

CF ENERGY CORP. (FORMERLY  
"CHANGFENG ENERGY INC.")

Condensed Interim Consolidated Financial Statements  
Three-month and Nine-month periods ended September 30, 2019  
and 2018 (Unaudited)

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

CF ENERGY CORP. (FORMERLY "CHANGFENG ENERGY INC.")

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

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CF ENERGY CORP. (FORMERLY "CHANGFENG ENERGY INC.")

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME  
FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

	NOTES	Three-month period ended September 30		Nine-month period ended September 30	
		<u>2019</u> RMB'000 (unaudited)	<u>2018</u> RMB'000 (unaudited)	<u>2019</u> RMB'000 (unaudited)	<u>2018</u> RMB'000 (unaudited)
<b>Continuing operations</b>					
Revenue	4	106,556	96,161	316,583	290,557
Cost of sales		<u>(61,215)</u>	<u>(55,187)</u>	<u>(192,582)</u>	<u>(170,941)</u>
Gross profit		45,341	40,974	124,001	119,616
Other income		427	474	1,485	1,121
Other gains and losses		(1,834)	1,416	(2,241)	(216)
Reversal of impairment loss on trade receivables and contract assets		383	527	656	527
Fair value change on put option liability	6	-	8,142	-	22,627
Selling and marketing expenses		(11,508)	(13,499)	(37,772)	(38,286)
General and administrative expenses		(12,752)	(12,291)	(34,173)	(33,827)
Finance costs		(2,341)	(2,433)	(5,929)	(5,240)
Listing expenses		(442)	(961)	(2,045)	(3,110)
Share of profit (loss) of associates	11	1,461	(1,479)	545	(3,401)
Share of loss of a joint venture		(75)	(93)	(452)	(208)
Loss on disposal of an associate	11	-	-	(379)	-
Profit before tax		<u>18,660</u>	<u>20,777</u>	<u>43,696</u>	<u>59,603</u>
Income tax expense	5	<u>(5,164)</u>	<u>(7,243)</u>	<u>(14,088)</u>	<u>(19,623)</u>
Profit for the period from continuing operations		<u>13,496</u>	<u>13,534</u>	<u>29,608</u>	<u>39,980</u>
<b>Discontinued operation</b>					
Profit for the period from discounted operation	6	-	-	-	30,293
Profit and total comprehensive income for the period		<u>13,496</u>	<u>13,534</u>	<u>29,608</u>	<u>70,273</u>

CF ENERGY CORP. (FORMERLY "CHANGFENG ENERGY INC.")

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME  
FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>NOTE</u>	Three-month period ended September 30		Nine-month period ended September 30	
		<u>2019</u> RMB'000	<u>2018</u> RMB'000	<u>2019</u> RMB'000	<u>2018</u> RMB'000
Profit and total comprehensive income for the period attributable to owners of the Company					
- From continuing operations		12,933	13,698	29,803	40,214
- From discontinued operation		-	-	-	21,097
		<u>12,933</u>	<u>13,698</u>	<u>29,803</u>	<u>61,311</u>
Profit (loss) and total comprehensive loss for the period attributable to non-controlling interests					
- From continuing operations		563	(164)	(195)	(234)
- From discontinued operation		-	-	-	9,196
		<u>563</u>	<u>(164)</u>	<u>(195)</u>	<u>8,962</u>
		<u>13,496</u>	<u>13,534</u>	<u>29,608</u>	<u>70,273</u>
Total comprehensive income (loss) attributable to					
- Owners of the Company		12,933	13,698	29,803	61,311
- Non-controlling interests		563	(164)	(195)	8,962
		<u>13,496</u>	<u>13,534</u>	<u>29,608</u>	<u>70,273</u>
Earnings per share	8				
<i>From continuing and discontinued operations</i>					
- Basic (RMB)		<u>0.20</u>	<u>0.21</u>	<u>0.46</u>	<u>0.95</u>
- Diluted (RMB)		<u>0.17</u>	<u>0.20</u>	<u>0.42</u>	<u>0.90</u>
<i>From continuing operations</i>					
- Basic (RMB)		<u>0.20</u>	<u>0.21</u>	<u>0.46</u>	<u>0.62</u>
- Diluted (RMB)		<u>0.17</u>	<u>0.20</u>	<u>0.42</u>	<u>0.59</u>

CF ENERGY CORP. (FORMERLY "CHANGFENG ENERGY INC.")

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AT SEPTEMBER 30, 2019 AND DECEMBER 31, 2018

	<u>NOTES</u>	September 30, <u>2019</u> RMB'000	December 31, <u>2018</u> RMB'000
<b>NON-CURRENT ASSETS</b>			
Property and equipment	9	385,824	394,809
Long-term lease prepayments	10	647	11,880
Intangible assets		4,582	4,538
Right-of-use assets	10	15,451	-
Interests in associates	11	27,546	31,628
Interest in a joint venture		16,717	17,169
Amount due from an associate	15	12,782	12,852
Amounts due from non-controlling interests of subsidiaries	15	842	1,705
Long-term deposits and advances	13	32,153	10,640
Deferred tax asset		164	-
		<u>496,708</u>	<u>485,221</u>
<b>CURRENT ASSETS</b>			
Current portion of long-term lease prepayments	10	860	1,283
Inventories		5,704	5,763
Contract assets	12B	17,335	7,064
Amounts due from related parties	15	3,500	3,444
Trade receivables	12A	29,000	27,893
Other receivables, prepaid expenses and deposits	13	43,626	30,440
Restricted cash		301	501
Fixed bank deposits		-	6,000
Bank balances and cash		116,532	80,494
		<u>216,858</u>	<u>162,882</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	42,946	65,879
Amount due to an associate	15	-	4,249
Dividend payable	7	6,450	-
Dividend payable to non-controlling interests of a subsidiary		1,827	1,827
Contract liabilities		126,346	110,842
Lease liabilities		1,112	-
Income tax payable		10,416	17,269
Short-term bank borrowings	16	10,000	20,000
Current portion of long-term debts		19,480	23,919
		<u>218,577</u>	<u>243,985</u>
<b>NET CURRENT LIABILITIES</b>		<u>(1,719)</u>	<u>(81,103)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>494,989</u>	<u>404,118</u>

