

CHANGFENG ENERGY INC.

**Management's Discussion and Analysis for the
three months and nine months ended
September 30, 2018**

Dated November 29, 2018

Advisory

This Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to understand the financial position and operations of Changfeng Energy Inc. (here after referred to as "Changfeng", "we" or the "Company") (together with its subsidiaries the "Group") as at and for the three months and nine months ended September 30, 2018. This information should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three months and nine months ended September 30, 2018 and the audited consolidated financial statements and related notes and the MD&A for the year ended December 31, 2017. "Changfeng" includes Changfeng Energy Inc. and its subsidiaries, unless otherwise indicated. Additional information related to Changfeng is available on SEDAR at www.sedar.com or on its website at www.changfengenergy.com.

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

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

Amounts are stated in Renminbi (RMB) and Canadian dollars (CAD) unless otherwise indicated.

Caution Regarding Forward-Looking Information

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

Overview

Changfeng is a Canadian public company currently trading on the TSX Venture Exchange ("TSX-V") under the stock symbol "CFY". Changfeng is 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 seven projects in operation: two pipeline natural gas distribution projects, three liquefied natural gas ("LNG") supply 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 and the supply of natural gas to factories in the Hebei and Hainan Province, under their respective natural gas supply contracts, signed by Hebei Riheng Clean Energy Ltd. ("Riheng Energy") and Sanya Changfeng Clean Energy Co. Ltd. ("Sanya Changfeng Clean Energy"), subsidiaries of the Company.

Major project under development is the integrated smart energy project (the "Haitang Bay Integrated Smart Energy Project") which combines the usage of multiple clean energy sources, including solar, hydro, electricity, and natural gas (CCHP/Co-Gen), to supply cooling, heating, as well as hot water to the hotels, shopping centers, and households in the Haitang Bay area, the Hainan Province. This project is conducted through the 50:50 joint venture company, Sanya EDF Changfeng Energy Management Co., Ltd. ("EDF CF") established between Changfeng and the EDF Group in November 2017. In December 2017, the Sanya Municipal Government and the EDF CF signed the 30-year concession right agreement which gives the EDF CF the right to build, own and operate four energy processing stations in Haitang Bay, Sanya City, the Hainan Province. Project development has since begun, contracts with customers are currently being negotiated, and commencement of commercial operation will slightly extend to early 2019.

Newly acquired project is the jointly invest, construct and operate of an integrated district energy distribution project in the New Economic Development Zone of Meishan City, Sichuan Province, the PRC (the "Meishan New Economic Development Zone") to be operated by Meishan Hengtai Tianzhiyuan Energy Limited, a company with a registered capital of RMB 10 million and owned as to 60% by Sanya Changfeng New Energy Investment Co. Limited ("Sanya Changfeng New Energy"), a wholly owned subsidiary of the Company, 20% by Hunan Changfeng Energy Co. Limited, a 55% indirectly owned subsidiary of the Company and 20% by Tianzhiyuan Energy Technology Limited, an independent Sichuan-based energy company. The New Economic Development Zone situated next to central urban area of Meishan City, Sichuan province, the PRC, with a planned development area of 50.5 square kilometres, is to be the hub for manufacturers of drugs, supplements, medical equipment, and other medical related supplies. The year-round constant demand of steam necessary to produce drugs makes the Meishan New Economic Development Zone an ideal platform for integrated district energy distribution.

The Company has also completed the construction of the 2.0 kilometres (1.4 miles) of pipeline connecting the provincial natural gas trunk lines to the Gaoyao Combined Heat, Power and Cold Natural Gas Power Plant (the "Datang Gaoyao Plant") owned by Guangdong Datang International Zhaoqing Heat & Power Co., Ltd. ("Guangdong Datang"). On November 14, 2018, Guangdong Datang began a trial operation to transport natural gas through the Changfeng pipeline to the Datang Gaoyao Plant. This marks the beginning of Changfeng's entrance into the market of Guangdong Province, specifically Zhaoqing City, Zhongshan City, Foshan City and Zhuhai City, which are the cities that Changfeng is exclusively entitled to build the connecting pipelines to industrial end users.

This is the second year of Changfeng's 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. In line with this strategy, Changfeng has taken steps to divest its controlling interest (the "Disposal") in Pingxiang Changfeng Gas Co., Ltd. ("Pingxiang CF", subsequently changed name to Pingxiang Xin'ao Changfeng Gas Co., Ltd.) through the entering into of the disposal agreement (the "Agreement") to free up capital for other investment opportunities. The Disposal was completed on January 5, 2018 and the Group's equity interest in Pingxiang CF was reduced to 40% and such interest has since been re-classified as interest in associates of the Group. Pursuant to the Agreement, the Group is committed to repay to the buyer the full consideration under the Disposal should Pingxiang CF fails to be granted a new concession right (in the form issued by the Ministry of Housing and Urban-Rural Development of the PRC) (the "New Concession Right") under the new shareholding structure within 2 years after completion of the Disposal. In August 2018, Pingxiang CF has entered into a supplementary contract (the "Supplemental Agreement") with the Xiangdong District Government of Pingxiang, Jiangxi, the PRC. The Supplemental Agreement states that the New Concession Right for natural gas pipeline distribution (in the form issued by the Ministry of Housing and Urban-Rural Development of the PRC) has been approved. The New Concession Right granted Pingxiang CF a 30-year pipeline natural gas distribution right, beginning from January 19, 2010 to January 18, 2040. Extension can be applied to the New Concession Right in 15-year increments upon expiration, with no limit on the number of

For the three and nine months ended September 30, 2018

extensions. Receiving the New Concession Right had discharged Changfeng of the potential obligation to repurchase its previous interests in the Project Company.

The Company has been pursuing its plans to undertake a public offering (the "HK IPO") of common shares together with the listing of its common shares on The Stock Exchange of Hong Kong Limited (the "HKEx"). Current plan is to complete the HK IPO during the first half of 2019. With GF Capital (Hong Kong) Limited ("GF Capital"), the sponsor previously appointed by the Company for the HK IPO, unable to allocate sufficient resources as sponsor to assist the Company under the new schedule for the HK IPO, the Company has appointed Altus Capital Limited ("Altus Capital") as sponsor in place of GF Capital. Nevertheless, GF Capital has continued to support the HK IPO plan as financial adviser to the Company. In addition, the Company also plans to appoint GF Securities (Hong Kong) Brokerage Limited ("GF Securities"), an affiliated company of GF Capital, as the global coordinator, book runner and lead manager of the HK IPO.

