

CHANGFENG ENERGY INC.

Interim Condensed Consolidated Financial Statements  
Three-month and nine-month periods ended September 30, 2017 and 2016  
(Unaudited)

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor. The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME  
FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

	Three-month period ended September 30,		Nine-month period ended September 30,	
	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (restated)	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (restated)
Revenue (note 6)	114,816	83,652	308,448	239,204
Cost of sales	<u>(65,367)</u>	<u>(48,527)</u>	<u>(179,266)</u>	<u>(132,525)</u>
Gross profit	49,449	35,125	129,182	106,679
Other income	189	73	704	277
Other gains and losses	(260)	(32)	(1,938)	(2,436)
Selling and marketing expenses	(4,379)	(3,488)	(15,837)	(13,074)
General and administrative expenses	(15,563)	(15,334)	(46,929)	(43,685)
Stock-based compensation (note 19)	(2,931)	-	(4,023)	-
Finance costs	(1,293)	(1,937)	(4,678)	(5,993)
Share of loss of an associate (note 10)	(1)	(2)	(4)	(5)
Share of loss of a joint venture	<u>-</u>	<u>(2,113)</u>	<u>-</u>	<u>(6,617)</u>
Profit before tax	25,211	12,292	56,477	35,146
Income tax expense (note 7)	<u>(8,391)</u>	<u>(4,536)</u>	<u>(20,897)</u>	<u>(18,094)</u>
Profit for the period	<u>16,820</u>	<u>7,756</u>	<u>35,580</u>	<u>17,052</u>
Other comprehensive expense: <i>Items that may be reclassified subsequently to profit or loss:</i>				
Fair value change on - Available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income	<u>16,820</u>	<u>7,756</u>	<u>35,580</u>	<u>17,052</u>
Profit for the year attributable to				
- Owners of the Company	16,607	7,099	34,291	15,747
- Non-controlling interests	<u>213</u>	<u>657</u>	<u>1,289</u>	<u>1,305</u>
	<u>16,820</u>	<u>7,756</u>	<u>35,580</u>	<u>17,052</u>
Total comprehensive income attributable to				
- Owners of the Company	16,607	7,099	34,291	15,747
- Non-controlling interests	<u>213</u>	<u>657</u>	<u>1,289</u>	<u>1,305</u>
	<u>16,820</u>	<u>7,756</u>	<u>35,580</u>	<u>17,052</u>
	RMB	RMB	RMB	RMB
Earnings per share (note 9)				
- Basic	0.26	0.11	0.54	0.25
- Diluted Basic	0.26	0.11	0.54	0.25

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION  
 AT SEPTEMBER 30, 2017 AND DECEMBER 31, 2016

	<u>NOTES</u>	<u>September 30</u> <u>2017</u> RMB'000	<u>December 31,</u> <u>2016</u> RMB'000
<b>NON-CURRENT ASSETS</b>			
Property and equipment		407,567	385,654
Long-term lease prepayments		16,225	16,225
Intangible assets		4,137	3,504
Interest in an associate	10	4,653	4,657
Available-for-sale financial assets		-	726
Long-term deposits and advances	12	10,105	7,785
		<u>442,687</u>	<u>418,551</u>
<b>CURRENT ASSETS</b>			
Current portion of long-term lease prepayments		1,271	1,271
Inventories		4,521	4,765
Amounts due from customers for contract work		13,703	17,827
Trade receivables	11	13,427	16,254
Other receivables, prepaid expenses and deposits	12	24,433	25,010
Pledged bank deposits		1,007	1,005
Bank balances and cash		128,694	142,377
		<u>187,056</u>	<u>208,509</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	50,474	62,084
Other payable to an ultimate controlling shareholder	14	-	40,000
Amounts due to related parties		4,249	4,249
Receipts in advance from customers		76,048	64,656
Amounts due to customers for contract work		37,138	37,138
Income tax payable		16,556	12,671
Short-term bank borrowings	15	29,979	40,435
Current portion of long-term debts	16	27,000	28,000
		<u>241,444</u>	<u>289,233</u>
<b>NET CURRENT LIABILITIES</b>		<u>(54,388)</u>	<u>(80,724)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>388,299</u>	<u>337,827</u>
<b>NON-CURRENT LIABILITIES</b>			
Long-term debts	16	138,008	132,518
Deferred income - government grants	17	4,976	5,154
Deferred tax liabilities		9,805	8,145
		<u>152,789</u>	<u>145,817</u>
<b>NET ASSETS</b>		<u>235,510</u>	<u>192,010</u>

