

CF ENERGY CORP.
(formerly “Changfeng Energy Inc.”)

**Management’s Discussion and Analysis
for the three-month and nine-month periods ended
September 30, 2019**

Dated November 28, 2019

Advisory

This Management’s Discussion and Analysis (“MD&A”) provides an analysis to enable readers to understand the financial position and operations of CF Energy Corp., formerly “Changfeng Energy Inc.” (hereafter referred to as “CF Energy”, “we” or the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at and for the three-month and nine-month periods ended September 30, 2019. This information should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements and related notes for the three-month and nine-month periods ended September 30, 2019 and the audited consolidated financial statements and related notes for the year ended December 31, 2018. “CF Energy ” includes CF Energy Corp. and its subsidiaries, unless otherwise indicated. Additional information related to CF Energy is available on SEDAR at www.sedar.com or on its website at <http://www.cfenergy.com>.

The preparation of unaudited condensed interim consolidated 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. CF Energy 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), the official currency of the People’s Republic of China (the “PRC”) 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 and Uncertainties”. 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

CF Energy is a Canadian public company currently listing on the TSX Venture Exchange (“TSX-V”) under the stock symbol “CFY”. CF Energy is primarily involved in natural gas distribution and sustainable energy utilization in the PRC or China, serving residential, commercial and industrial users in the PRC.

Our existing business model comprises four main segments: (i) Pipeline natural gas (“PNG”) sales and liquefied natural gas (“LNG”) supply distribution sales; (ii) Vehicle refueling; (iii) Natural gas direct transmission; and (iv) Renewable and smart energy/Integrated smart energy. Segments (i), (ii) and (iii) have been operational with the remaining segment (iv) is currently under development. The PNG sales cover both PNG distribution and the service pipeline installation and connection sub-segments.

Pipeline PNG Sales and LNG Supply Distribution Sales

Major pipeline PNG sales projects are based in Sanya City, Hainan Province and Pingxiang District, Jiangxi Province. The Company has been granted with a 30-year exclusive concession right in Sanya to operate the pipeline PNG sales as well as the construction and maintenance of the required facilities and pipelines which makes the Company the dominant participant in the Sanya PNG gas distribution market.

LNG supply distribution sales commenced in 2018 with the signing of various LNG supply distribution contracts for the point-to-point supply of natural gas in the form of LNG to factories and industrial parks in Xingtai City, Hebei Province.

Vehicle Refueling

The Company operates two refueling stations in Sanya and Changsha which provide refueling services for vehicles such as household cars, taxicabs, buses and trucks. The Company offers two types of natural gas to customers for vehicle refueling: CNG and LNG.

Natural Gas Direct Transmission

This is the transportation of natural gas via the Company’s 2.0 kilometers (1.4 miles) of pipeline connecting the provincial natural gas trunk lines to the Gaoyao Combined Heat, Power and Cold Natural Gas Power Plant owned by Guangdong Datang International Zhaoqing Heat & Power Co., Ltd. in Zhaoqing City, Guangdong Province.

Renewable and Smart Energy / Integrated Smart Energy Segment

Currently there are two projects under development, namely the integrated smart energy project (the “Haitang Bay Integrated Smart Energy Project”) and the integrated district energy distribution project (the “Meishan Project”).

The Haitang Bay Integrated Smart Energy Project, which combines the use of multiple clean energy sources, including solar, hydro, electricity, and natural gas (CCHP/Co-Gen), is to supply cooling, heating, as well as hot water to the hotels, shopping centers, and households in the Haitang Bay area of Sanya City, the Hainan Province, the PRC. This project is conducted through the 50:50 joint venture company, EDF Changfeng (Sanya) Energy Co., Ltd. (“EDF CF”) established between CF Energy and the French EDF Group with a 30-year concession right agreement which gives EDF CF the right to build, own and operate four energy processing stations in Haitang Bay. Following the procurement of its first client, the Sanya Haitang Bay Edition Hotel in January 2019, in August 19, 2019, EDF CF successfully signed a 30 year cooling contract with the DoubleTree by Hilton to provide cooling to the hotel with an estimated annual cooling usage of 12,600,000 kWh servicing a cooling area of approximately 45,000 square meters. The construction of the first energy station is pending the approval of the construction permit which is expected to be received by in December 2019. As hotels prefer that the construction does not coincide with the holiday season to avoid interference with their normal operations, construction of the energy station is expected to begin early next year after the peak holiday season and complete by September 2020.

The Meishan 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 (“Meishan Hengtai”), a company which the Group holds an effective interest of 72%. The Meishan New Economic Development Zone situated next to the central urban area of Meishan City, Sichuan Province, the

PRC, with a planned development area of 50.5 square kilometers, is to be the hub for manufacturers of drugs, supplements, medical equipment, and other medical related supplies. The year-round constant demand for steam is necessary to produce drugs makes the Meishan New Economic Development Zone an ideal platform for integrated district energy distribution. Sichuan provincial government has approved the construction plan for the first phase of the integrated district energy distribution project in Meishan. The land for construction was obtained and the land transfer process is under final processing and expected to be completed by January 2020. The Meishan project is planned to be developed in stages with the Initial stage of commercial operation scheduled to commence in June 2020. The Company has successfully signed letters of intent with three manufacturing clients in the Meishan New Economic Development Zone for steam powered heat distribution. Once the construction of the energy station and related pipeline connections have been completed, formal service agreements will be entered into and heat distribution will commence.

Highlight for the three-month period ended September 30, 2019, and up to the date of this MD&A

On 25 July 2019, the Company announced that due to the dispute as to the administration of the estate of Mr. Huajun Lin (“Mr. Lin”), the common shares of the Company held by the estate of Mr. Lin was not accepted for voting at the Company’s annual meeting of shareholders (the “Shareholders Meeting”) held on July 26, 2019. To the knowledge of the Company, the estate holds approximately 34,683,500 common shares of the Company, or approximately 53.16% of the outstanding common shares of the Company. Accordingly, the matters of business considered at the Shareholders Meeting were determined by votes cast by holders of common shares of the Company (or their validly appointed proxy holders) other than those held by the estate of Mr. Lin. The Company does not believe that the dispute has or will have any material impact on the operations of the Company and its subsidiaries. The Company and its management and employees will continue to operate its business on the basis of the strategic course set by the late Mr. Lin, subject to oversight by the board of directors (the “Director(s)”) of the Company (the “Board”).

On July 26, 2019, the Company announced that the “Board has determined to exercise the Company’s option pursuant to the Loan Discharge Agreement dated May 25, 2017 among the Company, CF China and Mr. Lin to require the estate of Mr. Lin (the “Estate”) to invest an aggregate amount of RMB36.0 million (approximately CAD6,861,587) in common shares of the Company (the “Investment”). Accordingly, the Estate will make the Investment at a price of CAD0.68 per common share representing a premium of approximately 6.3% over the closing price of the common shares of the Company on July 24, 2019. Following the Investment, based on the prevailing exchange rate, the Estate will hold approximately 44,774,068 common shares or approximately 59.43% of the total outstanding common shares of the Company. The Investment is subject to approval of the TSXV and relevant government approvals to be obtained by the Estate.