CF ENERGY CORP. (FORMERLY "CHANGFENG ENERGY INC.")

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AT SEPTEMBER 30, 2019 AND DECEMBER 31, 2018

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	<u>NOTES</u>	September 30, <u>2019</u> RMB'000	December 31, <u>2018</u> RMB'000
NON-CURRENT LIABILITIES			
Long-term debts	16	182,040	102,000
Deferred income - government grants	17	4,512	4,692
Lease liabilities		4,587	-
Deferred tax liabilities		9,403	10,431
		<u>200,542</u>	<u>117,123</u>
NET ASSETS		<u>294,447</u>	<u>286,995</u>
CAPITAL AND RESERVES			
Share capital	18	69,818	69,818
Reserves		<u>213,107</u>	<u>204,334</u>
Equity attributable to owners of the Company		282,925	274,152
Non-controlling interests		<u>11,522</u>	<u>12,843</u>
TOTAL EQUITY		<u>294,447</u>	<u>286,995</u>

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The condensed interim consolidated financial statements on pages 1 to 29 were approved and authorized for issue by the Board of Directors on November 28, 2019 and are signed on its behalf by:

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YONGBIAO DING  
DIRECTOR

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WENCHENG ZHANG  
DIRECTOR

CF ENERGY CORP. (FORMERLY "CHANGFENG ENERGY INC.")

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

	Attributable to owners of the Company						Non-controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Contributed surplus RMB'000 (Note a)	Statutory surplus reserves RMB'000 (Note b)	Other reserve RMB'000 (Note c)	Retained earnings RMB'000	Total RMB'000		
As at January 1, 2018 (audited)	66,689	19,298	40,060	-	91,434	217,481	6,500	223,981
Profit and total comprehensive income for the period	-	-	-	-	61,311	61,311	8,962	70,273
Share cancellation (note 18)	(20)	-	-	-	-	(20)	-	(20)
Options exercised (note 18)	3,149	(1,134)	-	-	-	2,015	-	2,015
Options forfeited	-	(570)	-	-	570	-	-	-
Share-based compensation expense (note 19)	-	2,150	-	-	-	2,150	-	2,150
Disposal of a subsidiary (note 6)	-	-	-	-	-	-	3,203	3,203
Deemed disposal of partial equity interest in a subsidiary (note 20(b))	-	-	-	(3,591)	-	(3,591)	3,591	-
Disposal of partial equity interest in a subsidiary (note 20(a))	-	-	-	79	-	79	821	900
Dividends declared to non-controlling interests of subsidiaries	-	-	-	-	-	-	(6,507)	(6,507)
Dividend recognized as distribution (note 7)	-	-	-	-	(6,671)	(6,671)	-	(6,671)
As at September 30, 2018	<u>69,818</u>	<u>19,744</u>	<u>40,060</u>	<u>(3,512)</u>	<u>146,644</u>	<u>272,754</u>	<u>16,570</u>	<u>289,324</u>
As at December 31, 2018 (audited)	69,818	20,920	44,756	79	138,579	274,152	12,843	286,995
Impact of first application of IFRS 16 (note 3.1)	-	-	-	-	(579)	(579)	(387)	(966)
As at January 1, 2019	69,818	20,920	44,756	79	138,000	273,573	12,456	286,029
Profit and total comprehensive income (expense) for the period	-	-	-	-	29,803	29,803	(195)	29,608
Options surrendered (note 19)	-	(3,326)	-	-	3,326	-	-	-
Acquisition of remaining equity interest of a subsidiary (note 20(a))	-	-	-	(416)	-	(416)	(484)	(900)
Dissolution of a subsidiary (note d)	-	-	-	-	(135)	(135)	135	-
Dividend declared to non-controlling interests of a subsidiary	-	-	-	-	-	-	(390)	(390)
Dividend declared (note 7)	-	-	-	-	(19,900)	(19,900)	-	(19,900)
As at September 30, 2019	<u>69,818</u>	<u>17,594</u>	<u>44,756</u>	<u>(337)</u>	<u>151,094</u>	<u>282,925</u>	<u>11,522</u>	<u>294,447</u>

Notes:

- (a) Contributed surplus comprises capital contribution from shareholders and share-based compensation reserve.
- (b) Statutory surplus reserves represent the statutory reserve fund attributable to the Group set up by the subsidiaries in the People's Republic of China (the "PRC"). According to the relevant PRC regulations, the subsidiaries in the PRC are required to appropriate 10% of net profit as reported in the statutory financial statements to the statutory surplus reserve fund, and the statutory surplus reserves may be used for making up losses, if any, and increasing capital. The maximum amount appropriate to the statutory reserve fund is 50% of the registered capital of the respective PRC subsidiaries.
- (c) Other reserve as of September 30, 2018 represents the carrying amount of the net assets attributable to the non-controlling interests in 39% interests transferred in relation to the deemed disposal of 39% equity interests in Zhaoqing Gaoyao Hengtai Natural Gas Co., Ltd. (formerly known as Gaoyao Evergrowth Natural Gas Co., Ltd) ("Gaoyao") from a wholly-owned subsidiary of the Group to a non-wholly owned subsidiary of the Group without losing control and the surplus between the consideration and the carrying amount attributable to 5.4% equity interests in Hebei Riheng Clean Energy Co., Ltd. ("Riheng"), a non wholly-owned subsidiary of the Group to an independent third party, during the nine-month period ended September 30, 2018. Details are set out in note 20.