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION  
AT SEPTEMBER 30, 2017 AND DECEMBER 31, 2016

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	<u>NOTES</u>	<u>September 30,</u> <u>2017</u> RMB'000	<u>December 31,</u> <u>2016</u> RMB'000
CAPITAL AND RESERVES			
Share capital	18	65,382	60,277
Contributed surplus		19,651	13,765
Statutory surplus reserves		32,957	32,957
Investment revaluation reserves		-	(129)
Retained earnings		<u>107,628</u>	<u>76,537</u>
Equity attributable to owners of the Company		225,618	183,407
Non-controlling interests		<u>9,892</u>	<u>8,603</u>
TOTAL EQUITY		<u><u>235,510</u></u>	<u><u>192,010</u></u>

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The condensed unaudited consolidated interim financial statements were approved and authorized for issue by the Board of Directors on November 27, 2017 and are signed on its behalf by:

YONGBIAO DING  
DIRECTOR

WENCHENG ZHANG  
DIRECTOR

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY  
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

	Attributable to owners of the Company					Total	Non-controlling interests	Total
	Share capital	Contributed surplus	Statutory surplus reserves	Investment revaluation reserves	Retained earnings			
	RMB'000	RMB'000 (Note a)	RMB'000 (Note b)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2015 (restated)	59,340	15,002	25,171	-	63,993	163,506	7,163	170,669
Profit for the period	-	-	5,420	-	10,327	15,747	1,305	17,052
Total comprehensive income for the period	-	-	5,420	-	10,327	15,747	1,305	17,052
Option expired	-	(1,201)	-	-	1,201	-	-	-
Share repurchase	(1,108)	-	-	-	-	(1,108)	-	(1,108)
As at September 30, 2016	58,232	13,801	30,591	-	75,521	178,145	8,468	186,613
As at December 31, 2016	60,277	13,765	32,957	(129)	76,537	183,407	8,603	192,010
Profit for the period	-	-	-	129	34,162	34,291	1,289	35,580
Total comprehensive income for the period	-	-	-	129	34,162	34,291	1,289	35,580
Option cancelled/expired (note 19)	-	(229)	-	-	229	-	-	-
Option exercised (note 19)	5,105	(1,908)	-	-	-	3,197	-	3,197
Stock-based compensation (note 19)	-	4,023	-	-	-	4,023	-	4,023
Transfer from amount due to an ultimate controlling shareholder	-	4,000	-	-	-	4,000	-	4,000
Dividend (note 8)	-	-	-	-	(3,300)	(3,300)	-	(3,300)
As at September 30, 2017	65,382	19,651	32,957	(0)	107,628	225,618	9,892	235,510

Notes:

- (a) Contributed surplus comprises capital contribution from shareholders and share-based compensation reserve.
- (b) Statutory surplus reserves represent the statutory reserve fund attributable to the Group set up by the subsidiaries in the People's Republic of China (the "PRC"). According to the relevant PRC regulations, the subsidiaries in the PRC are required to appropriate 10% of net profit as reported in the statutory financial statements to the statutory surplus reserve fund, and the statutory surplus reserve may be used for making up losses, if any, and increasing capital. The maximum amount appropriate to the statutory reserve fund is 50% of the registered capital of the respective PRC subsidiaries.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

	Nine-month periods ended September 30,	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
NET CASH FROM OPERATING ACTIVITIES	68,246	48,822
INVESTING ACTIVITIES		
Deposit paid for acquisition of property and equipment	(7,190)	(1,272)
Long term deposits and advances	-	(3,379)
Acquisition of property and equipment	(34,210)	(38,333)
Acquisition of intangible assets	(633)	(1,701)
Proceeds from disposal of AFS financial assets	726	-
Release (Placement) of pledged bank deposits	(2)	9,360
Receipt from government for pipeline relocation	<u>1,710</u>	<u>1,708</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(39,599)</u>	<u>(33,617)</u>
FINANCING ACTIVITIES		
Repurchase of shares	-	(1,108)
Repayment to short-term bank borrowings	(30,000)	(20,000)
New short-term bank borrowings raised	20,000	30,000
Repayment of long-term debts	(15,750)	(10,500)
New long-term debts raised	20,000	30,000
Repayment of related party loan	(36,000)	-
Proceeds from option exercised	3,197	-
Dividend payment	<u>(3,300)</u>	<u>-</u>
NET CASH FROM FINANCING ACTIVITIES	<u>(41,853)</u>	<u>28,392</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,206)	43,597
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	142,377	66,558
Effect of foreign exchange rate changes	<u>(477)</u>	<u>(4,183)</u>
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD, REPRESENTING BANK BALANCES AND CASH	<u><u>128,694</u></u>	<u><u>105,972</u></u>

