,876</b>	<b>3,573,672</b>	<b>79,204</b>	<b>2%</b>	<b>9,998,010</b>	<b>8,209,762</b>	<b>1,788,248</b>	<b>22%</b>

  

CNG Sales Revenue (in RMB'000)	Three months ended September 30,				Nine months ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Revenue in RMB								
Changsha CNG	7,709	7,899	(190)	-2%	20,371	22,772	(2,401)	-11%
Sanya CNG/LNG	8,356	7,753	603	8%	23,791	11,207	12,584	112%
<b>Total Revenue</b>	<b>16,065</b>	<b>15,652</b>	<b>412</b>	<b>3%</b>	<b>44,162</b>	<b>33,979</b>	<b>10,183</b>	<b>30%</b>

Total revenue from CNG refueling retail stations for the three months ended September 30, 2017 was \$16.06 million, an increase of \$0.41 million, or 3%; Total revenue from CNG refueling retail stations for the nine months ended September 30, 2017 was RMB 44.16 million, an increase of RMB 10.18 million, or 30%;

The decrease of Changsha station was mainly due to market competition causing decreased sales volume and sales revenue.

The Sanya station has performed well, experiencing slight increase in revenue. For the three months ended September 30, 2017, sales volume increased by 76,908 KG or 5% for the same period, sales revenue increased by RMB 600,000 or 8%; revenue growth outpacing growth of sales volume due to the increase of pricing from an average of 5.72 RMB/KG in 2016 to an average of 5.88 RMB/KG in 2017. Due to the Sanya station being only operational from May 2016 onwards, a nine-month ended comparison would not reflect accurate changes in revenue.

### **Foreign exchange rates**

Changfeng reports its financial results in RMB and earns all of its revenues and incurs most of its expenses in Chinese RMB. As the Company is listed in TSXV Canada, for financial information or comparative analysis presented in Canadian dollars, fluctuation in exchange rate should also be considered.

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

**Management's Discussion and Analysis**

For the three and nine months ended September 30, 2017

One Chinese RMB to Canadian dollars	Q3 2017	Q3 2016	% change	Nine months ended September 30, 2017	Nine months ended September 30, 2016	% change
Spot rate at the end of the period	0.1876	0.1967	-4.6%	0.1876	0.1967	-4.6%
Average rate for the period	0.1878	0.1965	-4.4%	0.1920	0.2010	-4.5%

**Gross margin**

Gross profit for the three months ended September 30, 2017 was RMB 49.45 million, increased RMB 14.32 million, or 41%, compared to the same period in 2016. Gross profit was RMB 129.18 million, an increase of RMB 22.50 million or 21% for the nine months ended September 30, 2017 compared to the same period in 2016. The gross margin for the 2017 nine months ended period is 42% a 3% decrease from the 45% gross margin for the same period in 2016.

**Operating Expenses**

**General and administrative expenses** for the three months ended September 30, 2017 were RMB 15.56 million, an increase of RMB 0.23 million, or 2%, from RMB 15.33 million in the same period of 2016. For the nine months ended September 30, 2017, general and administrative expenses were RMB 46.93 million, an increase of RMB 3.24 million, or 7% from the same period of 2016. General and administrative expenses as a percentage of sales for the three-month and nine-month periods ended June 30, 2017 were 14% and 15%, compared to 18% and 18% for the same periods of 2016, respectively.

**Selling and marketing expenses** for the three months ended September 30, 2017 were RMB 4.38 million, an increase of RMB 0.89 million, or 26%, from RMB 3.49 million in the same period of 2016. Selling and marketing expenses for the nine months ended September 30, 2017 were RMB 15.84 million, an increase of RMB 2.77 million, or 21%, from RMB 13.07 million in the same period of 2016. As a percentage of sales, selling and marketing expenses for the nine months ended September 30, 2017 maintained the same of 5% as that of the same period of 2016. These expenses normally fluctuate with travel and business development activities in mainland China as the Company seeks to develop new projects such as the joint venture project with the EDF group. Another reason for the increase in selling and marketing expenses is due to the costs associated with the preparation of the Sanya International Energy Forum.