Other reserve as of September 30, 2019 represents the balance of consideration and related interests waived by the Group over the carrying amount attributable to 5.4% non-controlling interests in Riheng during the nine-month period ended September 30, 2019. Details are set out in note 20.

- (d) During the nine-month period ended September 30, 2019, the Group completed the dissolution of Xiangtan Changfeng Natural Gas Co., Ltd., a non-wholly owned subsidiary.

CF ENERGY CORP. (FORMERLY "CHANGFENG ENERGY INC.")

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

	Nine-month period ended September 30,	
	<u>2019</u>	<u>2018</u>
	RMB'000	RMB'000
<b>OPERATING ACTIVITIES</b>		
Increase in contract liabilities	12,322	49,652
Increase in contract assets	(10,271)	(18,495)
Other operating cash inflow (outflow)	<u>20,334</u>	<u>(35,611)</u>
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>22,385</b>	<b>(4,454)</b>
<b>INVESTING ACTIVITIES</b>		
Deposit paid for acquisition of property and equipment	(1,777)	(10,150)
Acquisition of property and equipment	(30,657)	(30,541)
Proceeds from disposal of property and equipment	41	-
Acquisition of intangible assets	(467)	-
Lease prepayments paid	-	(290)
Placement of pledged bank deposits	-	(2)
Release (placement) of restricted cash	200	(500)
Withdraw (placement) of fixed bank deposit	6,000	(6,000)
Receipt of compensation on pipeline relocation	13,285	350
Cash inflow from disposal of a subsidiary (note 6)	-	42,114
Decrease in amount due from a related party	-	2,621
Increase in amount due from non-controlling interest of a subsidiary	(42)	-
Prepayment of investment in a joint venture	<u>(24,000)</u>	<u>-</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(37,417)</b>	<b>(2,398)</b>
<b>FINANCING ACTIVITIES</b>		
Dividend paid	(13,450)	(6,671)
Dividend paid to non-controlling interests of subsidiaries	(390)	(7,200)
New short-term bank borrowings raised	10,000	20,000
Repayment of short-term bank borrowings	(20,000)	(29,207)
New long-term debt raised	88,540	-
Repayment of long-term debt	(13,000)	(11,000)
Payment for cancellation of shares	-	(20)
Proceeds on exercised share options	-	2,015
Repayment of lease liabilities	<u>(769)</u>	<u>-</u>
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>50,931</b>	<b>(32,083)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>35,899</b>	<b>(38,935)</b>
<b>CASH AND CASH EQUIVALENTS AT JANUARY 1,</b>	<b>80,494</b>	<b>150,711</b>
Effect of foreign exchange rate changes	<u>139</u>	<u>(553)</u>
<b>CASH AND CASH EQUIVALENTS AT SEPTEMBER 30,</b>		
Represented by		
Bank balances and cash	<u>116,532</u>	<u>111,223</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

1. GENERAL

CF Energy Corp. (formerly "Changfeng Energy Inc.") (the "Company") is a public limited company originally incorporated under the Canada Business Corporations Act on May 4, 2006 until it changed its incorporation jurisdiction to British Columbia on June 18, 2018 under the Business Corporations Act (British Columbia). Its shares are listed on the TSX Venture Exchange. Following the approval of TSX Venture Exchange for the change of name, the Company changed its name from Changfeng Energy Inc. to CF Energy Corp. effective on April 12, 2019. The registered office of the Company is located at Suite 2600, Three Bentall Centre, P.O. BOX 49314, 595 Burrad Street, Vancouver, British Columbia, V7X 1L3, Canada and the head office of the Company is located at 3100 Steeles Ave East, Suite 308, Markham, Ontario, L3R 8T3. The principal operations of the Company's business are in the People's Republic of China (the "PRC"). Its ultimate controlling party is the estate of Mr. Huajun Lin ("Mr. Lin"), who was also an officer and director of the Company until he resigned from such positions with effect from February 22, 2019.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are engaged in the distribution of natural gas for industrial, commercial and residential users in the PRC.

The unaudited condensed interim consolidated financial statements are presented in Renminbi ("RMB"), which is the official currency of the PRC and the functional currency of the Company.

2. BASIS OF PREPARATION

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB"). Accordingly, they do not include all of the information required for full annual financial statements required by IAS 1 Presentation of Financial Statements as issued by the IASB. Therefore, the condensed interim consolidated financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2018, which include information necessary to understand the Group's business and financial statement presentation.

At September 30, 2019, the Group's current liabilities exceeded current assets by RMB1,719,000. 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 condensed interim consolidated financial statements have been prepared on a going concern basis.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

3. PRINCIPAL ACCOUNTING POLICIES

The condensed interim consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed interim consolidated financial statements for the nine-month period ended September 30, 2019 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2018.