CHANGFENG ENERGY INC.  
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

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1. GENERAL

Changfeng Energy Inc. is a public limited company incorporated under the Canada Business Corporations Act on May 4, 2006 and its shares are listed on the TSX Venture Exchange. The registered office of the Company is located at Suite 2036&2038-32 South Unionville Ave, Markham, Ontario, L3R 9S6, and the principal operations of its business are in China. Its ultimate controlling party is Mr. Huajun Lin ("Mr. Lin"), who is also an officer and director of the Company.

Changfeng Energy Inc. is an investment holding company and the principal activities of its subsidiaries are engaged in the distribution of natural gas for industrial, commercial and residential users in the Peoples Republic of China ("PRC").

The functional currency and presentation currency of the Company had been changed in 2016 from Canadian dollar ("CAD") to Renminbi ("RMB") as detailed in note 2.

2. CHANGE IN FUNCTIONAL AND PRESENTATION CURRENCY OF THE COMPANY

Before fiscal year 2016, the Company's functional currency was determined as CAD by applying the provisions of paragraph 10 of International Accounting Standard ("IAS") 21 *The Effects of Changes in Foreign Exchange Rates*.

In 2016, the Directors re-assessed the accounting policy in determining the functional currency of the Company and considered paragraph 9 of IAS 21 together with the other factors set out in paragraph 10 of IAS 21. The Directors have determined that RMB better reflects the economic substance of the Company and its business activity as an investment holding company primarily holding natural gas distribution business in the PRC in light of the currency of its primary sources of revenue. Accordingly, the functional currency was retrospectively changed from CAD to RMB. The retrospective change of functional currency of the Company has no material effects on the financial positions of the Group as at September 30, 2017 and December 31, 2016 and the results of the Group for the nine-month period ended September 30, 2017 and 2016. The condensed consolidated interim financial statement is also presented in the functional currency, i.e. RMB.

3. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements of the Company have been prepared in accordance with IFRS and International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, they do not include all of the information required for full annual financial statements required by IAS 1 Presentation of Financial Statements as issued by the IASB. Therefore, the condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016, which include information necessary to understand the Company's business and financial statement presentation.

3. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS - continued

At September 30, 2017, the Group's current liabilities exceeded its current assets by RMB54,388,000. In view of these circumstances, management of the Group has given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Management is satisfied that the Group will have sufficient financial resources to meet its financial obligations including the capital commitments and other commitments. Taking into account the Group's cash flow projection, including the term facility, unutilized bank facilities, the Group's ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, management considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the condensed consolidated interim financial statements have been prepared on a going concern basis.

4. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF NEW AND AMENDMENTS INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The condensed consolidated interim financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period.

The accounting policies and methods of computation used in the condensed consolidated interim financial statements for the nine-month ended September 30, 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2016.

**Amendments to IFRSs that are mandatorily effective for the current year**

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time from 2016:

Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IFRSs	Annual Improvements to IFRSs 2012 - 2014 Cycle

Except as described below, the application of the above amendments to IFRSs has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated interim financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF NEW AND AMENDMENTS  
INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued**Amendments to IAS 1 *Disclosure Initiative***

The Group has applied the amendments to IAS 1 *Disclosure Initiative* for the first time from 2016. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS standard if the information resulting from that disclosure is not material, and give guidance on the basis of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to the statement of profit or loss; and (ii) will be reclassified subsequently to the statement of profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. Specifically, amounts due from and due to customers for contract work previously included in trade receivables and receipts in advance were presented as separate line items. The grouping and ordering of consolidated statements of profit or loss and other comprehensive income and consolidated statements of financial position have been revised to give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position. Furthermore, information to financial instruments was reordered to note 20 while information in relation to segment was reordered to note 5.

Other than the above presentation and disclosure changes, the application of the amendments to IAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these condensed interim consolidated financial statements.

**New and amendments to IFRSs in issue but not yet effective**

The Group has not early applied the following new, amendments and interpretation to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>

4. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF NEW AND AMENDMENTS  
INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRSs Standards 2014 - 2016 Cycle <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2018.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2019.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after January 1, 2018, as appropriate.