On July 26, 2019, the Company also announced that it intends to apply to the TSXV for approval of a normal course issuer bid (the “NCIB”) to be undertaken through the facilities of the TSXV. The Company intends to apply up to RMB 6.0 million (approximately CAD1,143,597) of the proceeds from the Investment by the Estate to acquire common shares of the Company over the TSXV pursuant to the NCIB. The NCIB remains subject to the approval of the TSXV and the completion of the Investment.

At the annual general meeting of the Company held on July 26, 2019, the shareholders of the Company approved the resolutions for the amendments to the existing stock option plan of the Company (the “Corporation Stock Option Plan”) from the “fixed” option plan to a “rolling” option plan and for the approval, ratification and confirmation the grant of stock options exercisable to acquire 1,145,455 common shares of the Company which were granted pursuant to the original Corporation Stock Option Plan.

On August 27, 2019, the Company announced that EDF CF has signed a 30 year cooling contract with the DoubleTree by Hilton to provide cooling to the hotel. The cooling area of the DoubleTree hotel is approximately 45,000 square meters with an estimated annual cooling usage of 12,600,000 kWhr. The construction of the first energy station is pending the approval of the construction permit which is expected to be received by the fourth quarter of 2019. As hotels prefer that the construction does not coincide with the holiday season to avoid interference with their normal operations, construction of the energy station is expected to begin early next year after the peak holiday season and complete by September 2020.

On September 6, 2019, the Company announced that the first installment of the interim dividend in respect of the year ended December 31, 2019 of RMB3,500,000 (equivalent to CAD649,600 based on the prevailing

exchange rate between CAD and RMB as at September 4, 2019 and approximately CAD0.01 per common share) is payable on September 20, 2019 to shareholders of record on September 16, 2019.

On September 13, 2019, the Company also announced that it has successfully signed letters of intent with three manufacturing clients in the Meishan New Economic Development Zone for steam powered heat distribution. Once the construction of the energy station and related pipeline connections have been completed, formal service agreements will be entered into and heat distribution will commence.

On November 25, 2019, the Company is pleased to announce that the second installment of the one-time special dividend of RMB6,450,000 (approximately CAD1,217,115 based on the prevailing exchange rate between CAD and RMB as at November 22, 2019), an equivalent of approximately CAD0.0187 per common shares based on the total common shares outstanding at November 22, 2019, will be payable on December 12, 2019 to shareholders of record as of the close of business on December 6, 2019.

Outlook

With the new pipeline gas source from “Eastern 13-2” gas field made available to the Group since late June 2019, the Group saw the significant reduction in reliance on the more expensive LNG to supplement its pipeline natural gas requirement, resulting in a significantly improvement in its gross profit margin for the quarter ended September 30, 2019. Going forward, the Company expects its overall gross profit margin to further improve and normalize at previous levels.

Although Hainan’s city natural gas market is still being driven by the development of tourism, in the first quarter of 2019, the Chinese Central Government Agencies and the Sanya government released policies which outlined major near to longer term action plans for development of the Hainan island to a clean energy island, signify more growth opportunities for the Company in the Hainan island.

In November 2019, the Party Central Committee with Premier Xi Jinping as its core and endorsed by the State Council pronounced the construction and development of China (Hainan) Free Trade Pilot Zone. The Ministry of Commerce and other 18 departments jointly issued the “Notice on the Implementation of the Pilot Policies for Other Pilot Free Trade Zones in the China (Hainan) Pilot Free Trade Zone,” and proposed the implementation of other free trade pilot zones applicable to the Hainan Free Trade Zone. There are 30 policies in four aspects, namely improving the level of investment and trade facilitation; accelerating the development of the shipping sector; exploration of the establishment of public credit information; and financial credit information complementation mechanism.

This is the final year of CF Energy’s plan to strategically shift its corporate focus to sustainable energy in combination with natural gas to become an integrated energy provider in the PRC. CF Energy 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 has been moving away from fossil dependency in correspondence with central government guidance, CF Energy looks to integrated smart energy and clean technology to complement the usage of natural gas. With significant and long presence in Hainan, the Company looks forward to exploiting the opportunities created by the recent initiatives of the Chinese Central and provincial government in developing Hainan island into a clean energy island and a Free Trade Pilot Zone.

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For the three-month and nine-month periods ended September 30, 2019

Selected Quarterly Financial Information

The following tables provide selected financial information for the three-month and nine-month periods ended September 30, 2019 and 2018 in Chinese RMB:

<i>In thousands of Chinese RMB except percentages and per share amounts</i>	Three months ended Sept 30,				Nine months ended Sept 30,			
	2019	2018	Change	%	2019	2018	Change	%
Continuing Operations								
Revenue	106,556	96,161	10,395	11%	316,583	290,557	26,026	9%
Gross profit	45,341	40,974	4,367	11%	124,001	119,616	4,385	4%
% of revenue	43%	43%	0%		39%	41%	-2%	
Other income	427	474	(47)	-10%	1,485	1,121	364	32%
Other gains and losses	(1,834)	1,416	(3,250)	-230%	(2,241)	(216)	(2,025)	938%
Reversal of impairment loss on trade receivables and contract assets	383	527	(144)	-27%	656	527	129	24%
Fair value change on put option liability	-	8,142	(8,142)	-100%	-	22,627	(22,627)	-100%
Selling and marketing expenses	(11,508)	(13,499)	1,991	-15%	(37,772)	(38,286)	514	-1%
% of revenue	11%	14%	-3%		12%	13%	-1%	
General and administrative expenses	(12,752)	(12,291)	(461)	4%	(34,173)	(33,827)	(346)	1%
% of revenue	12%	13%	-1%		11%	12%	-1%	
Finance costs	(2,341)	(2,433)	92	-4%	(5,929)	(5,240)	(689)	13%
Listing expenses	(442)	(961)	519	-54%	(2,045)	(3,110)	1,065	-34%
Share of profit (loss) of associates	1,461	(1,479)	2,940	-199%	545	(3,401)	3,946	-116%
Share of loss of a joint venture	(75)	(93)	18	-19%	(452)	(208)	(244)	117%
Loss on disposal of an associate	-	-	-	0%	(379)	-	(379)	100%
Profit before tax	18,660	20,777	(2,117)	-10%	43,696	59,603	(15,907)	-27%
% of revenue	18%	22%	-4%		14%	21%	-7%	
Income tax expense	(5,164)	(7,243)	2,079	-29%	(14,088)	(19,623)	5,535	-28%
% of revenue	5%	8%	-3%		4%	7%	-3%	
Profit for the period from continuing operations	13,496	13,534	(38)	0%	29,608	39,980	(10,372)	-26%
% of revenue	13%	14%	-1%		9%	14%	-5%	
Discontinued operation								
Profit for the period from discontinued operation	-	-	-	0%	-	30,293	(30,293)	-100%
Profit and total comprehensive income for the period	13,496	13,534	(38)	0%	29,608	70,273	(40,665)	-58%
-attributable to non-controlling interests	563	(164)	727	-443%	(195)	8,962	(9,157)	-102%
-attributable to owners of the Company	12,933	13,698	(765)	-6%	29,803	61,311	(31,508)	-51%
Profit and total comprehensive income for the period attributable to owners of the Company								
-From continuing operations	18,402	13,698	4,704	34%	29,803	40,214	(10,411)	-26%
-From discontinued operation	-	-	-	0%	-	21,097	(21,097)	-100%
EBITDA from continuing operations (note 1)	25,008	22,048	2,960	13%	64,892	58,739	6,153	10%
% of revenue	23%	23%	0%		20%	20%	0%	
From continuing and discontinued operations								
Basic EPS (RMB)	0.20	0.21			0.46	0.95		
Diluted EPS (RMB)	0.17	0.20			0.42	0.90		
From continuing operations								
Basic EPS (RMB)	0.20	0.21			0.46	0.62		
Diluted EPS (RMB)	0.17	0.20			0.42	0.59		