Highlight for the three months ended September 30, 2018

On July 13, 2018, the Company announced the rescheduling of its pursuit of the HK IPO for completion to the first half of 2019. Altus Capital Limited has been appointed as sponsor of the HK IPO in place of GF Capital was unable to allocate sufficient resources as sponsor to assist the Company under the new schedule for the HK IPO. GF Capital will continue to support the HK IPO plan as financial adviser to the Company and the Company also plans to appoint GF Securities as the global coordinator, book runner and lead manager of the HK IPO.

On August 8, 2018, the Company announced that Pingxiang CF has entered into the Supplemental Agreement with the Xiangdong District Government of Pingxiang, Jiangxi, the PRC. The Supplemental Agreement states that the New Concession Right for natural gas pipeline distribution (in the form issued by the Ministry of Housing and Urban-Rural Development of the PRC) has been approved. The New Concession Right grants the Pingxiang CF a 30-year pipeline natural gas distribution right, beginning from January 19, 2010 to January 18, 2040. Extension can be applied to the New Concession Right in 15-year increments upon expiration, with no limit on the number of extensions.

On August 8, 2018, the Company announced that Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd., ("Sanya Changfeng") a wholly owned subsidiary of Changfeng, has successfully procured a RMB20 million secured short-term loan from Bank of China, Sanya Branch for working capital of its daily operations. This secured loan carries a fixed annual interest rate of 4.35% and will be due for repayment in 12 months.

On August 8, 2018, the Company further announced that the Baoding ceramic manufacturer clients of Riheng Energy has declared that its factory will temporarily halt production for the next few months due to operational issues and seasonality.

On August 22, 2018, the Company announced that Sanya Changfeng Clean Energy has entered into a LNG supply agreement with a brick manufacturer in Wenchang City, Hainan Province, marking Changfeng's first step into business outside of Sanya City on Hainan island. The agreement outlines the supply of LNG to the manufacturer for a duration of 10 years beginning from October 1, 2018 to September 30, 2028 at a price of RMB3.30/Nm³. The brick manufacturer is estimated to consume 1,270,000 Nm³ of natural gas per annum.

On August 22, 2018, the Company further announced that Sanya Changfeng Clean Energy has also entered into a LNG supply agreement with a rubber manufacturer in Wenchang City. The agreement outlines the supply of LNG to the manufacturer for a duration of 10 years beginning from August 8, 2018 to August 7, 2028 at a price of RMB3.20/Nm³. The rubber manufacturer is expected to consume 500,000 Nm³ of LNG per annum. With the government's policy to turn Hainan island into a free trade port and a role model to low carbon economy. Gas supply commenced in November 2018.

Subsequent Events

On November 1, 2018, the Company announced that in October 2018, Sanya Changfeng New Energy, Hunan Changfeng Energy Co. Limited ("Hunan Changfeng"), a 55% indirectly owned subsidiary of the Company, and Sichuan Tianzhiyuan Energy Technology Limited. ("Tianzhiyuan Energy"), an independent Sichuan-based energy company, entered into an agreement (the "Meishan Agreement") to jointly invest, construct and operate an integrated district energy distribution project in the New Economic Development Zone of Meishan City, Sichuan Province, the PRC (the "Meishan Project"). In accordance with the Meishan Agreement, the Meishan

For the three and nine months ended September 30, 2018

Project will be operated by Meishan Hengtai Tianzhiyuan Energy Limited, with a registered capital of RMB 10 million and owned as to 60% by Sanya Changfeng, 20% by Hunan Changfeng and 20% by Tianzhiyuan Energy. The Meishan New Economic Development Zone, an economic zone situated next to central urban area of Meishan City, Sichuan province, the PRC, with a planned development area of 50.5 square kilometres, will be a hub for manufacturers of drugs, supplements, medical equipment, and other medical related supplies.

On November 13, 2018, the Company announced that trial run of LNG shipment from Canada to the PRC using ISO-containers has been successfully completed. The LNG shipment from the Vancouver port was arranged by Changfeng and it arrived at the Shanghai port on November 8, 2018 and has now cleared customs. The LNG exported to the PRC was procured by the Company from a British Columbia-based energy provider, and Sanya Changfeng is the importer into the PRC. The LNG received in Shanghai will be sold to Riheng Energy and will be transported to Hebei to support the LNG distribution services of Riheng Energy to areas where pipeline gas is not accessible. Changfeng had obtained an export order from the Canadian National Energy Board for the LNG export and Sanya Changfeng had received all necessary permits for the LNG import in the PRC.

On November 15, 2018, the Company announced that further to the press release of the Company dated December 30, 2015 entitled "Changfeng Obtains Land Use Right and Receives Government Approval for Natural Gas Transmission Project in Zhaoqing City, Guangdong Province", the Company has completed construction of the 2.0 kilometres (1.4 miles) of pipeline connecting the existing provincial natural gas trunk lines to the Datang Gaoyao Plant owned by Guangdong Datang. On November 14, 2018, Guangdong Datang began trial operation to transport natural gas through the Changfeng pipeline to the Datang Gaoyao Plant. The Company was in negotiations with Guangdong Datang and Guangdong Grid with respect to a definitive agreement to provide the transmission service to the Datang Gaoyao Plant and expects to execute the definitive agreement in the near term.

Outlook

This is the second year of Changfeng's 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 integrated smart 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, and LNG distribution; b) integrated smart energy system to distribute power, heat, cooling, and hot water; and c) natural gas mid-stream infrastructure.

According to the recent energy reform policies of the PRC government, the PRC is shifting away from a coal-based economy and is increasingly relying on natural gas as the source of energy consumption. In particular, the Company's management has observed that, in the winter months due to higher demand for natural gas required for heating in the PRC, the available supply of natural gas may be lower and trucked LNG prices may increase. Further, unlike the market price of pipeline gas, which is regulated by the PRC government, LNG prices are relatively deregulated and market-oriented. With the successful trial run of the LNG shipment to Hebei in November, the Company has taken its first step and will continue to broaden its LNG supply base outside China. Changfeng's LNG supply distribution business portfolio includes four signed clients with Riheng Energy in Hebei Province and two signed clients with Sanya Changfeng Clean Energy in Hainan Province, with three projects currently in operation.