Except for changing the ordering of certain notes giving prominence to the areas of the Group's activities which are considered more relevant, to the understanding of the Group's operating activities, the application of these amendments to IFRSs and new IFRS in the current period has had no material effect on amounts reported in these condensed consolidated interim financial statements and/or disclosures set out in these condensed consolidated interim financial statements.

**IFRS 9 *Financial Instruments***

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general accounting and impairments for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of each subsequent reporting period. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of each subsequent reporting period. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in the statement of profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF NEW AND AMENDMENTS  
INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Based on the Group's financial instruments and risk management policies as at September 30, 2017, the application of IFRS 9 in the future may have an impact on the classification a measurement of the Group's financial assets. The Group's available-for-sale financial assets, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). Specifically, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortized cost. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detail review.

**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.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The management of the Company is in the process of assessing the potential impacts of IFRS 15 in respect of the Group contracts with customers, in particular, the identification of performance.

4. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF NEW AND AMENDMENTS  
INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

obligations under IFRS 15 and the allocation of total consideration (including connection fee received from the customers for the construction of the gas pipelines) to the respective performance obligations that will be based on relative fair values. For example, for gas connection contracts with a commitment to provide access to gas supply, the considerations will be allocated over both gas connection service and the obligation to supply gas based on their relative fair values, which may affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review. In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

**IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under IAS 17, the Group has already recognized an asset and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

4. SIGNIFICANT ACCOUNTING POLICIES AND APPLICATION OF NEW AND AMENDMENTS  
INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the management of the company completes a detailed review.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The following discussion sets forth management's:

- most critical estimates and assumptions in determining the value of assets and liabilities; and
- most critical judgments in applying accounting policies.

The critical accounting estimates and judgements used for preparation of these unaudited interim condensed consolidated financial statements were the same as the audited consolidated financial statements of the Company for the year ended December 31, 2016.”

## 6. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the nine-month periods ended September 30, 2017 and 2016 are as follows:

	Nine-month ended September 30,	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
Gas distribution utility		
- Gas sales	171,814	117,523
- Pipeline installation and connection	92,473	87,702
CNG refueling station	44,161	33,979
	<u>308,448</u>	<u>239,204</u>

There were no significant intragroup transactions between segments. No single customer accounted for more than 10% of the Group's sales in both periods or trade and other receivables at September 30, 2017 and 2016.

## 6. REVENUE AND SEGMENT INFORMATION - continued

Information reported to the Chief Executive Officer of the Group, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance.

The CODM reviews operating results and financial information for each sub-group of operating companies separately. Accordingly, each sub-group of operating companies in the PRC is identified as an operating segment. Those operating segments are aggregated into gas distribution utility segment and CNG vehicles refueling segment respectively for segment reporting purpose after taking into account that those operating segments are operating in similar business model with similar target group of customers, similar products and services and similar methods used to distribute their products and under the similar regulatory environment.

Specifically, the Group's reportable segments under IFRS 8 *Operating Segments* are as follows:

- (a) Gas distribution utility which includes gas sales and pipeline installation and connection; and
- (b) CNG vehicle refueling.

The gas distribution utility segment provides gas pipeline connection services and delivers natural gas to commercial, industrial and residential customers through its pipeline networks and associated facilities in Sanya City, Hainan Province and Pingxiang City, Jiangxi Province in the PRC. The Group's other segment is a CNG vehicle refueling in PRC, which primarily supply gas for taxicabs and public transportation vehicles.

Summarized financial information concerning the reportable segments is shown in the following tables:

For the three-month ended September 30, 2017

	Gas distribution utility RMB'000	CNG vehicles refueling RMB'000	<u>Consolidated</u> RMB'000
<b>Segment revenue</b>	<u>98,752</u>	<u>16,064</u>	<u>114,816</u>
<b>Segment profit</b>	24,021	3,786	27,807
Share of loss of an associate			(1)
Unallocated expenses			<u>(2,595)</u>
<b>Profit before tax</b>			<u><u>25,211</u></u>

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6. REVENUE AND SEGMENT INFORMATION - continued

For the nine-month ended September 30, 2017

	Gas distribution utility RMB'000	CNG vehicles refueling RMB'000	<u>Consolidated</u> RMB'000
<b>Segment revenue</b>	264,287	44,161	308,448
<b>Segment profit</b>	54,873	8,583	63,456
Share of loss of an associate			(4)
Unallocated expenses			(6,975)
<b>Profit before tax</b>			<u>56,477</u>