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

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For the three-month and nine-month periods ended September 30, 2019

The following tables provide selected financial information for the three-month and nine-month periods ended September 30, 2019 and 2018 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 Sept 30,				Nine months ended Sept 30,			
	2019	2018	Change	%	2019	2018	Change	%
Continuing Operations								
Revenue	20,651	19,021	1,630	9%	61,354	57,472	3,882	7%
Gross profit	8,787	8,105	682	8%	24,031	23,660	371	2%
% of revenue	43%	43%	0%		39%	41%	-2%	
Other income	83	94	(11)	-12%	288	222	66	30%
Other gains and losses	(355)	280	(635)	-227%	(434)	(43)	(391)	909%
Reversal of impairment loss on trade receivables and contract assets	74	104	(30)	-29%	127	104	23	22%
Fair value change on put option liability	-	1,610	(1,610)	-100%	-	4,476	(4,476)	-100%
Selling and marketing expenses	(2,230)	(2,670)	440	-16%	(7,320)	(7,573)	253	-3%
% of revenue	11%	14%	-3%		12%	13%	-1%	
General and administrative expenses	(2,471)	(2,431)	(40)	2%	(6,623)	(6,691)	68	-1%
% of revenue	12%	13%	-1%		11%	12%	-1%	
Finance costs	(454)	(481)	27	-6%	(1,149)	(1,036)	(113)	11%
Listing expenses	(86)	(190)	104	-55%	(396)	(615)	219	-36%
Share of profit (loss) of associates	283	(293)	576	-197%	106	(673)	779	-116%
Share of loss of a joint venture	(15)	(18)	3	-17%	(88)	(41)	(47)	115%
Loss on disposal of an associate	-	-	-	0%	(73)	-	(73)	100%
Profit before tax	3,616	4,110	(494)	-12%	8,469	11,790	(3,321)	-28%
% of revenue	18%	22%	-4%		14%	21%	-7%	
Income tax expense	(1,001)	(1,454)	453	-31%	(2,730)	(3,881)	1,151	-30%
% of revenue	5%	8%	-3%		4%	7%	-3%	
Profit for the period from continuing operations	2,615	2,656	(41)	-2%	5,739	7,909	(2,170)	-27%
% of revenue	13%	14%	-1%		9%	14%	-5%	
Discontinued operation								
Profit for the period from discontinued operation	-	-	-	0%	-	5,992	(5,992)	-100%
Profit and total comprehensive income for the period	2,615	2,656	(41)	-2%	5,739	13,901	(8,162)	-59%
-attributable to non-controlling interests	109	(32)	141	-441%	(38)	1,773	(1,811)	-102%
-attributable to owners of the Company	2,506	2,709	(203)	-7%	5,776	12,127	(6,351)	-52%
Profit and total comprehensive income for the period attributable to owners of the Company								
-From continuing operations	3,566	2,709	857	32%	5,776	7,954	(2,178)	-27%
-From discontinued operation	-	-	-	0%	-	4,173	(4,173)	-100%
	3,566	2,709	857	32%	5,776	12,127	(6,351)	-52%
EBITDA from continuing operations	4,847	4,361	486	11%	12,576	11,619	957	8%
% of revenue	23%	23%	0%		20%	20%	0%	
From continuing and discontinued operations								
Basic EPS (CAD)	0.04	0.04			0.09	0.19		
Diluted EPS (CAD)	0.03	0.04			0.08	0.18		
From continuing operations								
Basic EPS (CAD)	0.04	0.04			0.09	0.12		
Diluted EPS (CAD)	0.03	0.04			0.08	0.12		

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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,			
	2019	2018	Change	%	2019	2018	Change	%
Gas distribution utility								
- Gas supply	57,729	45,268	12,461	28%	180,321	157,440	22,881	15%
- Pipeline installation and connection	31,330	35,624	(4,294)	-12%	90,370	89,243	1,127	1%
Vehicle refueling	17,497	15,269	2,228	15%	45,892	43,874	2,018	5%
Total Revenue in RMB'000	106,556	96,161	10,395	11%	316,583	290,557	26,026	9%
Total Revenue in CAD'000	20,651	19,021	1,630	9%	61,354	57,472	3,882	7%

Revenue for the third quarter of 2019 was RMB106.6 million, an increase of RMB10.4 million, or 11% from RMB96.2 million for the same quarter of 2018. Revenue for the nine months ended September 30, 2019 was RMB 316.6 million, an increase of RMB26.0 million, or 9% from RMB290.6 million for the same period of 2018.

The increase in total revenue was mainly contributed by the increase in revenue of gas distribution utility segment during the three-month and nine-month periods ended September 30, 2019.

Revenue from gas supply for the third quarter of 2019 was RMB57.7 million, an increase of RMB12.4 million, or 28% from RMB45.3 million for the same quarter of 2018. Revenue from pipeline installation and connection for the third quarter of 2019 was RMB31.3 million, a decrease of RMB4.3 million, or 12% from RMB35.6 million for the same quarter of 2018. Vehicle refueling in the third quarter of 2019 recorded an increase of RMB2.2 million, or 15% as compared to the same quarter of 2018.

Revenue from gas supply for the nine months ended September 30, 2019 was RMB180.3 million, an increase of RMB22.9 million, or 15% from RMB157.4 million for the same period of 2018. Revenue from pipeline installation and connection for the nine months ended September 30, 2019 was RMB90.3 million, an increase of RMB1.1 million, or 1% from RMB89.2 million for the same period of 2018. Vehicle refueling which maintained its steadiness for the nine months ended September 30, 2019 with a slight increase of RMB2.0 million, or 5% as compared to the same period of 2018.

Gas transmission fee is charged on a step-ladder scale in accordance with the amount of natural gas transmitted which represents the revenue from natural gas transmitted to the Datang Gaoyao Plant in Zhaoqing City, Guangdong Province following its successful trial operation in late 2018. Gas volume of 127.0 million m³ and 227.3 million m³ respectively was transmitted for the three-month and nine-month periods ended September 30, 2019. Gas transmission fee of RMB1.3 million for the nine months ended September 30, 2019 was included in revenue of gas supply under the gas distribution utility segment. The gas volume transmitted is expected to further increase in line with the production of the plant being geared up.