*Application of new and amendments to IFRSs*

In the current nine-month 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
Amendments 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.

3.1 Key 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.

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.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

3. PRINCIPAL ACCOUNTING POLICIES - continued

*Application of new and amendments to IFRSs* - continued

3.1 Key changes in accounting policies of application on IFRS 16 Leases - continued

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 is 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 continues 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.

3.2 Summary of effects arising from initial application of IFRS 16

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.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

## 3. PRINCIPAL ACCOUNTING POLICIES - continued

*Application of new and amendments to IFRSs* - continued

## 3.2 Summary of effects arising from initial application of IFRS 16 - continued

The following tables reconciles 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)	(7,249)
	<u>7,743</u>
Gross lease liabilities as at January 1, 2019	7,743
Discounting effects using incremental borrowing rates as at January 1, 2019 (note b)	(1,276)
	<u>6,467</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.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

## 3. PRINCIPAL ACCOUNTING POLICIES - continued

*Application of new and amendments to IFRSs* - continued

## 3.2 Summary of effects arising from initial application of IFRS 16 - continued

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
<b>Non-current Assets</b>				
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
<b>Current Assets</b>				
Other receivables, prepaid expenses and deposits	a	30,440	(926)	29,514
Current portion of long-term lease prepayments	b	1,283	(598)	685
<b>Current Liabilities</b>				
Lease liabilities	c	-	1,760	1,760
<b>Non-current Liabilities</b>				
Lease liabilities	c	-	4,707	4,707
<b>Capital and reserves</b>				
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. Details are set out in note 10.
- (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.

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## 4. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue from continuing operations for the nine-month periods ended September 30, 2019 and 2018 are as follows:

	Nine-month ended September 30,	
	<u>2019</u>	<u>2018</u>
	RMB'000	RMB'000
Gas distribution utility		
- Gas sales	180,321	157,440
- Pipeline installation and connection	90,370	89,243
CNG refueling station	45,892	43,874
	<u>316,583</u>	<u>290,557</u>
Timing of revenue recognition		
A point of time	226,213	201,314
Over time	90,370	89,243
Total	<u>316,583</u>	<u>290,557</u>

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

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

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

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

The gas distribution utility segment:

- (i) provides gas pipeline installation and connection services and delivers natural gas to commercial, industrial and residential customers through its pipeline networks and associated facilities in Sanya City, Hainan Province; and
- (ii) delivers natural gas to industrial customers through storage facilities in Shijiazhuang City, Hebei Province in the PRC.

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## 4. REVENUE AND SEGMENT INFORMATION - continued

The Group's other reportable segment is CNG vehicles refueling in the PRC, which primarily supply gas for taxicabs and public transportation vehicles.

The gas distribution utility segment in Pingxiang City, Jiangxi Province in the PRC was discontinued during the year ended December 31, 2017. The segment information reported on the next pages does not include any amount for the discontinued operation in such separate geographical location, which are described in more detail in note 6.

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

For the nine-month ended September 30, 2019

**Continuing operations**

	Gas distribution utility RMB'000	CNG vehicles refueling RMB'000	<u>Consolidated</u> RMB'000
<b>Segment revenue</b>	286,909	46,805	333,714
Intra-segment revenue	(16,218)	(913)	(17,131)
Revenue from external customers	<u>270,691</u>	<u>45,892</u>	<u>316,583</u>
<b>Segment profit</b>	<u>50,377</u>	<u>7,037</u>	57,414
Share of profit of associates			545
Share of loss on a joint venture			(452)
Loss on disposal of an associate			(379)
Listing expenses			(2,045)
Unallocated income			427
Unallocated expenses			<u>(11,814)</u>
<b>Profit before tax (continuing operations)</b>			<u>43,696</u>

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## 4. REVENUE AND SEGMENT INFORMATION - continued

For the nine-month ended September 30, 2018

**Continuing operations**

	Gas distribution utility RMB'000	CNG vehicles refueling RMB'000	<u>Consolidated</u> RMB'000
<b>Segment revenue</b>	258,253	43,903	302,156
Intra-segment revenue	(11,570)	(29)	(11,599)
Revenue from external customers	<u>246,683</u>	<u>43,874</u>	<u>290,557</u>
<b>Segment profit</b>	<u>45,287</u>	<u>9,875</u>	55,162
Share of loss of an associate			(3,401)
Share of loss of a joint venture			(208)
Fair value change of put option liability			22,627
Listing expenses			(3,110)
Unallocated income			3,913
Unallocated expenses			(15,380)
<b>Profit before tax (continuing operations)</b>			<u>59,603</u>

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of share of loss of an associate and a joint venture, loss on disposal of an associate, unallocated income and unallocated expenses and listing expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

**Geographical information**

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

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5. INCOME TAX EXPENSE

	Nine-month ended September 30,	
	<u>2019</u>	<u>2018</u>
	RMB'000	RMB'000
<b>Continuing operations</b>		
Current tax:		
PRC Enterprise Income Tax ("EIT")	12,914	16,590
PRC withholding EIT	2,490	2,590
	<u>15,404</u>	<u>19,180</u>
Underprovision in prior period	-	175
	<u>15,404</u>	<u>19,355</u>
Deferred tax (credit) expense	(1,316)	268
	<u>14,088</u>	<u>19,623</u>
<b>Discontinued operation (note 6)</b>		
Deferred tax expense	-	6,201
	<u>-</u>	<u>6,201</u>

The Company was incorporated in Canada with a residence in Ontario and subject to Canadian federal and Ontario statutory income tax at a rate of 26.5% (September 30, 2018: 26.5%) on assessable profits in Canada during the reporting period.