For the three-month ended September 30, 2016

	Gas distribution utility RMB'000	CNG vehicles refueling RMB'000	<u>Consolidated</u> RMB'000
<b>Segment revenue</b>	68,000	15,652	83,652
<b>Segment profit</b>	13,337	2,735	16,072
Share of loss of an associate			(2)
Share of loss of a joint venture			(2,113)
Unallocated income			8
Unallocated expenses			(1,673)
<b>Profit before tax</b>			<u>12,292</u>

For the nine-month ended September 30, 2016

	Gas distribution utility RMB'000	CNG vehicles refueling RMB'000	<u>Consolidated</u> RMB'000
<b>Segment revenue</b>	205,225	33,979	239,204
<b>Segment profit</b>	40,993	6,251	47,244
Share of loss of an associate			(5)
Share of loss of a joint venture			(6,617)
Unallocated income			8
Unallocated expenses			(5,484)
<b>Profit before tax</b>			<u>35,146</u>

## 6. REVENUE AND SEGMENT INFORMATION - continued

The accounting policies of the operating segments are the same as the Group's accounting policies described in the Company's consolidated financial statements for the year ended December 31, 2016. Segment profit represents the profit earned by each segment without allocation of share of loss of an associate and a joint venture, unallocated income and unallocated expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

**Geographic information**

The Group's operations are substantially based in the PRC and significantly all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

## 7. INCOME TAX EXPENSE

	Nine-month period ended September 30,	
	<u>2017</u> RMB'000	<u>2016</u> RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	18,737	14,200
PRC withholding EIT	500	3,228
Deferred tax	<u>1,660</u>	<u>666</u>
	<u>20,897</u>	<u>18,094</u>

The Company was incorporated in Canada and subject to Canadian federal and Ontario statutory income tax at a rate of 26.5% (2016: 26.5%) on assessable profits in Canada during the reporting period.

A subsidiary, Hainan Energy Ltd., was incorporated in the British Virgin Islands and tax exempted under the laws of the British Virgin Islands.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the reporting period (2016: 25%).

## 8. DIVIDENDS

On July 14, 2017, the Company's initial semi-annual dividend in the amount of CAD640,350.35 (approximately RMB3,300,000), or of CAD0.01 per common share was paid. The semi-annual dividend of \$0.01 per share has been approved by the Board of Directors on June 23, 2017 and designated as an "eligible dividend" for Canadian income tax purposes pursuant to subsection 89(14) of the Income Tax Act (Canada). Future semi-annual dividends, to be approved by the Company's Board of Directors, will be designated as an "eligible dividend" for Canadian income tax purposes unless otherwise indicated by the Company.

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9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company are based on the following data:

	Nine-month period ended September 30,	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
<i>Earnings</i>		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	34,291	15,747
	<u>          </u>	<u>          </u>
	Nine-month period ended September 30,	
	<u>2017</u>	<u>2016</u>
		(Restated)
Weighted average number of shares for the purpose of basic earnings per share	63,241,467	61,389,192
Effect of dilutive potential shares:		
Share options issued by the Company	701,121	214,621
	<u>          </u>	<u>          </u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	63,942,588	61,603,813
	<u>          </u>	<u>          </u>
Basic earnings per share (Note)	RMB0.54	RMB0.25
	<u>          </u>	<u>          </u>
	CAD0.10	CAD0.05
	<u>          </u>	<u>          </u>
Diluted earnings per share (Note)	RMB0.54	RMB0.25
	<u>          </u>	<u>          </u>
	CAD0.10	CAD0.05
	<u>          </u>	<u>          </u>

Note: The CAD figures presented above are shown for reference only and have been arrived at based on the exchange rate for RMB1.0000 to CAD0.1920 for nine-months ended September 30, 2017 and RMB1.0000 to CAD0.2010 for nine-months ended September 30, 2016, being the average exchange rate that prevailed during the respective periods.

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10. INTEREST IN AN ASSOCIATE

	September 30, <u>2017</u> RMB'000	December 31, <u>2016</u> RMB'000
Cost of investment in an associate - unlisted	5,000	5,000
Share of post-acquisition losses and other comprehensive expense	<u>(347)</u>	<u>(343)</u>
	<u>4,653</u>	<u>4,657</u>

Details of the Group's associates as at September 30, 2017 and December 31, 2016 is as follows:

<u>Name of entity</u>	<u>Country of incorporation/ registration</u>	<u>Principal place of business</u>	<u>Proportion of ownership interest held by the Group</u>	<u>Proportion of voting rights held by the Group</u>	<u>Principal activity</u>
Xiangtan Shin-Ko Energy Co., Ltd.* 湘潭市长丰深冷能源有限公司 ("Shin-Ko Energy")	The PRC	The PRC	50% (note)	50% (note)	Operating liquefied natural gas ("LNG") storage facility

\* The English name of the associate is for identification purpose only.