Sales volume sold								
Gas sales Sales volume sold (m ³)	Three months ended Sept 30,				Nine months ended Sept 30,			
	2019	2018	Change	%	2019	2018	Change	%
Sanya City, Hainan Province	11,474,283	10,103,001	1,371,282	14%	36,852,197	36,611,287	240,910	1%
Shijiazhuang City, Hebei Province	4,265,281	195,632	4,069,649	>999%	10,711,280	2,809,212	7,902,068	281%
Other cities	31,478	-	31,478	0%	292,185	-	292,185	0%
Total gas sales volume (m³)	15,771,042	10,298,633	5,472,409	53%	47,855,662	39,420,499	8,435,163	21%
CNG vehicle refueling								
Sanya CNG/LNG	2,998,987	2,214,813	784,174	35%	8,578,673	7,037,342	1,541,331	22%
Changsha CNG	1,431,326	1,436,007	(4,681)	0%	3,032,236	3,994,653	(962,417)	-24%
Total CNG/LNG volume (m³)	4,430,313	3,650,820	779,493	21%	11,610,909	11,031,995	578,914	5%
Total sales volume sold (m³)	20,201,355	13,949,453	6,251,902	45%	59,466,571	50,452,494	9,014,077	18%

Total sales volume for the third quarter of 2019 was 20.2 million m³, an increase of 6.3 million m³, or 45% from 13.9 million m³ in the same quarter of 2018. Total sales volume for the nine months ended September 30, 2019 was 59.5 million m³, an increase of 9.0 million m³, or 18% from 50.5 million m³ in the same period of 2018. The significant increase in the volume of gas sold for the three-months ended September 30, 2019 to those industrial customers in Hebei Province has contributed to the significant increase in the overall increase of volume of gas sold for the nine months ended September 30, 2019 as compared to the modest growth rate recorded for the six-months ended June 30, 2019.

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Gas sales in other cities include gas sales to Wenchang City, Hainan Province which contributed a small amount of gas volume sold since the first quarter of 2019. Seasonality and the temporary halt of production by a major customer in Wenchang City due to the slow-down of the property market in Sanya City resulted in no revenue of gas sales was generated from this region during the third quarter of 2019.

Sales volume of CNG/LNG in Sanya vehicle refueling is growing steadily in recent years which almost offset the decrease in CNG sales in Changsha vehicle refueling resulting in a net increase of 0.6 million m³, or 5% from 11.0 million m³ for the nine months ended September 30, 2018 to 11.6 million m³ for the same period of 2019.

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

Gas Sales volume by nature of customers

Gas sales								
Sanya City, Hainan Province	Three months ended Sept 30,				Nine months ended Sept 30,			
Gas volume sold (m ³)	2019	2018	Change	%	2019	2018	Change	%
Residential customers	2,854,124	2,224,005	630,119	28%	9,924,544	9,796,391	128,153	1%
Commercial customers	8,620,159	7,878,996	741,163	9%	26,927,653	26,814,896	112,757	0%
	11,474,283	10,103,001	1,371,282	14%	36,852,197	36,611,287	240,910	1%
Shijiazhuang City, Hebei Province								
Gas volume sold (m ³)								
Commercial customers	4,265,281	195,632	4,069,649	>999%	10,711,280	2,809,212	7,902,068	281%
Other cities								
Gas volume sold (m ³)								
Commercial customers	31,478	-	31,478	0%	292,185	-	292,185	100%
Total	15,771,042	10,298,633	5,472,409	53%	47,855,662	39,420,499	8,435,163	21%

Gas sales volume for Sanya City for the nine months ended September 30, 2019 was 36.8 million m³, an increase of 0.2 million m³, or 1% from 36.6 million m³ for the same period of 2018.

Gas sales volume from commercial customers in Sanya City maintained at 73% of total gas sold in Sanya City region for the nine months ended September 30, 2019 and 2018.

Commercial customers in Sanya City include all non-residential customers such as hotels, resorts and restaurants, and social welfare units such as schools, government facilities, and other not-for-profit organizations. Customers outside Sanya City are all commercial customers which mainly come from ceramic/industrial manufacturers in the Shijiazhuang City, Hebei Province and brick manufacturers in the Wenchang City, Hainan Province.

Sanya City as a famous tropical tourist city attracts more tourists between the peak season of November and February than the rest of the year. However, subsequent to the commencement of operation of the mid-line expressway running through the north and south of Hainan Province in late 2018, together with the impact of high living costs in Sanya City, tourist hotspots have been dispersed to cities outside of Sanya and the number of tourists staying in Sanya decreased in the last peak season. As a result, gas consumption from hotels in the Sanya Bay area, the traditional tourist’s attraction area, was significantly lower in the first half of this year. However, the Company is pleased to note that, the usage of gas from hotels in Haitang Bay and Sanya Bay areas has gradually picked up in the third quarter of 2019 which helped to raise the percentage of gas sold for commercial customers to total gas sold for the nine months ended September 30, 2019 to a level similar to that of the same period of 2018.

Further to the implementation of the government policy of city planning, redevelopment of certain old residential areas in Sanya city is under progress and temporary houses are built to facilitate the redevelopment of the plan. Increase in supply of gas for residential customers of 0.6 million m³, or 28% from 2.2 million m³ for the third quarter of 2018 to 2.8 million m³ in the third quarter of 2019 was mainly attributed to the commencement of gas supply in these temporary housing.

The overall increase in sales volume in the third quarter of 2019 was mainly contributed by gas sales made to those industrial customers in the Hebei Province.

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Gas sales: number of customers								
Sanya City, Hainan Province	Three months ended Sept 30,				Nine months ended Sept 30,			
	2019	2018	Change	%	2019	2018	Change	%
Customers newly started gas supply								
Residential customers	4,836	5,017	(181)	-4%	15,893	19,273	(3,380)	-18%
Commercial customers	30	14	16	114%	54	51	3	6%
Total customers								
Residential customers	4,836	5,017	(181)	-4%	216,802	192,960	23,842	12%
Commercial customers	30	14	16	114%	1,093	1,013	80	8%

In Sanya City, there are a total of 216,802 residential customers as at September 30, 2019, an increase of 4,836 new residential customers in the third quarter of 2019 as compared to 5,017 new residential customers in the same period of 2018. There was a total of 1,093 commercial customers as at September 30, 2019, an increase of 30 new commercial customers in the third quarter of 2019 as compared to an increase of 14 new commercial customers in the same period of 2018.

Gas Sales revenue by customers

Gas sales								
Sanya City, Hainan Province	Three months ended Sept 30,				Nine months ended Sept 30,			
	2019	2018	Change	%	2019	2018	Change	%
Gas sales revenue (in RMB'000)								
Residential customers	8,587	6,011	2,576	43%	28,917	27,380	1,537	6%
Commercial customers	38,682	37,471	1,211	3%	121,750	122,659	(909)	-1%
	47,269	43,482	3,787	9%	150,667	150,039	628	0%
Shijiazhuang City, Hebei Province								
Gas sales revenue (in RMB'000)								
Commercial customers	9,588	1,786	7,802	437%	27,506	7,401	20,105	272%
Other cities								
Gas sales revenue (in RMB'000)								
Commercial customers	872	-	872	100%	2,148	-	2,148	100%
Total gas sales by customers	57,729	45,268	12,461	28%	180,321	157,440	22,881	15%

Gas sales revenue from residential customers in Sanya City for the third quarter of 2019 was RMB8.6 million, an increase of RMB2.6 million, or 43%, from RMB6.0 million for the same quarter of 2018. Gas sales revenue from commercial customers in Sanya City for the third quarter of 2019 was RMB38.7 million, an increase of RMB1.2 million, or 3%, from RMB37.5 million for the same period of 2018.