For the remaining of 2018, Changfeng will continue to implement its long-term growth strategy through its proposed Guangdong Grid pipelined gas project in the Western Guangdong area of the Guangdong Province and to complete negotiation for the signing of a definitive agreement with Guangdong Datang and Guangdong Grid to provide the transmission service to the Datang Gaoyao plant. Changfeng will also work towards moving the development of the Haitang Bay Integrated Smart Energy Project with the EDF Group in Sanya City forward to commercial operation by early 2019 and commencing the development of the newly acquired Meishan Project. In addition to these business developments, the group will continue to put great effort in the preparation of the HK IPO so as to meet the targeted listing on the HKEx by the first half of 2019.

For the three and nine months ended September 30, 2018

Selected Quarterly Financial Information

The following tables provide selected financial information for the three and nine months ended September 30, 2018 and 2017 in Chinese RMB:

<i>In thousands of Chinese RMB</i>	Three months ended September 30,				Nine months ended September 30,			
	2018 (restated) (note 3)	2017 (restated) (note 2)	Change	%	2018 (restated) (note 2)	2017 (restated) (note 2)	Change	%
<i>except percentages and per share amounts</i>								
Continuing Operations								
Revenue	96,161	96,042	119	0%	290,557	266,288	24,269	9%
Gross profit	40,974	47,791	(6,817)	-14%	119,616	126,042	(6,426)	-5%
% of revenue	43%	50%	-7%		41%	47%	-6%	
Other income	474	267	207	78%	1,121	817	304	37%
Other gains and losses	1,787	(463)	2,250	-486%	(216)	(2,216)	2,000	-90%
Reversal of impairment loss on trade receivable and contract assets	156	-	156	100%	527	-	527	100%
Fair value change on put option liability	8,142	-	8,142		22,627	-	22,627	
Selling and marketing expenses	(13,499)	(10,793)	(2,706)	25%	(38,286)	(31,725)	(6,561)	21%
% of revenue	14%	11%	3%		13%	12%	1%	
General and administrative expenses	(11,003)	(8,041)	(2,962)	37%	(31,677)	(27,321)	(4,356)	16%
% of revenue	11%	8%	3%		11%	10%	1%	
Listing expenses	(961)	(285)	(676)	237%	(3,110)	(381)	(2,729)	716%
Share-based compensation	(1,288)	(2,931)	1,643	-56%	(2,150)	(4,023)	1,873	-47%
Finance costs	(2,433)	(1,253)	(1,180)	94%	(5,240)	(4,571)	(669)	15%
Share of loss of associates	(1,479)	(1)	(1,478)	100%	(3,401)	(4)	(3,397)	100%
Share of loss of a joint venture	(93)	-	(93)		(208)	-	(208)	
Profit before tax	20,777	24,291	(3,514)	-14%	59,603	56,618	2,985	5%
% of revenue	22%	25%	-3%		21%	21%	0%	
Income tax expense	(7,243)	(8,391)	1,148	-14%	(19,623)	(20,897)	1,274	-6%
% of revenue	8%	9%	-1%		7%	8%	-1%	
Profit for the period from continuing operations	13,534	15,900	(2,366)	-15%	39,980	35,721	4,259	12%
% of revenue	14%	17%	-3%		14%	13%	1%	
Discontinued operation								
Profit (loss) for the period from discontinued operation	-	918	(918)	-100%	30,293	(141)	30,434	-100%
Profit for the period	13,534	16,818	(3,284)	-20%	70,273	35,580	34,693	98%
Fair value change on available-for-sale financial assets	-	2	(2)		-	-	-	
Total comprehensive income for the period	13,534	16,820	(3,286)	-20%	70,273	35,580	34,693	98%
-attributable to non-controlling interests	(164)	692	(856)	-124%	8,962	1,289	7,673	595%
-attributable to owners of the Company	13,698	16,128	(2,430)	-15%	61,311	34,291	27,020	79%
EBITDA from continuing operations (note 1)	22,417	32,347	(9,930)	-31%	59,610	76,696	(17,086)	-22%
% of revenue	23%	34%	-11%		21%	29%	-8%	
From continuing and discontinued operations								
Basic EPS (RMB)	0.21	0.25			0.95	0.54		
Diluted EPS (RMB)	0.20	0.25			0.90	0.52		
From continuing operations								
Basic EPS (RMB)	0.21	0.24			0.62	0.54		
Diluted EPS (RMB)	0.20	0.23			0.59	0.53		

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

Note 2: The comparative periods' amounts were restated to reflect the discounted operation of Pingxiang CF.

Note 3: Restatement of previously reported unaudited condensed interim consolidated financial statements as at and for the six months ended June 30, 2018.

For the three and nine months ended September 30, 2018

The following tables provide selected financial information for the three and nine months ended September 30, 2018 and 2017 in Canadian dollars and it is for information only:

<i>In thousands of Canadian Dollars except percentages and per share amounts</i>	Three months ended September 30,				Nine months ended September 30,			
	2018	2017	Change	%	2018	2017	Change	%
Continuing Operations								
Revenue	19,021	18,440	581	3%	57,472	51,127	6,345	12%
Gross profit	8,105	9,176	(1,071)	-12%	23,660	24,200	(540)	-2%
% of revenue	43%	50%	-7%		41%	47%	-6%	
Other income	94	51	43	84%	222	157	65	41%
Other gains and losses	353	(89)	442	-497%	(43)	(425)	382	-90%
Reversal of impairment loss on trade receivable and contract assets	31	-	31		104	-	104	
Fair value change on put option liability	1,610	-	1,610		4,476	-	4,476	
Selling and marketing expenses	(2,670)	(2,072)	(598)	29%	(7,573)	(6,091)	(1,482)	24%
% of revenue	14%	11%	3%		13%	12%	1%	
General and administrative expenses	(2,176)	(1,544)	(632)	41%	(6,266)	(5,246)	(1,020)	19%
% of revenue	11%	8%	3%		11%	10%	1%	
Listing expenses	(190)	(55)	(135)		(615)	(73)	(542)	
Share-based compensation	(255)	(563)	308	-55%	(425)	(772)	347	-45%
Finance costs	(481)	(241)	(240)	100%	(1,036)	(878)	(158)	18%
Share of loss of associates	(292)	(1)	(291)	100%	(673)	(1)	(672)	100%
Share of loss of a joint venture	(18)	-	(18)		(41)	-	(41)	
Profit before tax	4,111	4,662	(551)	-12%	11,790	10,871	919	8%
% of revenue	22%	25%	-3%		21%	21%	0%	
Income tax expense	(1,433)	(1,611)	178	-11%	(3,881)	(4,012)	131	-3%
% of revenue	8%	9%	-1%		7%	8%	-1%	
Profit for the period from continuing operations	2,678	3,051	(374)	-12%	7,909	6,859	1,050	15%
% of revenue	14%	17%	-3%		14%	13%	1%	
Discontinued operation								
Profit (loss) for the period from discontinued operation	-	176	(176)		5,992	(27)	6,019	
Profit for the period	2,678	3,227	(549)	-17%	13,901	6,832	7,069	103%
Fair value change on available-for-sale financial assets	-	-	-		-	-	-	
Total comprehensive income for the period	2,678	3,227	(549)	-17%	13,901	6,832	7,069	103%
-attributable to non-controlling interests	(32)	132	(164)	-124%	1,774	248	1,526	100%
-attributable to owners of the Company	2,710	3,095	(385)	-12%	12,127	6,584	5,543	84%
EBITDA from continuing operations	4,434	6,211	(1,777)	-29%	11,791	14,726	(2,936)	-20%
% of revenue	23%	34%	-11%		21%	29%	-8%	
From continuing and discontinued operations								
Basic EPS (CAD)	0.04	0.05			0.19	0.10		
Diluted EPS (CAD)	0.04	0.05			0.18	0.10		
From continuing operations								
Basic EPS (CAD)	0.04	0.05			0.12	0.10		
Diluted EPS (CAD)	0.04	0.04			0.12	0.10		