**Finance costs**

Finance costs of RMB 1.29 million for the three months ended June 30, 2017, a decrease of RMB 0.65 million, or 34%, from RMB 1.94 million of the same period of 2016. Finance costs of RMB 4.68 million for the nine months ended September 30, 2017 was a decrease of RMB 1.31 million compared to RMB 5.99 million for the same period of 2016.

The cost of financing decreased due to partial repayment of debt outstanding thereby decreasing the interests accrued as well as the capitalization of interest on the RMB 80 million long term debt.

**EBITDA**

EBITDA (non-IFRS measure as identified and defined under section "Non-IFRS Measures") for three months ended September 30, 2017 was RMB 33.29 million, an increase of RMB 13.59 million, or 69% from RMB 19.70 million for the same period of 2016. EBITDA for the nine months ended September 30, 2017 was RMB 76.67 million, an increase of RMB 17.36 million, or 29%, from RMB 59.31 million for the same period of 2016.

**Profit for the period**

Net profit for the three months ended September 30, 2017 was RMB 16.82 million, or RMB 0.26 per share (basic and diluted) with compared to net profit of RMB 7.76 million for the same period of 2016. Net profit for the nine months ended September 30, 2017 was RMB 35.58 million, or RMB 0.54 per share (basic and diluted) with compared to RMB 17.05 million or RMB 0.25 per share (basic and diluted) for the same period in 2016.

## Selected Quarterly Results

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

Quarterly data (RMB '000) except per share amounts	2017			2016			2015	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Foreign exchange rate RMB to Canadian dollars	0.1878	0.1961	0.1921	0.1996	0.1965	0.1972	0.2101	0.2034
Revenue	114,816	96,886	96,746	116,763	83,652	78,457	77,095	91,207
Gross profit	49,449	33,892	45,841	43,354	35,125	31,066	40,488	32,673
Profit (loss)	16,820	7,634	11,128	4,274	7,756	(697)	9,993	9,297

## Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
(RMB000's)	30-Sep-17	31-Dec-16
Cash	128,694	142,377
Working capital (deficit)	(54,388)	(80,724)
Adjusted working capital deficit (note1)	51,639	24,367
Plant and equipment	407,567	385,654
Total assets	629,743	627,060
Long term liabilities	152,789	145,817
Shareholders' equity	235,510	192,010

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

Cash decreased by RMB 13.21 million to RMB 128.69 million at September 30, 2017 from RMB 142.37 million at December 31, 2016, primarily resulting from cash provided by operating activities of RMB 68.25 million, cash from bank indebtedness of RMB 20.00 million, cash from long term bank loan of RMB 20.00 million, and proceedings from stock option exercise of RMB 3.20 million, offset by repayments of short-term bank borrowing of RMB 30.00 million and of long-term bank loan of RMB 15.75 million, as well as a repayment of related party loan of RMB 36.00 million and cash dividend payment of RMB 3.30 million. Cash also used for acquisition of property and equipment of RMB 34.21 million and deposit of RMB 7.19 million.

### Adjusted Working Capital

The adjusted working capital (see "Non-IFRS Financial Measures") was RMB 51.64 million at September 30, 2017. Adjusted working capital excludes RMB 76.05 million of receipts in advance from customers in connection with gas connection fees and RMB 29.98 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 four term loans into which Changfeng entered in 2010, 2012, 2013 and 2016, 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.

**Management's Discussion and Analysis**

For the three and nine months ended September 30, 2017

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*

	September 30, 2017 RMB'000	December 31, 2016 RMB'000
Bank borrowings		
- Secured, with variable rate	158,758	149,518
- Unsecured, with variable rate	6,250	11,000
	<u>165,008</u>	<u>160,518</u>
The carrying amounts of the above borrowings are repayable:*		
Within one year	27,000	28,000
Within a period of more than one year, but not exceeding two years	23,250	27,000
Within a period of more than two years, but not exceeding five years	45,000	52,000
Within a period of more than five years	70,000	54,000
	<u>165,250</u>	<u>161,000</u>
Less: Unamortized transaction costs	(242)	(482)
	<u>165,008</u>	<u>160,518</u>
Less: Amounts due within one year shown under current liabilities	(27,000)	(28,000)
Amounts shown under non-current liabilities	<u>138,008</u>	<u>132,518</u>

\* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The Group's long-term debts comprise:

<u>Lender</u>	<u>Secured/ unsecured</u>	<u>Contractual interest rate</u>	<u>Effective interest rate</u>		<u>Carrying amount</u>		<u>Note</u>
			September 30, 2017	December 31, 2016	September 30, 2017 RMB'000	December 2016 RMB'000	
31, Bank of China, Sanya	Secured	5-year People's Bank of China ("PBOC") benchmark borrowing rate, repricing every 6 months	4.9%	4.9%	49,758	59,518	(a)
Bank of China, Sanya	Secured	110% of 5-year PBOC benchmark borrowing rate, repricing every 6 months	5.4%	5.4%	29,000	30,000	(b)
Bank of China, Sanya	Secured	10-year PBOC benchmark borrowing rate, repricing every 12 months	4.9%	4.9%	80,000	60,000	(c)
Bank of China, Pingxiang	Unsecured	120% of 5-year PBOC benchmark borrowing rate, repricing every 3 months	5.9%	5.9%	6,250	11,000	(d)
Total long-term debts					<u>165,008</u>	<u>160,518</u>	

Notes:

- a. The term loan from Bank of China, Sanya with an original principal amount of RMB100.0 million was drawn upon in 2010. The loan is secured by 60% of the equity interest in CF China together with the gas connection and gas supply rights of CF China. The loan is repayable semi-annually by instalments and will be fully repaid in 2019.
- b. In 2013, the Group entered into an agreement with Bank of China, Sanya to secure a bank loan facility in the amount of RMB40.0 million. The bank loan facility was used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City, the PRC. The loan is secured by 60% of the equity interest in CF China together with the gas connection and gas supply rights of CF China and the trade receivables from 2012 to 2022 of CF China and CF Engineering. The loan is repayable semi-annually by instalments and will be fully repaid in 2023.
- c. In 2016, the Group entered into an agreement with Bank of China, Sanya to secure a bank loan facility in the amount of RMB80.0 million. The bank loan facility was used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City, the PRC. The loan has a 10-year term from the date of the first initial withdrawal. The loan is secured by the gas connection and gas supply rights of CF China, the trade receivables of CF China and CF Engineering and certain property and equipment with an aggregate amount of RMB56.8 million. The loan will begin repayment from 2019 and will be fully repaid in 2025.
- d. In 2012, the Group entered into a term loan with the Bank of China, Pingxiang for RMB20.0 million, maturing six years from the date of the first withdrawal. The proceeds from the loan would be used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang city, Jiangxi province, the PRC. The loan is repayable by four instalments annually and will be fully repaid in 2018.

*Credit Agreement*

The Group's short-term bank borrowings comprise:

Lender	Secured/unsecured	Contractual interest rate	Effective interest rate		Carrying amount		Note	
			September 30, 2017	December 31, 2016	September 30, 2017 RMB'000	December 31, 2016 RMB'000		
Bank of China, Sanya	Unsecured	Fixed interest rate at 4.35%	4.35%	-	20,000	-	(a)	
Bank of China (Canada)	Secured	6-month-month LIBOR plus 250 basis point	3.8%	2.3%	9,979	10,435	(b)	
China Everbright Bank, Haikou	Unsecured	Fixed interest rate at 4.4%	-	4.4%	-	30,000	(c)	
Total short-term bank borrowings						<u>29,979</u>	<u>40,435</u>	

Notes:

- a. In 2017, the Group entered into 1-year facility line of credit with Bank of China Sanya with an aggregate amount of RMB20.0 million. RMB20.0 million is withdrawn by the Group during the period ended June 30, 2017.
- b. The 1-year term loan from Bank of China (Canada) is denominated in United States dollars ("USD") with a principal amount of USD1.5 million and is secured by a pledged bank deposit to of RMB1.0 million (2016: RMB10.0 million).
- c. In 2016, the Group entered into 1-year facility line of credit with China Everbright Bank Haikou with an aggregate amount of RMB50.0 million.