Gas sales revenue from residential customers in Sanya City for the nine months ended September 30, 2019 was RMB28.9 million, an increase of RMB1.5 million, or 6%, from RMB27.4 million for the same period of 2018. Gas sales revenue from commercial customers in Sanya City for the nine months ended September 30, 2019 was RMB121.7 million, a slight decrease of RMB1.0 million, or 1%, from RMB122.7 million for the same period of 2018.

There has been no change in natural gas price hike for the customers of residential and social welfare units that was imposed by the Sanya Municipal Development and Reform Commission since May 2017. The increase in gas sales revenue in Sanya City was mainly driven by an increase in sales volume from residential customers.

On November 25, 2019, the Sanya Municipal Development and Reform Commission has announced that the gas price of non-residential customers will be adjusted from RMB5.11/ m³ to RMB 5.0735/ m³ with effect on December 1, 2019.

The sales in Shijiazhuang City for the nine months ended September 30, 2019 was RMB27.5 million, an increase of RMB20.1 million, or 272% from RMB7.4 million for the same period of 2018. The significant increase was mainly contributed by gas sales made to those industrial customers in the Hebei Province.

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Pipeline installation and connection

Pipeline connection								
Sanya City, Hainan Province (number of customers)	Three months ended Sept 30,				Nine months ended Sept 30,			
	2019	2018	Change	%	2019	2018	Change	%
Customers newly connected								
Residential customers	3,030	4,481	(1,451)	-32%	10,919	12,856	(1,937)	-15%
Commercial customers	28	18	10	56%	56	54	2	4%
Total customers connected								
Residential customers	3,030	4,481	(1,451)	-32%	269,287	243,932	25,355	10%
Commercial customers	28	18	10	56%	1,085	1,003	82	8%
Pipeline connection revenue (in RMB'000)								
Residential customers	24,689	30,664	(5,975)	-19%	67,459	69,172	(1,713)	-2%
Commercial customers	6,641	4,960	1,681	34%	22,911	20,071	2,840	14%
Total	31,330	35,624	(4,294)	-12%	90,370	89,243	1,127	1%

Total pipeline installation and connection revenue for the third quarter of 2019 was RMB31.3 million, a decrease of RMB4.3 million or 12%, from RMB35.6 million in the same quarter of 2018. Pipeline installation and connection revenue from residential customers in the third quarter of 2019 was RMB24.7 million, a decrease of RMB6.0 million, or 19%, from RMB30.7 million for the same quarter of 2018; while pipeline installation and connection revenue from commercial customers in the third quarter of 2019 was RMB6.6 million, an increase of RMB1.6 million, or 34%, from RMB5.0 million for the same quarter of 2018.

Total pipeline installation and connection revenue for the nine months ended September 30, 2019 was RMB90.4 million, an increase of RMB1.1 million, or 1% from RMB89.3 million from the same period of 2018.

There were 3,030 new residential customers in the third quarter of 2019, a decrease of 1,451 new customers, or 32% from 4,481 new residential customers obtained in the same quarter of 2018. There were 269,287 residential customers and 1,085 commercial customers as at September 30, 2019, as compared to 243,932 residential customers and 1,003 commercial customers as at September 30, 2018.

The effect on purchasing restriction policy imposed by the government to the property market of Sanya continued to the slow-down of the development of certain residential areas. Although the number of the residential customer began to pick up from the second quarter of 2019, the total number of residential customers was lower in the nine months ended September 30, 2019 as compared to same period of 2018.

There were 28 new commercial customers in the third quarter of 2019, an increase of 10 new customers as compared to 18 new commercial customers in the same quarter of 2018. One of the new commercial customers obtained in third quarter of 2019 was a large retail complex island resort and shopping arcade, the Sanya River Island, in the Haitang Bay area which contributed a majority of revenue earned for the quarter.

Vehicle refueling

CNG Sales								
CNG Sales Volume (m³)	Three months ended Sept 30,				Nine months ended Sept 30,			
	2019	2018	Change	%	2019	2018	Change	%
Sanya CNG/LNG	2,998,987	2,214,813	784,174	35%	8,578,673	7,037,342	1,541,331	22%
Changsha CNG	1,431,326	1,436,007	(4,681)	0%	3,032,236	3,994,653	(962,417)	-24%
Total Sales Volume (m³)	4,430,313	3,650,820	779,493	21%	11,610,909	11,031,995	578,914	5%
CNG Sales Revenue (in RMB'000)								
Revenue in RMB								
Sanya CNG/LNG	10,985	9,508	1,477	16%	32,485	28,281	4,203	15%
Changsha CNG	6,512	5,761	751	13%	13,407	15,593	(2,185)	-14%
Total Revenue	17,497	15,269	2,228	15%	45,892	43,874	2,018	5%

Total sales volume from vehicle refueling in the third quarter of 2019 and for the nine months ended September 30, 2019 was 4.4 million m³ and 11.6 million m³ respectively, which maintained its steadiness with a slight increase of 0.8 million m³ and 0.6 million m³ as compared to same quarter and period of 2018.

Sales volume from Sanya CNG vehicle refueling in the third quarter of 2019 was 3.0 million m³, an increase of 0.8 million m³, or 35% from 2.2 million m³ in the same quarter of 2018. Sales volume from Changsha CNG vehicle refueling remained constant in the third quarter of 2019 as compared to same quarter of 2018.

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The continuous decrease in sales volume Changsha CNG sales is attributed to the reduction of taxi usage due to the combined effect of the new introduction of electric vehicles launched in the market, commencement of two additional mass transit subway lines in 2018 and more common use of shared bikes and ridesharing transportation which reduced the consumption of CNG in Changsha. As a result, revenue from Changsha CNG vehicle refueling for the nine months ended September 30, 2019 was RMB 3.0 million, a decrease of RMB1.0 million, or 24% from RMB4.0 million in the same period of 2018.

Despite the decrease in unit selling price of CNG/LNG in vehicle refueling to RMB 4.07 in first quarter of 2019 due to local market competition, revenue from Sanya CNG/LNG vehicle refueling in the third quarter of 2019 recorded an increase of RMB1.5 million, or 22% from RMB7.0 million in the nine months ended September 30, 2018 to RMB8.5 million for the same period of 2019 which is attributed to the steady growth of Sanya CNG/LNG vehicle refueling in recent year.