Restatement of Financial Results

During the three months ended September 30, 2018, it was discovered that certain operating parameters applied in determination of the gas usage of pre-charged card gas sales for the six months ended June 30, 2018 was incorrect, resulting in inaccuracies in the gas sales revenues for the six months ended June 30, 2018 and the contract liabilities, which represents the unsold gas value on pre-charged cards, at June 30, 2018.

The Company has determined that a correction was required, and as such, has restated its previously reported unaudited condensed interim consolidated financial statements as at and for the six months ended June 30, 2018. The impact of the correction is as follows:

- (i) To adjust revenue from gas sales of RMB10.5 million decrease;
- (ii) To adjust income tax expense of RMB2.6 million decrease;
- (iii) To adjust other taxes payables at June 30, 2018, represents value-added tax payable of RMB1.0 million decrease;
- (iv) To adjust contract liabilities related to receipts in advance from gas sales of RMB11.6 million increase; and
- (v) To adjust the deferred tax liabilities of RMB2.6 million decrease.

Further details of the restatement are set out in note 23 to the unaudited condensed interim consolidated financial statements for the period ended September 30, 2018.

Result of Operations

Total Revenue and Sales Volume sold

Revenue (Summary table)								
Total Revenue (in RMB'000)	Three months ended Sept 30,				Nine months ended Sept 30,			
	2018	2017	Change	%	2018	2017	Change	%
Gas distribution utility								
- Gas Sales	45,268	43,585	1,683	4%	157,440	130,740	26,700	20%
- Pipeline Installation and Connection	35,624	36,330	(706)	-2%	89,243	91,213	(1,970)	-2%
CNG vehicle refueling	15,269	16,127	(858)	-5%	43,874	44,335	(461)	-1%
Total Revenue in RMB'000	96,161	96,042	119	0%	290,557	266,288	24,269	9%

Revenue for the third quarter of 2018 was RMB96.2 million, maintained its steadiness with a slight increase of RMB0.2 million from RMB96.0 million for the same period of 2017. Revenue for the nine months ended September 30, 2018 was RMB290.6 million, an increase of RMB24.3 million, or 9%, from RMB266.3 million for the same period of 2017. This increase was mainly due to the slight increase in gas sales offset by a decrease in revenue from pipeline installation and connection and CNG vehicle refueling which maintained its steadiness in the third quarter of 2018 and for the nine months ended September 30, 2018, comparing to the same periods of 2017.

Sales volume sold								
Sales volume sold (m³)	Three months ended Sept 30,				Nine months ended Sept 30,			
	2018	2017	Change	%	2018	2017	Change	%
Sanya region	10,460,936	9,852,651	608,285	6%	37,387,257	33,935,358	3,451,899	10%
Hebei region	195,632	-	195,632	100%	2,809,212	-	2,809,212	100%
Total gas sales volume (m³)	10,656,568	9,852,651	803,917	8%	40,196,469	33,935,358	6,261,111	18%
Changsha CNG	1,436,007	2,029,918	(593,911)	-29%	3,994,730	5,420,489	(1,425,759)	-26%
Sanya CNG/LNG	2,221,141	2,272,141	(51,000)	-2%	7,053,718	6,408,530	645,188	10%
Total CNG/LNG volume (m³)	3,657,148	4,302,059	(644,911)	-15%	11,048,448	11,829,019	(780,571)	-7%
Total sales volume sold (m³)	14,313,716	14,154,710	159,006	1%	51,244,917	45,764,377	5,480,540	12%

Gas sales volume increased was mainly attributable to the continuously growing total gas sales volume in Sanya and the commencement of gas sales in Hebei region since the second quarter of 2018. Gross gas sales volume in Sanya region increased by 6% and 10% for the third quarter of 2018 and nine months ended September 30, 2018 respectively.

For the three and nine months ended September 30, 2018

CNG sales volume from Changsha CNG vehicle refueling station dropped by 18% and 26% for the third quarter of 2018 and nine months ended September 30, 2018 respectively. CNG sales volume from Sanya CNG vehicle refueling station experienced an increase of 45% and 10% for the third quarter of 2018 and nine months ended September 30, 2018 respectively.

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

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 decreased slightly for the nine months ended September 30, 2018.

Gas Sales by volume

Gas sales								
Sanya Region	Three months ended Sept 30,				Nine months ended Sept 30,			
Gas volume sold (m ³)	2018	2017	Change	%	2018	2017	Change	%
Residential customers	2,244,858	2,119,243	125,615	6%	10,116,964	8,717,213	1,399,751	16%
Commercial customers	8,216,078	7,733,408	482,670	6%	27,270,293	25,218,145	2,052,148	8%
Subtotal (Sanya Region)	10,460,936	9,852,651	608,285	6%	37,387,257	33,935,358	3,451,899	10%
Hebei Region	Three months ended Sept 30,				Nine months ended Sept 30,			
Gas volume sold (m ³)	2018	2017	Change	%	2018	2017	Change	%
Commercial customers	195,632	-	195,632	100%	2,809,212	-	2,809,212	100%
Total	10,656,568	9,852,651	803,917	8%	40,196,469	33,935,358	6,261,111	18%

Gas sales volume for Sanya Region in the third quarter of 2018 was 10.5 million m³, an increase of 0.6 million m³ or 6%, compared to 9.9 million m³ for the same quarter of 2017, of which 2.2 million m³ was for residential customers at a growth rate of 6% and 8.2 million m³ was for commercial customers at a growth rate of 6%. Gas sales volume for Sanya Region during the nine months ended September 30, 2018 was 37.4 million m³, an increase of 3.5 million m³ or 10%, compared to 33.9 million m³ for the same period of 2017, of which 10.1 million m³ was for residential customers at a growth rate of 16% and 27.3 million m³ was for commercial customers at a growth rate of 8%.