As at September 30, 2017 and December 31, 2016, the Group was in compliance with all of its debt covenants.

#### *Cash flow from operations*

Net cash provided by operations was RMB 68.25 million for the nine months ended September 30, 2017 compared to RMB 48.82 million for the same period of 2016.

#### *Cash Flow from Financing Activities*

Cash from financing activities during the nine months ended September 30, 2017 primarily included cash withdrawals of RMB 20.00 million from long term bank loan and RMB 20.00 million from short term bank loan, and proceeds on exercised options of RMB 3.20 million, offsetting by repayments of RMB 15.75 million for long-term loan and of RMB 30.00 million for bank indebtedness, as well as a repayment of related party loan of RMB 36.00 million and a cash dividend payment of RMB 3.30 million.

#### *Investing Activities*

Cash used in investing activity included capital expenditures of RMB 7.19 million for deposit and RMB 34.21 million for acquisition of property and equipment for the nine months ended September 30, 2017 compared to RMB 1.27 million for deposit and RMB 38.33 million for acquisition for the same period of 2016. The capital expenditures were mainly related to the purchase of equipment and on-going construction of pipeline networks to connect new customers in the Sanya region and Xiangdong.

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, Sanya and BOC, Pingxiang, as well as operating cash flow from its existing operations.

### **Contractual Obligations and Commitments**

As of September 30, 2017, there have been no significant changes to contractual obligations and commitments since December 31, 2016.

### **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 64,035,035 common shares outstanding, 5,500,150 stock options outstanding and exercisable at a weighted average exercise price of CAD0.49 per share. The Company has no warrants outstanding.

### **Non-IFRS Financial Measures**

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

**EBITDA**

EBITDA is defined herein as income before income tax expense, interest expense, depreciation and amortization, share of loss of investment in associate and joint venture, 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 profit to EBITDA for each of the periods presented in this MD&A as follows:

In RMB thousands (except for % figures)	Three months ended September 30,				Nine months ended September 30,			
	2017	2016	Change	%	2017	2,016	Change	%
Net profit for the period	16,820	7,756	9,064	-117%	35,580	17,052	18,528	109%
Add (less):								
Income tax	8,391	4,536	3,855	85%	20,897	18,094	2,803	15%
Interest (income) loss	(189)	(73)	(116)	159%	(704)	(277)	(427)	154%
Share of loss of an associate	1	2	(1)	-50%	4	5	(1)	-20%
Share of loss of a joint venture	-	2,113	(2,113)	100%	-	6,617	(6,617)	100%
Stock-based compensation	2,931	-	2,931	100%	4,023	-	4,023	100%
Amortization	4,038	3,424	614	18%	12,197	11,828	369	3%
Interest on borrowing	1,293	1,937	(644)	-33%	4,678	5,993	(1,315)	-22%
<b>EBITDA</b>	<b>33,285</b>	<b>19,695</b>	<b>13,590</b>	<b>69%</b>	<b>76,675</b>	<b>59,312</b>	<b>17,363</b>	<b>29%</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:

In RMB thousands		
As at	30-Sep-17	31-Dec-16
Current assets	187,056	208,509
Less: Current liabilities	241,444	289,233
Working capital (deficit)	(54,388)	(80,724)
Add: Receipts in advance from customers	76,048	64,656
Short-term bank loans	29,979	40,435
<b>Adjusted working capital</b>	<b>51,639</b>	<b>24,367</b>

**Financial Instruments**

The Company's major financial instruments include available-for-sale financial assets, trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to an ultimate controlling shareholder and related parties, and short-term bank borrowings and long-term debts. Details of these financial statements are disclosed in the respective notes. The risks associated with these financial instruments include market risks (foreign exchange risk, commodity price risk and interest rate risk), credit risk

and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## **Related Parties Transactions**

### **Other payable to an ultimate controlling shareholder**

The amount was unsecured, non-interest bearing, subordinated to the claims of all other creditors, including unsecured creditors of the Group and were due on demand only after April 27, 2017. In 2007, companies controlled by Mr. Lin advanced loans in the aggregate amount of RMB 40,000,000 to the Company, 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. 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 Group 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.