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the reporting period (September 30, 2018: 25%).

6. DISCONTINUED OPERATION

On November 22, 2017, the Group entered into an equity restructuring agreement (the "Agreement") to dispose of in aggregate 50.2% effective interest in Pingxiang Xinao Changfeng Gas Co., Ltd. ("Pingxiang Xinao CF"), to Xinao Gas Development Co. Ltd. and Xinao Gas (China) Investment Co., Ltd. (collectively referred to "Xinao Gas") (the "Disposal"). Pingxiang Xinao CF carried out the distribution of natural gas for industrial, commercial and residential users in Pingxiang City, Jiangxi Province in the PRC.

The terms of the Agreement included the following:

- (i) A 60%-owned subsidiary of the Group will dispose its 24.5% interest in Pingxiang Xinao CF (effectively 14.7% owned by the Group) to Xinao Gas at a consideration of RMB34,090,000;

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6. DISCONTINUED OPERATION - continued

- (ii) upon the completion of step (i), a wholly-owned subsidiary of the Group and Xinao Gas will make capital contribution of RMB16,900,000 and RMB49,400,000 respectively, resulting in a dilution of the Group's effective interest in Pingxiang Xinao CF from 75.5% to 40%; and
- (iii) upon the completion of step (ii), Pingxiang Xinao CF will repay an outstanding loan of RMB46,768,000 to the Group.

The Agreement also contains a put option which is exercisable by Xinao Gas's discretion if: a) Pingxiang Xinao CF fails to sign a concession agreement issued by the Ministry of Housing and Urban-Rural Development of the PRC ("Concession Agreement"); or b) the operation of Pingxiang Xinao CF is suspended as a result of failing to sign the Concession Agreement, the Group committed to repay Xinao Gas the full amount of the infused capital of RMB83,490,000 and repurchase its 60% interest in Pingxiang Xinao CF within two years from the completion date of step (ii) (the "Put Option").

All the above mentioned steps in the Agreement were entered into at the same time. Based on the terms and conditions of the Agreement, the occurrence of one step was dependent on the occurrence of the former step. The Group accounted for the abovementioned steps in the Agreement as a single transaction which would cause the Group to lose control over Pingxiang Xinao CF. The management of the Group considered Pingxiang Xinao CF was a discontinued operation of the Group as it was represented a separate geographical location of business operated in Pingxiang City.

The Disposal was completed in January 2018. At the date of disposal and as at September 30, 2018, the fair value of the Put Option was RMB 22,627,000. During the Nine-month period ended September 30, 2018, Pingxiang Xinao CF repaid the loan of RMB46,768,000 to the Group and a gain on disposal was RMB30,293,000, net of related income tax expense of RMB6,201,000.

Subsequent to the Disposal, the Group's interest in Pingxiang Xinao CF decreased from 90.2% to 40%. The management of the Company considered the Group has significant influence over Pingxiang Xinao CF and therefore Pingxiang Xinao CF is classified as an associate of the Group. Details of interests in associates are set out in note 11.

In July 2018, Pingxiang Xinao CF signed a supplementary agreement with Xiangdong District Government of Pingxiang, Jiangxi province in the PRC (the "Supplementary Agreement"). The Supplementary Agreement states that the new concessionary right for natural gas pipeline distribution has been approved and Concessionary Agreement will be issued to Pingxiang Xinao CF within 30 days following the signing of the Supplementary Agreement. On September 6, 2018, Pingxiang Xinao CF signed the Concessionary Agreement with Xiangdong District Government of Pingxiang, Jiangxi province and obtain the concessionary right for natural gas pipeline distribution.

As a result, management concluded that there was no Put Option liability as at December 31, 2018.

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6. DISCONTINUED OPERATION - continued

The profit from the discontinued operation for the preceding nine-month period is analysed as follows:

	Nine-month ended September 30, 2018 RMB'000
Gain on disposal of Pingxiang Xinao CF	36,494
Income tax expense related to the gain on disposal	<u>(6,201)</u>
	<u>30,293</u>
	RMB'000
<b>Deemed gain on disposal of Pingxiang Xinao CF</b>	
Consideration received and receivable	17,190
Net liabilities disposed of	12,674
Fair value of retained interest	32,460
Put Option liability at date of disposal	(22,627)
Non-controlling interests	<u>(3,203)</u>
Deemed gain on disposal	36,494
Income tax expense	<u>(6,201)</u>
Net deemed gain on disposal	<u>30,293</u>
<b>Net cash inflow arising on the disposal:</b>	
Repayment from Pingxiang Xinao CF (step (iii))	46,768
Cash and cash equivalents of Pingxiang Xinao CF deemed disposed of	<u>(4,654)</u>
	<u>42,114</u>

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7. DIVIDENDS

During the current nine-month period, the following dividends have been approved and declared by the Board of Directors of the Company:

- (1) the second instalment of the dividend in respect of the year ended December 31, 2018 in an aggregate amount of RMB3,500,000 (equivalent to CAD691,000 and approximately CAD0.01 per common share based on the exchange rate and the number of common shares of the Company in issue at the date of dividend declaration);
- (2) the first instalment of the dividend in respect of the year ending December 31, 2019 in an aggregate amount of RMB3,500,000 (equivalent to CAD691,000 and approximately CAD0.01 per common share based on the exchange rate and the number of common shares of the Company in issue at the date of dividend declaration); and
- (3) a one-time special dividend in an aggregate amount of RMB12,900,000 (equivalent to CAD2,547,000 and approximately CAD0.04 per common share based on the exchange rate and the number of common shares of the Company in issue at the date of dividend declaration).