Foreign exchange rates

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

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

One Chinese RMB to Canadian dollars	Q3 2019	Q3 2018	% change
Spot rate at the end of the period	0.1853	0.1884	-1.6%
Average rate for the period	0.1938	0.1978	-2.0%

Gross margin

For the three months ended September 30, 2019, gross profit was RMB45.3 million, an increase of RMB4.3 million, or 11%, from RMB41.0 million for the same period of 2018. Gross profit for the nine months ended September 30, 2019 was RMB124.0 million, an increase of RMB4.4 million, or 4%, from RMB119.6 million for the same period of 2018.

Despite the overall gross margin for the third quarter of 2019 maintained at same level of 43% as that for the same period of 2018, it represents a significant improvement from the 37% recorded for the six-months ended June 30, 2019 as since late June 2019 new supply source of pipeline gas helped to reduce the Group’s reliance on more expensive LNG supplies, which in turn, lowered the overall cost of gas supply and raised the overall gross profit margin for the nine months ended September 30, 2019 to 39.2%.

Subsequent to the new gas source from “Eastern 13-2” gas field made available in late June of 2019, the supply volume of pipeline natural gas at a lower price was significantly increased in the third quarter of 2019. Composition of pipeline natural gas in the third quarter of 2019 was 57%, an increase of 35 percentage point from 22% for the same quarter of 2018; while the composition of LNG in the third quarter of 2019 was 36%, a decrease of 33 percentage point from 69% for the same quarter of 2018.

The composition of pipeline natural gas for the nine months ended September 30, 2019 was 39%, an increase of 22 percentage point from 17% for the same period of 2018; while the composition of LNG for the nine months ended September 30, 2019 was 55%, a decrease of 20 percentage point from 75% for the same period of 2018.

The Company is expected that the annual gross profit margin of the Company will continue to improve and normalized at previous levels.

Operating expenses

Selling and marketing expenses in the third quarter of 2019 were RMB11.5 million, a decrease of RMB2.0 million, or 15%, from RMB13.5 million for the same quarter of 2018. For the nine months ended September 30, 2019, selling and marketing expenses were RMB37.8 million, a decrease of RMB0.5 million, or 1%, from RMB38.3 million for the same period of 2018. Selling and marketing expense as a percentage of sales for the third quarter and nine-month period of 2019 maintained at similar level of 11% and 12% as compared to 14% and 13% in the same quarter and period of 2018 respectively.

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General and administrative expenses in the third quarter of 2019 were RMB12.7 million, a slight increase of RMB0.4 million, or 4%, from RMB12.3 million for the same quarter of 2018. General administrative expenses for the nine months ended September 30, 2019 was RMB34.2 million, maintained at similar level as that for the same period of 2018. General and administrative expenses as a percentage of sales for the third quarter and nine-month period of 2019 was 12% and 11% respectively, a decrease of 1% for the same quarter and period of 2018. The decrease reflected a continuous effective cost control of overall general and administration expenses by the Company.

Finance Costs

Finance costs in the third quarter of 2019 were RMB2.3 million, remained at similar level as compared to the same quarter of 2018. Finance costs for the nine months ended September 30, 2019 were RMB5.9 million, an increase of RMB0.7 million, or 13%, from RMB5.2 million for the same period of 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 2019 was RMB25.0 million, an increase of RMB3.0 million, or 13%, from RMB22.0 million for the same quarter of 2018. EBITDA from continuing operations for nine months ended September 30, 2019 was RMB64.9 million, an increase of RMB6.2 million, or 10%, from RMB58.7 million for the same period of 2018.

Profit for the period from continuing operations

Net profit from continuing operations for the third quarter of 2019 was RMB13.5 million, maintained at similar level as that for the same quarter of 2018. Earnings per share was RMB0.20 per share and RMB0.17 per share (basic and diluted, respectively) for the third quarter of 2019 as compared to RMB0.21 per share and RMB0.20 per share (basic and diluted, respectively) for the same quarter of 2018.

Net profit from continuing operations for the nine months ended September 30, 2019 was RMB29.6 million, or RMB0.46 per share and RMB0.42 per share (basic and diluted, respectively) compared to RMB40.0 million, or RMB0.62 per share and RMB0.59 per share (basic and diluted, respectively) for the same period of 2018.

Net profit from continuing operations for the nine months ended September 30, 2018 include fair value gain of put option liability of RMB22.6 million subsequent to the disposal of discontinued operation, which if excluded, on a comparable basis, the adjusted net profit from continuing operations would be RMB17.6 million as compared with that of RMB29.6 million for the same period of 2019.

Against the background of slowdown pressure on the economy of Sanya City, the Company reported significant growth of 69% in profit attributable to owners of the Company from continuing operations of RMB29.8 million for the nine months ended September 30, 2019 against the RMB17.6 million on a comparable basis (see above paragraph) for the same period 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	2019			2018				2017
	Q3	Q2	Q1	Q4 (note 1)	Q3	Q2	Q1	Q4 (note 2)
Foreign exchange rate one RMB to Canadian dollars	0.1938	0.1966	0.2007	0.1961	0.1978	0.2007	0.1989	0.1921
Revenue	106,556	102,245	107,782	109,958	96,161	90,266	104,130	116,726
Gross profit	45,341	39,911	38,749	45,340	40,974	30,695	47,947	36,656
Profit (loss) for the period for continuing operations	13,496	11,288	4,824	(4,305)	13,534	12,483	44,256	(9,736)
EPS (Loss) of continuing and discontinued operations								
- basic (RMB)	0.20	0.18	0.08	(0.05)	0.21	0.19	0.54	(0.15)
- diluted (RMB)	0.17	0.17	0.08	(0.06)	0.20	0.19	0.53	(0.14)

note 1: Loss in the fourth quarter of 2018 was attributed to the recognition of listing expenses and share of loss of associates during the period.

note 2: Loss in the fourth quarter of 2017 was attributed to the pre-allotted gas supply at the regular price was fully consumed resulting in additional gas in the form of LNG having to be purchased at a higher price to supplement the gas usage for that quarter.

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
(RMB000's)	September 30, 2019	December 31, 2018
Bank balances and cash	116,532	80,494
Net current liabilities	(1,719)	(81,103)
Adjusted working capital (note1)	71,968	8,871
Plant and equipment	385,824	394,809
Total assets	713,566	648,103
Long term liabilities	200,542	117,123
Shareholders' equity	294,447	286,995

note 1: This financial measure is identified and defined under the section “[Non-IFRS Financial Measures](#)”

Bank balance and cash increased by RMB36.0 million to RMB116.5 million at September 30, 2019 from RMB80.5 million at December 31, 2018, primarily resulting from the increase in net cash generated from operating activities of RMB22.4 million and new long term debt of RMB88.5 million raised in 2019, offset by the prepayment for investment in a joint venture of RMB24.0 million, and cash used for the acquisition of property and equipment of RMB30.6 million and dividend paid of RMB13.5 million.

Adjusted Working Capital

The adjusted working capital (see “[Non-IFRS Financial Measures](#)”) was RMB72.0 million at September 30, 2019. Adjusted working capital excludes the receipt in advance from customers included in the contract liabilities of RMB63.7 million and short-term bank borrowings of RMB20.0 million.

Liquidity and Capital Resources

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 four term loans entered in 2010, 2013, 2016 and 2019 respectively.