Note: The Group holds 50% of the issued share capital of Shin-Ko Energy. However, under the shareholders' agreement, the other shareholders control the composition of the board of directors of Shin-Ko and has the control over Shin-Ko. Management of the Company consider that the Group has significant influence over Shin-Ko through its representation in the board of Director and it is therefore classified as an associate of the Group.

11. TRADE RECEIVABLES

	September 30, <u>2017</u> RMB'000	December 31, <u>2016</u> RMB'000
Trade receivables	14,166	16,993
Less: Allowance for doubtful debts	<u>(739)</u>	<u>(739)</u>
	<u>13,427</u>	<u>16,254</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality. Management considers the customers neither past due nor impaired are of good credit quality based on repayment history of respective customers.

## 12. OTHER RECEIVABLES, PREPAID EXPENSES AND DEPOSITS

	September 30, <u>2017</u> RMB'000	December 31, <u>2016</u> RMB'000
Demolition compensation payment on behalf of local government (Note a)	-	7,929
Pipeline relocation receivables (Note b)	8,328	10,038
Deposits paid for acquisition of property and equipment	7,190	1,272
Prepayments for gas purchase	9,818	1,558
Rental prepayment	-	906
Deposit for land rental payment	289	289
VAT recoverable	-	3,393
Other receivables from a former joint venture	-	2,000
Other tax recoverable	2,840	1,630
Other prepayments and deposits	6,073	3,780
	<u>34,538</u>	<u>32,795</u>
Analyzed for reporting purposes as follows:		
- Current assets	24,433	25,010
- Non-current assets	10,105	7,785
	<u>34,538</u>	<u>32,795</u>

## Notes:

- (a) In 2012, for the purpose of construction of certain gas distribution facilities, the Group paid demolition compensation to local inhabitants of approximately RMB7,929,000. The payment amounts were capitalized as part of the cost of the gas pipeline facilities in equipment as there was no agreed time-table and mechanism for reimbursements of such payments. In 2015, the Group submitted further detailed applications to the local government authority, and in March 2016, the local government has approved the application reimbursement and confirmed to the Group about its acceptance of the amount paid. Accordingly, the Group has adjusted the carrying amount of the gas pipeline assets and has recognized the amount confirmed by the government as other receivables. As of September 30, 2017, RMB7,929,000 was refunded by the local government.
- (b) During 2015, due to the change in city planning, local government notified the Group to relocate its gas pipelines for complying with the revised city plan and agreed that it would compensate part of the costs incurred by the Group as a result of the notified relocation. At September 30, 2017, the balances are approximately RMB8,328,000 (December 31, 2016: RMB10,038,000) on construction of new pipelines as a result of the relocation notice. The Group expected RMB2,767,000 would be refunded by the local government in 2017 with the remaining balance of RMB7,271,000 to be refunded beyond 2017.

## 13. TRADE AND OTHER PAYABLES

	September 30, <u>2017</u> RMB'000	December 31, <u>2016</u> RMB'000
Trade payables	43,589	44,892
Deposit received from customers for natural gas supplies	4,147	4,598
Accrued wages and staff benefits	268	7,439
Other tax payables	1,773	2,649
Other payables	697	2,506
	<u>50,474</u>	<u>62,084</u>

The average credit period on purchase of natural gas and construction payable to construct pipeline ranges from 5 to 30 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

## 14. 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 RMB40,000,000 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

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14. OTHER PAYABLE TO AN ULTIMATE CONTROLLING SHAREHOLDER - continued

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 RMB4,000,000 between the original value of RMB40,000,000 and the settlement value of RMB36,000,000 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 RMB36,000,000.