The Company's non-residential customers include commercial and industrial customers, mainly comprised of hotels, resorts and restaurants in Sanya City. Approximately 73% of the gas sold in Sanya City during the nine months ended September 30, 2018 was to those non-residential customers.

In the Sanya Region, there is a total of 192,960 residential customers as at September 30, 2018, an increase of 5,017 new customers in the third quarter of 2018 as compared to 3,528 new customers in the same quarter of 2017. There is a total of 1,013 commercial customers as at September 30, 2018, an increase of 14 new customers in the third quarter 2018 as compared to an increase of 18 new customers in the same quarter of 2017.

Subsequent to the temporary production halt of two ceramic manufacturer clients due to operational issues and seasonality in August 2018, Riheng Energy had entered into a LNG supply agreement with a new manufacturer of construction materials with an estimated gas sales of 5.4 million m³ per year. Supply of gas to this customer commenced in August 2018 with volume gradually picks up in October 2018.

For the three and nine months ended September 30, 2018

Gas Sales by amount

Gas sales								
Sanya Region	Three months ended Sept 30,				Nine months ended Sept 30,			
	2018				2018			
Gas sales revenue (in RMB'000)	(restated)	2017	Change	%	2018	2017	Change	%
Residential customers	6,011	8,878	(2,867)	-32%	27,380	24,858	2,522	10%
Commercial customers	37,471	34,707	2,764	8%	122,659	105,882	16,777	16%
Total	43,482	43,585	(103)	0%	150,039	130,740	19,299	15%
Hebei Region								
	Three months ended Sept 30,				Nine months ended Sept 30,			
Gas sales revenue (in RMB'000)	2018	2017	Change	%	2018	2017	Change	%
Commercial customers	1,786	-	1,786	100%	7,401	-	7,401	100%
Total	45,268	43,585	1,683	4%	157,440	130,740	26,700	20%

Gas sales revenue in the third quarter was RMB45.3 million, an increase of RMB1.7 million or 4%, from RMB43.6 million for the same quarter of 2017. Gas sales revenue for the nine months ended September 30, 2018 was RMB157.4 million, an increase of RMB26.7 million or 20%, from RMB130.7 million for the same period of 2017.

Increase in gas sales revenue is driven by increase of gas sales volume and increase in gas price in Sanya region which commenced since May 2017 following the release of the document that detailed the natural gas price hike beginning from May 1, 2017 by the Sanya Municipal Development and Reform Commission.

The three-tier residential natural gas price is adjusted as follows:

Less than 260m³: Increased from RMB2.6/m³ to RMB3.15/m³, an increase of 21%;
 Between 261 m³- 390 m³: Increased from RMB2.86/m³ to RMB3.78/m³, an increase of 32%; and
 More than 391 m³: Increased from RMB3.12/m³ to RMB3.96/m³, an increase of 27%.

Social welfare units (schools, government facilities, and other not-for-profit organizations): Gas price increased from RMB2.86/ m³ to RMB3.46/m³, an increase of 21%;

Non-residential (commercial and industrial): Gas price increased from RMB4.7/m³ to RMB5.12/m³, an increase of 9%.

Pipeline Installation and Connection

Pipeline connection								
Sanya Region	Three months ended Sept 30,				Nine months ended Sept 30,			
	2018	2017	Change	%	2018	2017	Change	%
Customers newly connected								
Residential customers	4,481	7,923	(3,442)	-43%	12,856	15,800	(2,944)	-19%
Commercial customers	18	17	1	6%	54	39	15	38%
Total customers connected								
Residential customers	4,481	7,923	(3,442)	-43%	243,932	215,875	28,057	13%
Commercial customers	18	17	1	6%	1,003	924	79	9%
Pipeline connection revenue (in RMB'000)								
Residential customers	30,664	23,583	7,081	30%	69,172	60,307	8,865	15%
Commercial customers	4,960	12,746	(7,786)	-61%	20,071	30,906	(10,835)	-35%
Total	35,624	36,329	(705)	-2%	89,243	91,213	(1,970)	-2%

Pipeline installation and connection revenue for the third quarter of 2018 was RMB35.6 million, a decrease of RMB0.7 million or 2%, from RMB36.3 million for the same quarter of 2017. Pipeline installation and connection revenue for the nine months ended September 30, 2018 was RMB89.2 million, a slight decrease of RMB2.0 million or 2%, from RMB91.2 million for the same period of 2017.

There are 4,481 new residential customers in the third quarter of 2018, a decrease of 3,442 new customers or 43% from 7,923 new residential customers obtained for the same quarter of 2017. There are 243,932 residential customers and 1,003 commercial customers as at September 30, 2018, as compared to 215,875 residential customers and 924 commercial customers as at September 30, 2017.

Due to the purchasing restrictions policy imposed by the government to the property market of Sanya, fewer property sales were made since the second quarter and continued into the third quarter of 2018. Development

For the three and nine months ended September 30, 2018

of certain residential areas have slowed down which resulted in the further decrease in number of new residential customers in pipeline installation and connection in the third quarter of 2018.

In view of such government policy which may affect the overall revenue due to slowing down of the property market in Sanya, the Company speeded up the completion of pipeline installation and connection projects in unaffected residential areas in the third quarter of 2018 which resulted in the increase in pipeline installation and connection revenue of RMB7.1 million or 30%, from RMB23.6 million for the same quarter of 2017.

There are 18 new commercial customers in the third quarter of 2018, an increase of 1 new customer or 6% from 17 new commercial customers for the same quarter of 2017. These new commercial customers obtained in the third quarter of 2018 were small customers with no major construction project being undertaken, hence the revenue per customer was lower in the 2018 while new customers in 2017 included large hotels with major construction projects and the revenue per customer in 2017 was higher. Pipeline installation and connection revenue for the commercial customers was RMB5.0 million in third quarter of 2018, a decrease of RMB7.8 million or 61%, from RMB12.8 million for the same quarter of 2017.