During the nine-month period ended September 30, 2019, the Group obtained an additional short-term bank borrowing of RMB10.0 million and a new long-term debt of RMB100.0 million (December 31, 2018: short-term bank borrowings of RMB20.0 million and no new long-term debt) as a result of negotiations with the bank which successfully raised the overall limit of existing facilities granted by the bank. RMB88.5 million was withdrawn under the new long-term debt agreement during the nine-month period ended September 30, 2019.

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 included 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 and projects under development, to acquire capital and intangible assets for its growth initiatives in mainland China and to repay its long-term loans from the BOC, 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, 2019, the Group was in compliance with all of its debt covenants.

Capital Commitments

As of September 30, 2019, capital expenditure in respect of the acquisition of property and equipment and the construction of pipelines under development contracted for but not provided in the unaudited condensed interim consolidated financial statements amounted to RMB18.5 million, a decrease of RMB7.6 million as compared to RMB26.1 million as at December 31, 2018.

Share Capital

As of the date of this MD&A, the Company has 65,248,155 common shares outstanding and 3,785,000 stock options outstanding. The Company has no warrants outstanding. On April 13, 2018, a total of 2,440,000 stock options were granted to certain management, employees and consultant and all holders of these stock options subsequently agreed in the second quarter of 2019 to voluntarily surrender all these stock options for cancellation and their options were duly canceled.

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. The Group 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 earnings before income tax expense, finance costs, depreciation and amortization, the share of loss of investment in associates and joint venture. 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 period was presented in this MD&A as follows:

In RMB thousands (except for % figures)	Three months ended Sept 30,				Nine months ended Sept 30,			
	2019	2018	Change	%	2019	2018	Change	%
Profit for the period from continuing operations	13,496	13,534	(38)	0%	29,608	39,980	(10,372)	-26%
Add (less):								
Income tax expense	5,164	7,243	(2,079)	-29%	14,088	19,623	(5,535)	-28%
Share of profit or loss of associates	(1,461)	1,478	(2,939)	-199%	(545)	3,401	(3,946)	-116%
Share of loss of a joint venture	75	93	(18)	-19%	452	208	244	117%
Depreciation and amortization	5,393	5,409	(16)	0%	15,360	12,914	2,446	19%
Finance costs	2,341	2,433	(92)	-4%	5,929	5,240	689	13%
Fair value change on put option liability	-	(8,142)	8,142	-100%	-	(22,627)	22,627	-100%
EBITDA from continuing operations	25,008	22,048	2,960	13%	64,892	58,739	6,153	10%

Adjusted working capital

Adjusted working capital is calculated as current assets less adjusted current liabilities. Adjusted current liabilities is calculated as current liabilities, excluding the receipts in advance from customers from pipeline installation and connection project prior to commencement and natural gas sales, included in contract liabilities which represented 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 customers. Receipt in advance from customers from pipeline installation will be recognized as income upon the performance obligations are fulfilled and receipt in advance from customers for gas sales will be recognized as income upon the consumption of natural gas. Both amounts are deferred income in nature and non-refundable to customers, hence are excluded in the calculation of adjusted current liabilities. Adjusted current liabilities also excluded the short-term bank loan as lines of credit in the PRC are typically renewable when due.

The Group believes that adjusted working capital is a supplemental measure as it provides an indication of its ability to settle its debt obligations as they come due.

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

In RMB thousands			
As at	Note	September 30, 2019	December 31, 2018
Current assets		216,858	162,882
Less: Current liabilities		(218,577)	(243,985)
Net current liabilities		(1,719)	(81,103)
Add: Receipts in advance from customers	1	63,687	69,974
Add: Short-term bank loan		10,000	20,000
Adjusted working capital		71,968	8,871

Note 1: Receipts in advance from customers in respects of natural gas pipeline installation projects prior to commencement and natural gas sales are included in the contract liabilities.

At September 30, 2019, the Group’s current liabilities exceeded its current assets by RMB1.7 million, a significant improvement as compared with net current liabilities of RMB123.8 million and RMB81.1 million at June 30, 2019 and December 31, 2018 respectively. The decrease in net current liabilities was mainly attributed to the negotiations with the bank which successful raised the overall limit of existing facilities granted by the bank, of which RMB88.5 million was drawn down under the new long-term debt agreement during the nine-month period ended September 30, 2019.

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. 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 unaudited condensed interim consolidated financial statements have been prepared on a going concern basis.

Free Cashflow

Free cash flow is calculated as earnings before interest, net of tax, add/minus non-cash expense and income and reduced by the change in net working capital and capital expenditure and investment of the Company.

The calculation of free cash flow is provided in the table below:

In RMB thousands	Nine months ended Sept 30,	
	2019	2018
Profit for the period from continuing operations	29,608	39,980
Add: Finance costs	5,929	5,240
Income tax expense	14,088	19,623
EBIT	49,625	64,843
Effective tax rate	32%	33%
EBIT net of tax	33,625	43,495
<i>Non-cash expense</i>		
Add: Depreciation and amortization	15,360	12,914
Unrealized exchange gain	138	(553)
Less: Fair value change on put option liability	-	(22,627)
Change in Net working capital	79,384	52,132
Less: Capital expenditures	(30,657)	(30,541)
Less: Investment in a joint venture	(24,000)	-
Free Cash Flow	73,850	54,820

Free cash flow for nine months ended September 30, 2019 amounted to RMB73.9 million, an increase of RMB19.1 million as compared to RMB54.8 million for the same period of 2018. The increase is mainly attributable to the increase in net working capital of RMB27.3 million.

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Related Party 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>	Sept 30, 2019 RMB'000	Sept 30, 2018 RMB'000
Pingxiang Xinao CF	Associate	Interest income	339	339

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

<u>Name of related party</u>	<u>Relationship party</u>	<u>Terms</u>	Sept 30, 2019 RMB'000	Dec 31, 2018 RMB'000
Xiangtan Shin-Ko Energy Co. Ltd.	Associate	Non-trade, unsecured, non-interest bearing and repayable on demand	-	(4,249)
Pingxiang Xinao CF	Associate	Non-trade, unsecured and interest bearing (note a)	12,782	12,852
		Trade, unsecured, non-interest bearing and repayable on demand (note b)	3,500	3,300
EDF CF	Joint Venture	Non-trade, unsecured, non-interest bearing and repayable on demand	-	144
Hebei Riheng Clean Energy Co., Ltd. (“Ruiheng”)	Non-controlling interests of a subsidiary	Non-trade, unsecured, non-interest bearing and repayable on demand (note c)	-	905
Sichuan Tianzhiyuan Energy Co., Ltd.	Non-controlling interests of a subsidiary	Non-trade, unsecured, non-interest bearing and repayable on demand	842	800

Notes:

- (a) The balance represents the loan to Pingxiang Xinao CF with 4.35% p.a. interest bearing since 2012 amounted to RMB12.97 million (December 31, 2018: RMB12.85 million).
- (b) The balance represents the amount due from Pingxiang Xinao CF amounted of RMB3.5 million (December 31, 2018: RMB3.3 million) (excluding value added tax) after signing of the Concessionary Agreement with Xiangdong District Government of Pingxiang, Jiangxi Province and obtain the concessionary right for natural gas pipeline distribution.
- (c) During the nine-month period ended September 30, 2019, Hunan CNPC New Energy Investment Co., Ltd. (“Hunan CNPC NEI”) re-acquired the 9% equity interest in Riheng previously disposed to Ruiheng in 2018 by waiving the consideration amount of RMB900,000 and related interests.