On November 7, 2016, these loans were transferred to Mr. Lin by the lenders.

On June 30, 2017, in the Company's annual and special meeting of shareholders, shareholders voted in favour of an ordinary resolution to approve a Loan Discharge Agreement pursuant to which, among other things, Changfeng will repay indebtedness owed to Mr. Huajun Lin, the majority shareholder and Chair and Chief Executive Officer of the Corporation, and a related party of the Corporation, for an aggregate amount of Chinese RMB 36,000,000. In addition, if the dual-listing of the Company's common shares on the Stock Exchange of Hong Kong Limited (the "HKSE") has not been completed on or prior to June 28, 2019, the Company shall have the right for a period of ninety (90) day following June 28, 2019 to require that the Lender, directly or indirectly, subscribe for common shares of the Corporation, in a minimum amount of Chinese RMB 36,000,000 or its Canadian dollar equivalent (the "Right"). The subscription price for such common shares shall be the volume weighted average price of the common shares of the Company on the TSX Venture Exchange (or any other exchange on which such common shares are then trading (collectively the "Exchange")) for the 30 trading days immediately prior to June 28, 2019 subject to Exchange and other applicable regulatory approvals. For greater certainty, the Corporation shall not have the right to request such investment if the Lender has otherwise invested Chinese RMB 36,000,000 in common shares or other securities of the Company prior to June 28, 2019 through a private placement or public offering of common shares by the Company. The difference of RMB 4,000,000 between the original value of RMB 40,000,000 and the settlement value of RMB 36,000,000 was recorded as a contributed surplus in the equity for the period in 2017. The value of the Right has been estimated to be nil as management believes the chance for the Right to be exercised is very small.

As at September 30, 2017, the Company has fully made the repayment of the related party loan to Mr. Lin, in amount of RMB 36,000,000.

### **Amounts due from (to) related parties**

<u>Name of related parties</u>	<u>Relationship</u>	<u>Terms</u>	September 30, <u>2017</u> RMB'000	December 31 <u>2016</u> RMB'000
Shin-Ko Energy	Associate	Non-trade, unsecured, non-interest bearing and repayable on demand	(4,249)	(4,249)

## **Acquisitions & Divestitures**

### ***Pingxiang Project***

On November 22, 2017, Sanya Changfeng New Energy Investment Co., Ltd., a wholly-owned, Chinese subsidiary of Changfeng Energy Inc, and Hunan Zhongyou Gas Co., Ltd. ("Zhongyou Gas"), the joint shareholders of Pingxiang Changfeng Gas Co., Ltd., which invests in and operates the natural gas distribution project in Pingxiang District and the Ceramic Industry Park (the "Pingxiang Project"), have entered into an Equity Restructuring Agreement (the "Agreement") with Xin'ao Gas Development Co. Ltd. and Xin'ao Gas (China) Investment Co., Ltd. (collectively, "Xin'ao Gas") with respect to the Pingxiang Project.

The Agreement provides that, upon the completion of the equity restructuring, i) the registered capital of the Project Company will increase from the current registered capital of RMB 20,000,000 to a registered capital of RMB 80,000,000; ii) Xin'ao Gas will infuse capital into the Project Company, resulting in a dilution of Changfeng's indirect 75.5% interest in the Project Company to 40%; iii) the Project Company will repay an outstanding loan of RMB 46,767,800 owing to Changfeng; and iv) Xin'ao Gas will acquire the 24.5% interest of the Project Company held by Zhongyou Gas by way of a cash payment, and as a result hold an aggregate 60% interest in the Project Company. The value of the transaction is based on an independent third-party valuation.