15. SHORT-TERM BANK BORROWINGS

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	December 31, 2016	
					RMB'000	RMB'000	
Bank of China, Sanya	Unsecured	Fixed interest rate at 4.35%	4.35%	-	20,000	-	(a)
Bank of China (Canada)	Secured	SIX-MONTH LIBOR plus 250 basis point	3.9%	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:

- In 2017, the Group entered into 1-year facility line of credit with Bank of China Sanya with an aggregate amount of RMB20,000,000. RMB20,000,000 is withdrawn by the Group during the period ended September 30, 2017.
- The 1-year term loan from Bank of China (Canada) is denominated in United States dollars (“USD”) with a principal amount of USD1,500,000 and is secured by a pledged bank deposit to of RMB1,007,013 (2016: RMB10,005,000).
- In 2016, the Group entered into 1-year facility line of credit with China Everbright Bank Haikou with an aggregate amount of RMB50,000,000.

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

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16. LONG-TERM DEBTS

	September 30, <u>2017</u> RMB'000	December 31, <u>2016</u> RMB'000
Bank borrowings		
- Secured, with variable rate	158,758	149,518
- Unsecured, with variable rate	<u>6,250</u>	<u>11,000</u>
	<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	<u>70,000</u>	<u>54,000</u>
	165,250	161,000
Less: Unamortized transaction costs	<u>(242)</u>	<u>(482)</u>
	165,008	160,518
Less: Amounts due within one year shown under current liabilities	<u>(27,000)</u>	<u>(28,000)</u>
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:

Lender	Secured/ unsecured	Contractual interest rate	Effective interest rate		Carrying amount		Note
			September 30, <u>2017</u>	December 31, <u>2016</u>	September 30, <u>2017</u> RMB'000	December 31, <u>2016</u> RMB'000	
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>	

## 16. LONG-TERM DEBTS - continued

Notes:

- a. The term loan from Bank of China, Sanya with an original principal amount of RMB100,000,000 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 RMB40,000,000. 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 RMB80,000,000. 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 RMB56,829,000. 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 RMB20,000,000, 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.

## 17. DEFERRED INCOME - GOVERNMENT GRANTS

Amounts represented government grants. The company received RMB5,269,000 in government grants to fund the construction of certain items of property and equipment for the Group's operation in Sanya City in 2012. These government grants were recognized as a long-term liability and will be recognized in the statement of profit or loss over the expected useful lives of these property and equipment when these property and equipment are ready for use. As at September 30, 2017, the government grants of RMB4,975,729 was recognized as non-current liability (December 31, 2016: RMB5,154,000).

## 18. SHARE CAPITAL

**Share capital of the Company**

- a. Authorized unlimited number of common shares;
- b. Issued:

	<u>Number of shares</u>	<u>Amount RMB'000</u>
Common shares issued and fully paid:		
At December 31, 2015	61,951,700	59,340
Repurchased	(614,000)	(1,086)
Exercised options	700,000	2,023
At December 31, 2016	<u>62,037,700</u>	<u>60,277</u>
Exercised options	<u>1,997,335</u>	<u>5,105</u>
At September 30, 2017	<u>64,035,035</u>	<u>65,382</u>

19. STOCK-BASED COMPENSATION

The share option scheme of the Company (the "Option Scheme") were adopted for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest. Under the Option Scheme, the board of management of the company may grant options to eligible participants including employees, senior officers and directors (including executive and non-executive directors) of the Company or any of its subsidiaries, and any suppliers, consultants and advisers who will contribute or have contributed to the Group to subscribe for shares in the Company.

Under the Company's Option Scheme, the Company may grant stock options to directors, senior officers, employees and advisers, and is authorized to issue options equal to 10% of the issued and outstanding shares of the Company. The Board of Directors, or such other persons designated by the board, administers the option scheme and determines the vesting and terms of each award.

In the second quarter of 2017, 1,997,335 options were exercised. And total cash proceeds of CAD 611,937.25 (approximately RMB 3,197,000) were received for the options exercised.

On April 10, 2017, the Company granted 1,300,000 options to management employees of the Company at an exercise price of CAD 0.40 per share for a period of five years. The fair value of these options at the grant date was CAD 0.16. Assumptions used to determine the value of the options using the Black-Scholes model were: dividend yield 0%; risk-free interest rate 1.12%; expected volatility 45.71%; and expected life of five years. The Options granted vested immediately on the grant date of April 10, 2017.

On August 10, 2017, the Company granted 1,850,000 options to management employees of the Company at an exercise price of CAD 0.63 per share for a period of eight years. The fair value of these options at the grant date was CAD 0.21. Assumptions used to determine the value of the options using the Black-Scholes model were: dividend yield 4.00%; risk-free interest rate 1.66%; expected volatility 49.33%; and expected life of eight years. The Options granted vested immediately on the grant date of August 10, 2017.