The loan discharge agreement (the “Loan Discharge Agreement”) dated May 25, 2017 entered among CF China and Mr. Lin, provided that if the initial public offering (“IPO”) of the Company’s common shares on The Stock Exchange of Hong Kong Limited has not been completed on or prior to June 28, 2019, the Group shall have the right for a period of 90 days following June 28, 2019 to require Mr. Lin, directly or indirectly, to subscribe for common shares of the Company on the TSX Venture Exchange, in the amount of RMB36.0 million or its CAD equivalent.

On July 26, 2019, the Company announced that the Board of the Company has determined to exercise the Company’s option pursuant to the Loan Discharge Agreement dated May 25, 2017 among the Company, CF China and Mr. Lin to require the estate of Mr. Lin (the “Estate”) to invest an aggregate amount of RMB 36.0 million (approximately CAD6,861,587) in common shares of the Company (the “Investment”). Accordingly, the Estate will make the Investment at a price of CAD0.68 per common share representing a premium of approximately 6.3% over the closing price of the common shares of the Company on July 24, 2019. Following the Investment, based on the prevailing exchange rate, the Estate will hold approximately 44,774,068 common shares or approximately 59.43% of the total outstanding common shares of the Company. The transaction is pending for completion as at September 30, 2019.

As at September 30, 2019, the Company has not achieved agreement with the beneficiaries of the Estate, other than Mrs. Ann Siyin Lin, CEO and Chair of the Board, regarding completion of the Investment. The Company is in discussions with the remaining beneficiaries to achieve an agreement on a basis that all beneficiaries agree to. There can be no assurance that such an agreement will be achieved, and the Company has reserved its rights to take such action as it considers appropriate and in its best interests, including bringing court proceedings on or prior to September 5, 2021.

As at September 30, 2019, the Management considers that the fair value change is minimal.

Use of Estimates and Judgements

The preparation of interim consolidated financial statements in compliance with IAS 34 requires the use of certain critical accounting estimates. There have been no material revisions to the nature and amount of changes in estimates of amounts reported in the audited consolidated financial statements for the year ended December 31, 2018.

Risks and Uncertainties

The Company is exposed to a variety of risks in the normal course of operations that could significantly affect its operating cash flow and profitability of operations and could cause its actual results to differ in material respects from its anticipated results. These risks may include, but are not limited to, those as listed in the MD& A for the year ended December 31, 2018 and there have been no material revisions since December 31, 2018. The Company seeks to manage the risks associated with its business operations; however, many of the factors affecting these risks are beyond the Company’s control. The future effect of these risks and uncertainties cannot be quantified or predicted.

Application of new and amendments to IFRS

In the current period, 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, 2019 for the preparation of the Group’s condensed interim consolidated financial statements:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendment to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015 - 2017 Cycle

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 16 Leases

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted for as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Management’s Discussion and Analysis

For the three-month and nine-month periods ended September 30, 2019

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 remeasurement 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 previously presented 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. Upon application of IFRS 16, lease payments in relation to lease liability are allocated into a principal and an interest portion which is presented as financing and operating cash flows by the Group, respectively, and upfront prepaid lease payments continue to be presented as investing or operating cash flows in accordance to the nature.

Under IAS 17 Leases, 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.

Other than certain requirements which are also applicable to lessor, 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.

The Group transitioned to IFRS 16 in accordance with the modified retrospective approach and comparative figures were not restated. On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The associated right-of-use assets were measured at its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. The Group also decided not to apply IFRS 16 to leases whose term will end within twelve months of the date of initial application. In such cases, the leases are accounted for as short-term leases and leases for which underlying assets are of low value and the lease payments associated with the leases are recognized as an expense.

The following tables reconcile the difference between (i) the operating lease commitments disclosed applying IAS 17 at December 31, 2018, discounting using the incremental borrowing rate at the date of initial application and (ii) lease liabilities recognized in the condensed interim consolidated statement of financial position as at January 1, 2019.

	RMB'000
Operating leases commitments as at December 31, 2018	16,947
Relief option for short-term leases	(1,933)
Relief option for low value asset leases	(22)
Adjustment (note a)	<u>(7,249)</u>
Gross lease liabilities as at January 1, 2019	7,743
Discounting effects using incremental borrowing rates as at January 1, 2019 (note b)	<u>(1,276)</u>
Lease liabilities as at January 1, 2019	<u><u>6,467</u></u>

Notes:

- (a) Pursuant to relevant lease contract which is non-cancellable by the Group, the lease term will commence when the relocation work on the land is completed. Such condition was not fulfilled on January 1, 2019 and thus the lease has been subsequently terminated by the lessor.
- (b) The Group's weighted average incremental borrowing rate applied to lease liabilities recognized in the condensed interim consolidated statement of financial position at date of initial application is 4.90%.

The initial application of IFRS 16 on January 1, 2019 had the following impact on the condensed interim consolidated financial statements.

Management’s Discussion and Analysis

For the three-month and nine-month periods ended September 30, 2019

Impact on the condensed interim consolidated statement of financial position at January 1, 2019

	Notes	Carrying amounts previously reported at December 31, 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at January 1, 2019 RMB'000
Non-current Assets				
Long-term lease prepayments	b	11,880	(10,401)	1,479
Right-of-use assets	a & b	-	17,352	17,352
Deferred tax asset	e	-	74	74
Current Assets				
Other receivables, prepaid expenses and deposits	a	30,440	(926)	29,514
Current portion of long-term lease prepayments	b	1,283	(598)	685
Current Liabilities				
Lease liabilities	c	-	1,760	1,760
Non-current Liabilities				
Lease liabilities	c	-	4,707	4,707
Capital and reserves				
Retained earnings to attributable to owners of the Company	d	138,579	(579)	138,000
Non-controlling interests	d	12,843	(387)	12,456

Notes:

- (a) Upon the initial application of IFRS 16, RMB926,000 rental prepayment were reclassified as right-of-use assets.
- (b) As at December 31, 2018, long-term lease prepayments represent land use rights, which consist of fixed leasehold prepayment of RMB10,999,000 and variable leasehold prepayment of RMB2,164,000. As a result, RMB10,999,000 which represents the fixed portion of long-term lease prepayments were reclassified to right-of-use assets under IFRS 16.
- (c) RMB6,467,000 consists of cash repayments and interest repayments were recognized as lease liabilities upon the initial application of IFRS 16, in which RMB1,760,000 is repayable within twelve-month, was therefore classified as current lease liabilities.
- (d) In respect of the right-of-use assets and the lease liabilities recognized upon the initial application of IFRS 16, depreciation expense and interest expense in the amount of RMB966,000 were recognized in reserves, in which RMB387,000 was related to non-controlling interests.
- (e) RMB74,000 deferred tax asset is recognized due to the temporary difference arising from the initial application of IFRS 16.