During the nine-month period ended September 30, 2019, the second instalment of the dividend in respect of the year ended December 31, 2018 in an aggregate amount of RMB3,500,000 (equivalent to CAD691,000), the first instalment of the one-time special dividend in an aggregate amount of RMB6,450,000 (equivalent to CAD1,273,000) and the first instalment of the dividend in respect of the year ending December 31, 2019 in an aggregate amount of RMB3,500,000 (equivalent to CAD650,000) were paid to the owners of the Company.

During the nine-month period ended September 30, 2018, the second instalment of dividend of CAD0.01 per share in respect of the year ended December 31, 2017 in an aggregate amount of CAD605,000 (equivalent to RMB3,041,000) and the first instalment of dividend of CAD0.01 per share in respect of the year ended December 31, 2018 in an aggregate amount of CAD652,000 (equivalent to RMB3,630,000) was declared and paid to the owners of the Company.

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## 8. EARNINGS PER SHARE

**From continuing and discontinued operations**

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

	Three-month period ended September 30,		Nine-month period ended September 30,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Earnings</i>				
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	12,933	13,698	29,803	61,311
<i>Number of shares</i>				
Weighted average number of shares for the purpose of basic earnings per share	65,248,155	65,214,529	65,248,155	64,872,802
Effect of dilutive potential shares:				
Contingently issuable shares arising from the Loan Discharge Agreement (Note 15)	10,090,568	-	3,511,370	-
Share options issued by the Company	711,172	1,880,999	1,179,725	2,966,038
Weighted average number of ordinary shares for the purpose of diluted earnings per share	76,049,895	67,095,528	69,939,250	67,838,840
Basic earnings per share (Note)	RMB0.20	RMB0.21	RMB0.46	RMB0.95
	CAD0.04	CAD0.04	CAD0.09	CAD0.19
Diluted earnings per share (Note)	RMB0.17	RMB0.20	RMB0.42	RMB0.90
	CAD0.03	CAD0.04	CAD0.08	CAD0.18

Note: The CAD figures presented above are shown for reference only and have been arrived at based on the exchange rate for RMB1.0000 to CAD0.1882 and RMB1.0000 to CAD0.1938 for three-month and nine-month ended September 30, 2019, respectively, and RMB1.0000 to CAD0.1920 and RMB1.0000 to CAD0.1978 for three-month and nine-month ended September 30, 2018, respectively, being the average exchange rate that prevailed during the respective periods.

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## 8. EARNINGS PER SHARE - continued

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to owners of the Company is based on the following data:

	Three-month period ended September 30,		Nine-month period ended September 30,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
RMB'000	RMB'000		RMB'000	RMB'000
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	12,933	13,698	29,803	61,311
Less: Profit for the period from discontinued operations attributable to owners of the Company	-	-	-	21,097
Earnings for the purpose of basic earnings per share from continuing operations	<u>12,933</u>	<u>13,698</u>	<u>29,803</u>	<u>40,214</u>

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operation

Basic and diluted earnings per share for the discontinued operation for the nine-month period ended September 30, 2019 is RMB nil per share (nine-month period ended September 30, 2018: basic and diluted loss per share at RMB0.33 and RMB0.31 respectively, or equivalent to CAD0.064 and CAD0.062 respectively, per share).

Basic and diluted earnings per share for the discontinued operation for the three-month period ended September 30, 2019 is RMB nil per share (three-month period ended September 30, 2018: RMB nil per share).

## 9. MOVEMENTS IN PROPERTY AND EQUIPMENT

During the current nine-month period, the Group incurred approximately RMB27,864,000 (September 30, 2018: RMB30,541,000) for acquiring pipelines, which are used in the construction and other equipment. Construction in progress of approximately RMB23,696,000 (September 30, 2018: RMB21,213,000) have been transferred to property and equipment during the nine-month period.

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## 10. RIGHT-OF-USE ASSETS / LONG-TERM LEASE PREPAYMENTS

	<u>Buildings</u> RMB'000	<u>Lands</u> RMB'000	<u>Total</u> RMB'000
COST			
At January 1, 2019	4,707	22,655	27,362
Additions	57	-	57
At September 30, 2019	<u>4,764</u>	<u>22,655</u>	<u>27,419</u>
DEPRECIATION			
At January 1, 2019	1,698	8,312	10,010
Charge for the period	1,218	740	1,958
At September 30, 2019	<u>2,916</u>	<u>9,052</u>	<u>11,968</u>
CARRYING AMOUNT			
At January 1, 2019 (restated)	<u>3,009</u>	<u>14,343</u>	<u>17,352</u>
At September 30, 2019	<u>1,848</u>	<u>13,603</u>	<u>15,451</u>

Buildings represent leases of staff quarters and offices are negotiated for terms from 1 to 11 years with fixed rental. Lands represent the leasehold land in the PRC for gas utility distribution and gas station.

As at December 31, 2018, there are long-term lease prepayment in the carrying amount of RMB13,163,000. Leases of lands are negotiated for a term of 5 to 50 years. One of the leases has a term of 5 years with rental fee fixed plus turnover rent from the total gas volume sales. The leasehold land prepayment of RMB10,999,000 which represents the fixed portion of leasehold prepayment has been reclassified as right-of-use assets upon the application of IFRS 16. During the nine-month period ended September 30, 2019, turnover rent of RMB656,000 is recognised as expenses. As at September 30, 2019, long-term lease prepayments in the carrying amount of RMB1,507,000 represents the variable portion of lease prepayment.