The Agreement also provides that Xin'ao Gas has the right but not the obligation to require Sanya Changfeng and Zhongyou Gas to repay Xin'ao Gas the full amount of the infused capital and repurchase its interest in the Project Company if: i) the Project Company fails to sign a Concession Agreement (in the form issued by the Ministry of Housing and Urban-Rural Development of the PRC); or ii) the operation of the Project Company is suspended as a result of failing to sign the above noted Concession Agreement within two years from the date the Agreement is signed.

The transaction is in support of Changfeng's intention to strategically shift its corporate focus towards sustainable energy in combination with natural gas to become an integrated energy provider in the PRC. The introduction of Xin'ao Gas as the majority shareholder of the Pingxiang Project will free up the Company's cash flow and human capital to undertake projects in alignment with Changfeng's strategic goals.

## **Risk Analysis & Management**

### ***Substitute Risk***

- In Sanya, some small commercial clients are using ethanol as a substitute for natural gas. This poses minimal risk to Changfeng's overall operations in Sanya however, as large commercial clients cannot use ethanol as a substitute.
- The CNG refueling stations in Changsha and Sanya are facing more competition from increased refueling stations as the local governments increased the allotted number of refueling stations that can be built. This will have a negative impact to the current refueling station operations in the long term but considering this constitutes a small part of Changfeng's revenues, it will not affect the overall business outlook.

### ***Currency Risk***

- Changfeng uses natural gas supplied by CNOOC and therefore the transactions are subject to USD currency rates. The fluctuations in USD: RMB currency exchange rate affects the margins of the Sanya natural gas distribution operations.

## **Events After the Reporting Period**

On November 9th, 2017, the joint venture company between Sanya Changfeng New Energy Investment Co., Ltd. ("the Company"), a wholly owned subsidiary of Changfeng Energy Inc., and EDF (China) Holding Ltd., a wholly owned subsidiary of the EDF Group was established. For more information, refer to the press release "Changfeng Energy Announces Collaboration with WISE" announced on November 14, 2017.

In November 2017, Changfeng signed a ten (10) years agreement with WISE (Waterloo Institution of Sustainable Energy) of Waterloo University. According to the agreement, WISE will provide technical support and advice to Changfeng for its future projects in China and North America in the field of sustainable energy. For more information, refer to the press release "Changfeng Energy Announces Collaboration with WISE" announced on November 20, 2017

On November 22, 2017, Sanya Changfeng New Energy Investment Co., Ltd., a wholly-owned, Chinese subsidiary of Changfeng Energy Inc, and Hunan Zhongyou Gas Co., Ltd. ("Zhongyou Gas"), the joint shareholders of Pingxiang Changfeng Gas Co., Ltd., which invests in and operates the natural gas distribution project in Pingxiang District and the Ceramic Industry Park (the "Pingxiang Project"), have entered into an Equity Restructuring Agreement (the "Agreement") with Xin'ao Gas Development Co. Ltd. and Xin'ao Gas (China) Investment Co., Ltd. (collectively, "Xin'ao Gas") with respect to the Pingxiang Project. For more information, refer to section "Acquisitions & Divestitures – Pingxiang Project" or the press release "Changfeng Introduces Strategic Partner for Pingxiang Project" announced on November 23<sup>rd</sup>, 2017.

In November, the Company entered into a RMB 20 million short-term loan agreement with Bank of China Sanya branch. The proceeds will be used towards the year-end prepaid LNG account.

## **Business Outlook**

### ***Shift in Strategic Focus***

In 2017, Changfeng began a three-year plan to strategically shift its corporate focus to sustainable energy in combination with natural gas to become an integrated energy provider in the PRC. Changfeng has always strived to provide natural gas to our customers, a cleaner alternative to coal since the company's inception over 20 years ago. As the Chinese economy now moves away from fossil dependency in correspondence with central government guidance, Changfeng looks to sustainable energy and clean technology to complement the usage of natural gas. The following three sectors will be Changfeng's main business lines in the next three (3) years from 2017-2019: a) natural gas downstream distribution, including urban city pipeline gas distribution, gas refueling stations; b) integrated smart energy system to distribute power, heat, cooling, and hot water; c) natural gas mid-stream infrastructure.