CNG vehicle refueling stations

CNG Sales								
CNG Sales Volume (m³)	Three months ended Sept 30,				Nine months ended Sept 30,			
	2018	2017	Change	%	2018	2017	Change	%
Changsha CNG	1,436,007	2,029,918	(593,911)	-29%	3,994,730	5,420,489	(1,425,759)	-26%
Sanya CNG/LNG	2,221,141	2,272,141	(51,000)	-2%	7,053,718	6,408,530	645,188	10%
Total Sales Volume (m³)	3,657,148	4,302,059	(644,911)	-15%	11,048,448	11,829,019	(780,571)	-7%
CNG Sales Revenue (in RMB'000)	Three months ended Sept 30,				Nine months ended Sept 30,			
	2018	2017	Change	%	2018	2017	Change	%
Revenue in RMB								
Changsha CNG	5,761	7,709	(1,948)	-25%	15,593	20,371	(4,778)	-23%
Sanya CNG/LNG	9,508	8,418	1,090	13%	28,281	23,964	4,317	18%
Total Revenue	15,269	16,127	(858)	-5%	43,874	44,335	(461)	-1%

Total revenue from CNG refueling retail stations for the third quarter of 2018 was RMB15.3 million, a slight increase of RMB0.8 million, or 5%, from RMB16.1 million for the same quarter of 2017. Total revenue from CNG refueling retail stations for the nine months ended September 30, 2018 was RMB43.9 million, maintained its steadiness with a slight decrease of RMB0.4 million, or 1%, from RMB44.3 million for the same period of 2017. The relatively moderate increase of revenue from Sanya CNG/LNG station in the third quarter of 2018 as compared with the same quarter of 2017 reflected the slowing down of growth in Sanya new CNG/LNG refueling retail station since its commencement of operation in May 2016.

CNG sales volume from Changsha CNG vehicle refueling station dropped due to local market competition. Sales volume dropped by 0.6 million m³ or 29% in the third quarter of 2018 and 1.4 million m³ or 26% in the nine months ended September 30, 2018 as compared same period in 2017. The decrease in sales volume is attributed to the reduction of taxi usage due to the combined effect of new introduction of electrical cars launched in the market, two lines of the mass transit subway system which commenced operation in 2018 and more common use of shared bikes and ridesharing transportation which reduced the consumption of CNG in Changsha.

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.

One Chinese RMB to Canadian dollars	Q3 2018	Q3 2017	% change
Spot rate at the end of the period	0.1884	0.1876	0.4%
Average rate for the period	0.1978	0.1920	3.0%

For the three and nine months ended September 30, 2018

Gross margin

Gross margin for the three months ended September 30, 2018 was RMB41.0 million, a decrease of RMB6.8 million, or 14%, from RMB47.8 million for the same period in 2017. Gross margin was RMB119.6 million, a decrease of RMB6.4 million or 5% for the nine months ended September 30, 2018, compared to the same period in 2017. The overall gross margin percentage was 41% for nine months ended September 30, 2018, a decrease of 6 percent point from 47% for the same period of 2017. The decrease in the overall gross margin percentage was mainly attributed to the decrease of gross margin percentage in the Sanya pipeline distribution subsidiary, Sanya Changfeng which contributed 45.2% and 51.6% of total revenue to the Company for the third quarter and nine months ended September 30, 2018 respectively.

The decrease in gross profit margin in Sanya Changfeng was mainly attributable to the increase in cost of gas purchased. Supply of piped gas purchase reduced from 24 million m³ in 2017 to 12 million m³ in 2018 as a result of reduction in piped gas volume available. To compensate this, more trucked LNG with higher cost was purchased in 2018. LNG purchase contributed 79.4% of total gas purchase for the nine months ended September 30, 2018, an increase of 50.9 percentage point from 28.5% of total gas purchase in the same period of 2017. Average gas costs for the nine months ended September 30, 2018 was RMB2.4/m³ as compared to RMB1.94/m³ in the same period of 2017.

The pipeline installation and connection subsidiary, CF Engineering recorded an increase of gross profit margin mainly attributable to the reduction in average labor cost for connecting new residential areas as compared to old residential areas due to better city planning in the new residential areas. More customers in new residential areas were connected in the third quarter of 2018 whereas more customers in old residential areas were connected in same period of 2017. New commercial customers in pipeline installation and connection obtained in the third quarter of 2018 were for small customers where costs were higher than for larger customers as less benefit is derived from economies of scale.

The gross profit margin for Sanya CNG/LNG vehicle refueling station recorded an increase of gross profit margin mainly attributable to the decrease in cost of gas purchase. Average gas costs for the nine months ended September 30, 2018 was RMB5.0/m³ which was reduced from RMB5.3/m³ in the same period of 2017. The gross profit margin for the Changsha CNG vehicle refueling station remained constant as compared to same period in 2017.

Operating expenses

Selling and marketing expenses for the third quarter of 2018 is RMB13.5 million, an increase of RMB2.7 million, or 25%, from RMB10.8 million in the same period of 2017. Selling and marketing expenses for the nine months ended September 30, 2018 were RMB38.3 million, an increase of RMB6.6million, or 21%, from RMB31.7 million in the same period of 2017. As a percentage of sales, selling and marketing expenses for the third quarter of 2018 and nine months ended September 30, 2018 maintained the same of 14% and 13% as that of the same period of 2017.

General and administrative expenses for the third quarter of 2018 is RMB11.0 million, an increase of RMB3.0 million, or 37%, from RMB8.0 million in the same quarter of 2017. For the nine months ended September 30, 2018, general and administrative expenses were RMB31.7 million, an increase of RMB4.4 million, or 16%, from RMB27.3 million in the same period of 2017. General and administrative expenses as a percentage of sales for the third quarter of 2018 and nine months ended September 30, 2018 were 11% and 11% respectively and maintained at a relatively similar level as that of the same periods of 2017.

The increase in both selling and marketing expenses and administrative expenses for the nine months ended September 30, 2018 reflected the costs associated with the additional resources and gearing up of manpower in line with the Group's initiative to procure and develop new projects outside of Sanya, the traditional stronghold of the Group, as part of its expansion plan.