One of the leased land used for gas station are negotiated for a term of 20 years with the rental fee fixed for the first 4 or 5 years from signing the lease contracts, and progressively increases 5% or 10% for every other 4 or 5 years thereafter. The land has been recognized as right-of-use asset upon the application of IFRS 16.

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11. INTERESTS IN ASSOCIATES

	September 30, <u>2019</u> RMB'000	December 31, <u>2018</u> RMB'000
Cost of investment in an associate - unlisted	32,460	37,460
Share of post-acquisition losses and other comprehensive expense	<u>(4,914)</u>	<u>(5,832)</u>
	<u>27,546</u>	<u>31,628</u>

Details of the Group's associates as at September 30, 2019 and December 31, 2018 are as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			30/9/2019	31/12/2018	30/9/2019	31/12/2018	
Xiangtan Shin-Ko Energy Co., Ltd. 湘潭市长丰深冷能源有限公司 ("Shin-Ko Energy") (note)	The PRC	The PRC	-	50%	-	50%	Operating liquefied natural gas ("LNG") storage facility
Pingxiang Xinao CF	The PRC	The PRC	40%	40%	40%	40%	Gas sale and distribution and pipeline installation and connection

\* The English names of the associates are for identification purpose only.

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

On February 20, 2019, the deregistration of Shin-Ko Energy was completed. The loss on disposal of Shin-Ko Energy of RMB379,000 and share of loss of RMB2,000 was recognized in the condensed interim consolidated statements of profit or loss and other comprehensive income for the nine-month period ended September 30, 2019. Upon the deregistration of Shin-Ko Energy, the Group has lost significant influence over the associate.

12A. TRADE RECEIVABLES

	September 30, <u>2019</u> RMB'000	December 31, <u>2018</u> RMB'000
Trade receivables		
- Gas sales	17,260	20,787
- Pipeline installation and connection	<u>14,311</u>	<u>10,167</u>
	31,571	30,954
Less: Allowances for credit loss	<u>(2,571)</u>	<u>(3,061)</u>
	<u>29,000</u>	<u>27,893</u>

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## 12B. CONTRACT ASSETS

	September 30, <u>2019</u> RMB'000	December 31, <u>2018</u> RMB'000
Contract assets from pipeline construction works	17,335	7,229
Less: Allowances for credit loss	-	(165)
	<u>17,335</u>	<u>7,064</u>

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in achieving specified milestones at the reporting date on pipeline construction works. The contract assets will be transferred to trade receivables when the rights become unconditional.

*Construction contracts of pipeline construction works*

The Group's construction contracts include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits range from 30% to 70% of total contract sum as part of its credit risk management policies. The Group typically transfers the contract assets to trade receivables when the performance obligation of the construction works is satisfied.

The Group classifies these contract assets as current assets because the Group expects to realize them in its normal operating cycle.

## 13. OTHER RECEIVABLES, PREPAID EXPENSES AND DEPOSITS

	September 30, <u>2019</u> RMB'000	December 31, <u>2018</u> RMB'000
Pipeline relocation receivables (Note a)	19,436	9,669
Deposits paid for acquisition of property and equipment	1,777	3,033
Prepayments for gas purchase	7,960	4,119
Rental prepayments (Note b)	1,130	2,724
VAT recoverable	14,725	12,877
Receivables from Xinao Gas on disposal of Pingxiang Xinao CF	3,243	3,243
Deferred share issue costs	-	1,402
Other prepayments and deposits	3,508	4,013
Prepayment for investment in a joint venture (Note c)	24,000	-
	<u>75,779</u>	<u>41,080</u>
Analyzed for reporting purposes as follows:		
- Current assets	43,626	30,440
- Non-current assets	32,153	10,640
	<u>75,779</u>	<u>41,080</u>

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13. OTHER RECEIVABLES, PREPAID EXPENSES AND DEPOSITS - continued

Notes:

- (a) Due to the change in city planning, local government notified the Group to relocate its gas pipelines for complying with the revised city plan and agreed that it would compensate part of the costs incurred by the Group as a result of the notified relocation. At September 30, 2019, the balances incurred amounted to approximately RMB19,436,000 (December 31, 2018: RMB9,669,000) on completed construction of new pipelines. The Group expected RMB13,258,000 (December 31, 2018: RMB2,667,000) would be refunded by the local government in twelve-month period with the remaining balance of RMB6,178,000 (December 31, 2018: RMB7,002,000) to be refunded beyond twelve-month period.
- (b) As at September 30, 2019, RMB1,130,000 rental prepayments are cancellable, short-term or low value leases.
- (c) During the nine-month period ended September 30, 2019, the Group injected an additional capital of RMB24,000,000 into EDF Changfeng (Sanya) Energy., Ltd. \* 法電長豐(三亞)能源有限公司 ("EDF CF"), a joint venture company of the Group. The amount representing the Group's portion of the equity required to be injected pursuant to the terms of the EDF CF joint venture agreement. Since the official change of interests has not been completed as of September 30, 2019, the amount was recorded as prepayment by the Group.

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

As part of the Group's credit risk management, the Group regularly monitors the internal credit rating based on available information at each reporting date for other receivables. Based on the assessment of the financial health of the counterparties performed by the management and considered that various receivables are government bodies, the management of the Company considered that the expected credit loss ("ECL") for the other receivables of the Group is insignificant as at September 30, 2019 and December 31, 2018.