On August 18, 2017, the Company granted 700,000 options to management employees of the Company at an exercise price of CAD 0.65 per share for a period of eight years. The fair value of these options at the grant date was CAD 0.32. Assumptions used to determine the value of the options using the Black-Scholes model were: dividend yield 4.00%; risk-free interest rate 1.66%; expected volatility 49.68%; and expected life of eight years. The Options granted vested immediately on the grant date of August 18, 2017.

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19. STOCK-BASED COMPENSATION - continued

The following table discloses movement of the Company's share options held by directors and employees during the respective period.

**For the period ended September 30, 2017**

Category of grantees	Date of grant	Vesting conditions	Exercise price per share	Number of share options				Outstanding at 09.30.2017
				Outstanding at 12.31.2016	Granted during the period	Exercised during the period	Expired/cancelled during the period	
Directors and Chinese management	July 12, 2012	Immediately	CAD0.24	1,000,000	-	(798,000)	(202,000)	-
Directors, officers and Chinese management	August 26, 2013	Immediately vest for 1/3 grant, first anniversary vest for 1/3 grant and second anniversary vest for 1/3 grant	CAD0.35	2,490,000	-	(1,134,335)	(80,515)	1,275,150
Directors, officers and Chinese management	July 31, 2015	Immediately	CAD0.36	440,000	-	(65,000)	-	375,000
Chinese management	April 10, 2017	Immediately	CAD0.40	-	1,300,000	-	-	1,300,000
Chinese management	August 10, 2017	Immediately	CAD0.63	-	1,850,000	-	-	1,850,000
Chinese management	August 18, 2017	Immediately	CAD0.65	-	700,000	-	-	700,000
				<u>3,930,000</u>	<u>3,850,000</u>	<u>(1,997,335)</u>	<u>(282,515)</u>	<u>5,500,150</u>

Fair value of share options granted to the employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's contributed surplus. RMB4,023,000 has been recognized for the period ended September 30, 2017 (2016: nil).

20. CAPITAL RISK MANAGEMENT

The Group considers its capital structure to consist of share capital, contributed surplus, retained earnings, short-term bank borrowings and long-term debts. The Group's objectives are to maintain an effective structure that supports its ability to explore strategic business development opportunities on mainland China along the Petro China's Second West-East Pipeline and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk level. The Group manages its capital structure and makes adjustments to it, based on the funds available to the Group. The Board of Directors does not establish quantitative return-on-capital criteria for management, but rather is responsible for overseeing the process undertaken by management to sustain future development of its business.

The Group's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and through the credit line. Gas supply revenue, gas connection revenue, available cash balances, draws on the credit line and long-term bank loans are the Group's principal sources of capital used to pay for operating expenses and capital expenditures in its business.

The Group reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of its operations, is reasonable. The Group monitors its compliance

20. CAPITAL RISK MANAGEMENT - continued

with all of its capital requirements, including non-financial covenants relating to the credit line. As at September 30, 2017, the Company was in compliance with all of its covenants.

There were no changes in the Group's approach to capital management during the nine-month period ended September 30, 2017.

21. FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed interim consolidated financial statements approximate their fair values.

22. SEASONALITY OF OPERATIONS

Seasonality can impact the Group's natural gas distribution sales. The Group's current operations are primarily located in Sanya City, an international tourist destination in the PRC's only tropical province. Sanya City attracts more tourists from December to February in the subsequent year than the rest of the year.

The Group's natural gas sales are higher during this high tourism season, as a large portion of the Group's natural gas sales are made to hotels and restaurants. Seasonality can also impact the Group's CNG retail station sales due to vehicles being in need of more gas during the peak seasons for air-conditioning.

## 23. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

**Establishment of a Joint Venture**

Subsequent to the period ended September 30, 2017, on November 8, 2017, a joint venture agreement (“Agreement”) has been signed between Sanya Changfeng New Energy Investment Co., Ltd. (“the Company”), the Company’s wholly owned subsidiary, and EDF (China) Holding Ltd., a wholly owned subsidiary of the EDF Group. On November 14, 2017, the joint venture, Sanya EDF Changfeng Energy Management Co., Ltd, was established, with 50 percent ownership each for the Company and EDF (China) Holding Ltd. The joint venture has a registered capital of 100 million RMB, approximately C\$20 million. The new joint venture company will invest, construct, and operate four energy-processing stations to supply cooling, hot water to the hotels, shopping centres, and residential households in Haitang Bay area.

**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 Pingxiang Changfeng Gas Co., Ltd. after equity restructuring (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.