Huajun Lin, the Company's CEO and Chairman of the Board states that "The Chinese energy market is rapidly transforming under the guidance of the Chinese central government. Changfeng must adapt to the new market conditions early on and move to not only to survive but to thrive in the new environment. Since 2016, we began the process to IPO on the Hong Kong Stock Exchange. Changfeng engaged Guangfa Capital (Hong Kong) Limited as the sponsor and more recently engaged consultants to strengthen the company's internal controls as well as assist with corporate restructuring. The move to list on the HKex will not only provide more liquidity for our shareholders but will also provide a new financing platform with which Changfeng can fund its aggressive growth strategy moving forward. With Changfeng's experienced management team, dependable strategic partners, and innovative corporate culture, I am confident that we will emerge as a leader in the Chinese energy market."

### ***Natural Gas Downstream Distribution***

Natural gas distribution will continue to be the cornerstone of Changfeng, providing the foundation necessary for the company's growth. Given the central government guidance to move the Chinese economy away from coal consumption, natural gas becomes the cleaner and more efficient alternative. In addition to ongoing operations and projects under development, Changfeng will continue to expand its natural gas distribution project portfolio. However, the management team now looks to invest into projects that are either already or soon to be generating cash flow.

### ***Integrated Smart Energy Systems***

Integrated Smart Energy refers to combining the usage of multiple clean energy sources in an integrated system to generate power. Energy sources used in the system can include solar, wind, hydroelectricity, electricity, natural gas, and thermal energy. Depending on the geography, weather conditions, and energy supply of a given region, the energy sources used in the system will vary. Combining the use of multiple energy sources in a single system allows for the use of specific energy sources at different times depending on the energy availability and price, creating maximum efficiency in energy usage. The deployment of integrated smart energy systems does not interfere with existing electricity/natural gas operators' franchise rights. Furthermore, the increased energy efficiency and use of sustainable energy sources is in line with China's central government guidance and therefore receives strong support from local governments.

On August 2nd, 2016, Changfeng entered into a Statement of Intent for Cooperation with the Sanya municipal government and EDF (China) Holding Ltd., a wholly owned subsidiary of the EDF Group to jointly pursue the integrated smart energy system program in Sanya City, Hainan Province. The tender for the project and the 30 year operating franchise right for the Sanya Haitang Bay region was officially awarded to EDF (China) Holding Ltd. and Changfeng on August 8, 2017; the joint venture was established on November 9, 2017. The construction of the facilities will begin at the end of 2017. Phase one of the first station will be completed by mid 2018 and operational thereafter. The Company will use its internal cash flow to invest into the joint venture. The Company is currently working with the local government to acquire the land necessary for the energy station. Once the Haitang Bay pilot project is proven successful, Changfeng looks to expand the energy efficient system to cities in Hainan and Guangdong province where Changfeng has based its current operations as well as cities in Northern China, specifically in Hebei province, where the central Chinese government will focus its efforts to alleviate pollution.

In November 2017, the Company signed a ten (10) years agreement with WISE (Waterloo Institution of Sustainable Energy) of Waterloo University. According to the agreement, WISE will provide technical and research support to Changfeng for its future projects in China and North America in the field of sustainable energy. The Waterloo Institute for Sustainable Energy (WISE) is a recognized leader in promoting innovation through research in the development and deployment of advanced sustainable energy systems. More than 110 University of Waterloo faculty members from the faculties of Engineering, Science, Environment, and Mathematics are engaged in WISE undertaking leading edge research in sustainable energy. Together with WISE, Changfeng will put leading research into action and help transform China into a low carbon, energy efficient economy.

### ***CNG Refueling Stations***

The management team will only consider further investment into CNG refueling stations if the projects are expected to achieve similar profitability projections as the two current refueling stations in operation in Sanya and Changsha.

### ***Natural Gas Midstream Infrastructure***

In addition to the Guangdong pipeline project under development, Changfeng may invest in other natural gas related infrastructure projects in the next three years.