Finance Costs

Finance costs of RMB2.4 million for the third quarter of 2018, an increase of RMB1.2 million or 94% compared to RMB1.2 million for the same period of 2017. Finance costs for the nine months ended September 30, 2018 is RMB5.2 million, a decrease of RMB0.6 million or 15% compared to RMB4.6 million for the same period of 2017.

For the three and nine months ended September 30, 2018

EBITDA from continuing operations

EBITDA (non-IFRS measure as identified and defined under section "Non-IFRS Measures") from continuing operations for the third quarter of 2018 was RMB22.4 million, a decrease of RMB9.9million, or 31%, from RMB32.3 million for the same period of 2017. EBITDA for the nine months ended September 30, 2018 was RMB59.6 million, a decrease of RMB17.0 million, or 22%, from RMB76.7 million for the same period of 2017.

Profit for the period from continuing operations

Net profit from continuing operations for the third quarter of 2018 was RMB13.5 million, or RMB0.21 per share and RMB0.20 per share (basic and diluted, respectively) compared to RMB15.9 million, or RMB0.24 per share and RMB0.23 per share (basic and diluted, respectively) for the same quarter of 2017.

Net profit from continuing operations for the nine months ended September 30, 2018 was RMB40.0 million, or RMB0.62 per share and RMB0.59 per share (basic and diluted, respectively) as compared to RMB35.7 million or RMB0.54 per share and RMB0.53 per share (basic and diluted, respectively) for the same period in 2017. Profit for the period from continuing operations in the third quarter of 2018 included a further gain on the fair value of put option liability of RMB8.1 million subsequent to the disposal of Pingxiang CF in January of 2018.

Selected Quarterly Results for continuing and discontinued operations

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	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3 (note 1)	Q2 (note 1)	Q1 (note 1)	Q4
Foreign exchange rate one RMB to Canadian dollars	0.1978	0.2007	0.1989	0.1921	0.1920	0.1961	0.1921	0.1996
Revenue	96,161	90,266	104,130	116,726	96,042	82,289	86,908	89,848
Gross profit	40,974	30,312	48,330	36,656	47,791	33,026	45,966	44,935
Profit (loss) for the period	13,534	12,483	44,256	(578)	16,818	7,634	11,128	4,274
EPS of continuing and discontinued operations								
- basic (RMB)	0.21	0.19	0.55	(0.15)	0.25	0.11	0.18	0.14
- diluted (RMB)	0.20	0.19	0.51	(0.14)	0.25	0.11	0.17	0.14

Note 1: The comparative periods' amounts were restated to reflect the discounted operation of Pingxiang CF.

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
(RMB000's)	September 30, 2018	December 31, 2017
Bank balances and cash	111,223	150,711
Working capital (deficit)	(53,821)	(42,512)
Adjusted working capital (note1)	58,332	120,726
Plant and equipment	376,409	349,006
Total assets	666,914	726,706
Long term liabilities	126,259	139,040
Shareholders' equity	289,324	223,981

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

Cash decreased by RMB39.5 million to RMB111.2 million at September 30, 2018 from RMB150.7 million at December 31, 2017, primarily resulting from decrease in cash generated from operating activities of RMB4.5 million, repayments of short-term bank borrowings of RMB29.2 million and long-term bank loan of RMB11.0 million and dividend payment of RMB13.9 million, offset by cash inflows from disposal of interest in Pingxiang of RMB42.1 million, increase in cash from the exercise of stock options of RMB2.0 million and a new short-term bank borrowing raised of RMB 20.0 million. Cash was also used for acquisition of property and equipment of RMB30.5 million.

Adjusted Working Capital

The adjusted working capital (see "Non-IFRS Financial Measures") was RMB58.3 million at September 30, 2018. Adjusted working capital excludes contract liabilities of RMB72.2 million and short-term bank borrowings of RMB40.0 million.

Liquidity and Capital Resources

Overview

The Company's principal sources of short-term funding are its existing cash balances, operating cash flows and borrowings under its lines of credit. Its principal sources of long-term funding are its three term loans into which Changfeng entered in 2010, 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 includes in the contract liabilities, refund liabilities 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 lines of credit.

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

In the short term, management does not expect to face any liquidity problems considering its ability to generate sustainable cash flows from operations in the short and long term. As at September 30, 2018 and December 31, 2017, the Group was in compliance with all of its debt covenants.

Contractual Obligations and Commitments

As of September 30, 2018, there have been no significant changes to contractual obligations and commitments since December 31, 2017.

Share Capital

As of the date of this MD&A, the Company has 65,248,155 common shares outstanding, 6,225,000 stock options outstanding. The Company has no warrants outstanding. Fair value of share options granted to certain directors, employees and consultants determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Company's contributed surplus. 2,440,000 new options had been granted by the Company in April 2018, 919,120 options had been exercised and 486,030 options had expired/been cancelled during the nine months ended September 30, 2018.

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 from continuing operations

EBITDA is defined herein as income before income tax expense, finance cost, depreciation and amortization, share of loss of investment in associate and joint venture, as well as non-cash stock-based compensation expense and fair value change on the on put option liability. 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 from continuing operations for each of the periods presented in this MD&A as follows:

For the three and nine months ended September 30, 2018

In RMB thousands (except for % figures)	Three months ended Sept 30,				Nine months ended Sept 30,			
	2018	2017	Change	%	2018	2017	Change	%
Profit for the period from continuing operations	13,534	15,900	(2,366)	15%	39,980	35,721	4,259	12%
Add (less):								
Income tax expense	(7,243)	(8,391)	1,148	-14%	(19,623)	(20,897)	1,274	-6%
Interest income	474	267	207	77%	1,121	817	304	37%
Share of loss of associates	(1,479)	(1)	(1,478)	100%	(3,401)	(4)	(3,397)	100%
Share of loss of a joint venture	(93)	-	(93)	100%	(208)	-	(208)	100%
Share-based compensation	(1,288)	(2,931)	1,643	100%	(2,150)	(4,023)	1,873	100%
Depreciation and amortization	(4,963)	(4,138)	(825)	20%	(12,756)	(12,297)	(459)	4%
Finance costs	(2,433)	(1,253)	(1,180)	94%	(5,240)	(4,571)	(669)	15%
Fair value change on put option liability	8,142	-	8,142		22,627	-	22,627	
EBITDA from continuing operations	22,417	32,347	(9,930)	-31%	59,610	76,696	(17,086)	-22%

Adjusted working capital

Adjusted working capital is calculated as current assets less adjusted current liabilities. Adjusted current liabilities is calculated as current liabilities, excluding contract liability which represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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	September 30, 2018	December 31, 2017
Current assets	197,510	321,173
Less: Current liabilities	251,331	363,685
Working capital deficit	(53,821)	(42,512)
Add: Receipts in advance from customers	-	82,631
Short-term bank loans	40,000	49,760
Receipts in advance from disposal of subsidiary	-	30,847
Contract liabilities (note 1)	72,153	-
Adjusted working capital	58,332	120,726

Note 1: Contract liabilities include receipts in advance from customers in respects of natural gas pipeline installation and connections contracts and natural gas sales.

Principal accounting policies

Application of new and amendments to IFRSs

The Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after January 1, 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current nine-month period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application, January 1, 2018. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations. At the date of initial application, there is no difference recognized in the opening retained profits and no comparative information has been restated.

IFRS 15 introduces a 5-step approach when recognizing revenue:

- 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 Group satisfies a performance obligation

Under IFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

For the three and nine months ended September 30, 2018

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group recognizes revenue from the following major sources:

- natural gas pipeline installation and connection services
- natural gas supply
- CNG vehicle refueling stations

(a) Revenue from natural gas pipeline installation and connection services

Recognition

The Group provides natural gas pipeline installation and connection services under contracts with customers. Such contracts are entered into before the contracting services begin.

Under the terms of the contracts, the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Revenue from natural gas pipeline connection is therefore recognized over time using input method.

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognize revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

The management of the Company consider that input method would faithfully depict the Group's performance towards complete satisfaction of the performance obligation under IFRS 15.

(b) Revenue from natural gas supply

Recognition

The Group supplies gas to residential, commercial and industrial consumers in the PRC. Revenue from natural gas supply is recognized at a point in the time when the customers consume the natural gas.

(c) Revenue from CNG vehicle refuelling stations

Recognition

The Group operates two natural gas refuelling stations in Sanya City, Hainan Province and Changsha City, Hunan Province, respectively. Revenue from CNG vehicle refuelling stations is recognized at a point of time when the gas refuels to customer's vehicle.

For the three and nine months ended September 30, 2018

Summary of effects arising from initial application of IFRS 15

The initial application of IFRS 15 on January 1, 2018 has no material impact on the condensed interim consolidated statements of profit or loss and other comprehensive income of the Group with regards to the revenue recognition.

The following adjustments were made to the amounts recognized in the condensed interim consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at December 31, 2017 RMB'000	Reclassifications RMB'000	Carrying amounts under IFRS 15 at January 1, 2018 RMB'000
Current Assets				
Amounts due from customers for contract works	a	18,575	(18,575)	-
Contract assets	a	-	18,575	18,575
Current liabilities				
Amounts due to customers for contract works	a	33,377	(33,377)	-
Contract liabilities	a	-	116,008	116,008
Receipts in advance from customer	b	82,631	(82,631)	-

Note a: In relation to natural gas pipeline installation and connection construction contracts previously accounted under IAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of IFRS 15. RMB18,575,000 and RMB33,377,000 of amounts due from/to customers for contract works were reclassified to contract assets, trade receivables and contract liabilities respectively.

Note b: At as January 1, 2018, receipts in advances from customers of RMB 82,631,000 in respect of natural gas sales were reclassified to contract liabilities.

The following tables summarise the impacts of applying IFRS 15 on the Group's condensed interim consolidated statement of financial position as at June 30, 2018 and its condensed interim consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed interim consolidated statement of financial position

	September 30, 2018 As reported RMB'000	Adjustment RMB'000	Amounts without application of IFRS 15 RMB'000
Current Assets			
Amounts due from customers for contract works	-	18,495	18,495
Contract assets	18,495	(18,495)	-
Current liabilities			
Amounts due to customers for contract works	-	49,652	49,652
Contract liabilities	121,805	(121,805)	-
Receipts in advance from customers	-	72,153	72,153

Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

The Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and

For the three and nine months ended September 30, 2018

financial liabilities, 2) expected credit losses ("ECL") for financial assets and contract assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. There is no difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 recognized, which are recognized in the opening retained profits and other components of equity.

Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables and contract assets arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognized financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The management of the Company reviewed and assessed the Group's financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date. The application of IFRS 9 has had no material effect on classification and measurement of financial assets in these condensed interim consolidated financial statements.

Impairment under ECL model

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, contract assets, other receivables, amounts due from related parties, pledged bank deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

For the three and nine months ended September 30, 2018

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at January 1, 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and contract assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9.

Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and contract assets. To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

The management of the Company considers the impairment under ECL model of the Group's financial assets has no material impact on credit loss allowance of recognized against the retained profits as at January 1, 2018.

Related Parties Transactions

During the period, the Group entered into the following transactions with related party:

<u>Name of related party</u>	<u>Relationship party</u>	<u>Nature of transactions</u>	September 30, 2018 RMB'000	December 31, 2017 RMB'000
Pingxiang CF	Associate	Interest income	471	-
		Service fee (note a)	3,300	-

The following balances were outstanding from/ (to) related parties at the end of the reporting period:

<u>Name of related party</u>	<u>Relationship parties</u>	<u>Terms</u>	September 30, 2018 RMB'000	December 31, 2017 RMB'000
Shin-Ko Energy	Associate	Non-trade, unsecured, non-interest bearing and repayable on demand	(4,249)	(4,249)
Pingxiang CF	Associate	Non-trade, unsecured and interest bearing (note b)	12,732	-
		Trade, unsecured, non-interest bearing and repayable on demand (note a)	3,300	-
EDF CF	Joint venture	Non-trade, unsecured, non-interest bearing and repayable on demand	144	2,765
Mr. Lin	Ultimate controlling shareholder	Non-trade, unsecured, non-interest bearing and repayable on demand	(974)	(109)

Note a: The balance represents amount due from Pingxiang CF amounted of RMB3,300,000 after signing of the Concessory Agreement with Xiangdong District Government of Pingxiang, Jiangxi province and obtain the concessory right for natural gas pipeline distribution. Details of the disposal are set out in note 6. In the opinion of the management of the Company, the amount is expected to be repaid within 12 months after the end of reporting period and therefore the amount is classified as current asset.

Note b: The balance represents the loan to Pingxiang CF with 4.35% interest bearing since 2012 amounted of RMB12,732,000. As at September 30, 2018, Pingxiang CF has been classified as an associate to the Group upon the completion of disposal and the loan to and amount due from Pingxiang CF are no longer being eliminated.