CF ENERGY CORP. (FORMERLY "CHANGFENG ENERGY INC.")

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14. TRADE AND OTHER PAYABLES

	September 30, <u>2019</u> RMB'000	December 31, <u>2018</u> RMB'000
Trade and construction payables	20,275	33,502
Security deposit received from customers for natural gas supplies	5,570	5,372
Payable on property and equipment acquisition	5,041	7,984
Accrued wages and staff benefits	4,760	10,392
Compensation payable for land acquisition	2,906	2,906
Other tax payables	884	1,550
Other payables	3,510	4,173
	<u>42,946</u>	<u>65,879</u>

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

15. AMOUNTS DUE FROM (TO) RELATED PARTIES

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

<u>Name of related party</u>	<u>Relationship</u>	<u>Nature of transactions</u>	September 30, <u>2019</u> RMB'000	September 30, <u>2018</u> RMB'000
Pingxiang Xinao CF	Associate	Interest income	<u>339</u>	<u>339</u>

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

<u>Name of related party</u>	<u>Relationship</u>	<u>Terms</u>	September 30, <u>2019</u> RMB'000	December 31, <u>2018</u> RMB'000
Shin-Ko Energy	Associate	Non-trade, unsecured, non-interest bearing and repayable on demand	<u>-</u>	<u>(4,249)</u>
Pingxiang Xinao CF	Associate	Non-trade, unsecured and interest bearing (note a)	<u>12,782</u>	<u>12,852</u>
		Trade, unsecured, non-interest bearing and repayable on demand (note b)	<u>3,500</u>	<u>3,300</u>
EDF Changfeng (Sanya) Energy Co., Ltd.	Joint venture	Non-trade, unsecured, non-interest bearing and repayable on demand	<u>-</u>	<u>144</u>

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## 15. AMOUNTS DUE FROM (TO) RELATED PARTIES - continued

<u>Name of related party</u>	<u>Relationship</u>	<u>Terms</u>	September 30, <u>2019</u> RMB'000	December 31, <u>2018</u> RMB'000
Hebei Ruiheng Clean Energy Co., Ltd.	Non-controlling shareholder of a subsidiary	Non-trade, unsecured, interest bearing and repayable on demand (note c)	-	905
Sichuan Tianzhiyuan Energy Technology Limited	Non-controlling shareholder of a subsidiary	Non-trade, unsecured, 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 RMB12,971,000 (December 31, 2018: RMB12,852,000). There is no fixed term of repayment and in the opinion of the management of the Company, the amount is expected to be repaid beyond the twelve months after the reporting period and therefore the amount is classified as non-current asset.
- (b) The balance represents amount due from Pingxiang Xinao CF amounted of RMB3,500,000 (December 31, 2018: RMB3,300,000) (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. 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.
- (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 (note 20 (a)).

The loan discharge agreement (the "Loan Discharge Agreement") dated May 25, 2017 entered among Sanya Changfeng Offshore Natural Gas Supply Co., Ltd. ("CF China"), subsidiary of the Company 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 RMB36,000,000 or its CAD equivalent (the "Investment").

On July 26, 2019, the Board of Director of the Company has determined to exercise the Company's option pursuant to the Loan Discharge Agreement for the estate of Mr. Lin (the "Estate") to invest an aggregate amount of RMB36,000,000 in common shares of the Company. 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.

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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.

16. SHORT-TERM BANK BORROWINGS AND LONG-TERM DEBTS

During the nine-month period ended September 30, 2019, the Group obtained an additional short-term bank borrowing of RMB10,000,000 and a new long-term debt of RMB100,000,000 (December 31, 2018: short-term bank borrowings of RMB20,000,000 and no new long-term debt) as a result of negotiations with the bank which successful raised the overall limit of existing facilities granted by the bank. RMB88,540,000 was withdrawn under the new long-term debt agreement during the nine-month period ended September 30, 2019.

17. DEFERRED INCOME - GOVERNMENT GRANTS

The Group received RMB5,269,000 in government grants to fund the construction of certain items of property and equipment for the Group's operation in Sanya City in 2012. These government grants were recognized as a long-term liability and will be recognized in profit or loss over the expected useful lives of these property and equipment when these property and equipment are ready for use. As of September 30, 2019, part of the property and equipment are ready for use and RMB180,000 (September 30, 2018: RMB170,000) is recognized as other income during the nine-month period ended September 30, 2019. As at September 30, 2019, the government grants of RMB4,512,000 was recognized as non-current liability (December 31, 2018: RMB4,692,000).

18. SHARE CAPITAL

**Share capital of the Company**

	Number of <u>shares</u>	<u>Amount</u> RMB'000
Common shares		
Issued and fully paid:		
At January 1, 2018	64,345,035	66,689
Exercised options	919,120	3,149
Share cancellation (note)	(16,000)	(20)
At December 31, 2018 and September 30, 2019	<u>65,248,155</u>	<u>69,818</u>

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Note: On March 29, 2018, one of the shareholders cancelled the shares due to personal reasons. The board of Director of the Company approved the cancellation of the shares.

19. SHARE-BASED COMPENSATION

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

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

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 Option Scheme 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 Option Scheme.

	<u>Number of share options</u>
Outstanding as at January 1, 2019	6,225,000
Cancellation of stock options surrendered	<u>(2,440,000)</u>
Outstanding as at September 30, 2019	<u>3,785,000</u>

During the nine-month period ended September 30, 2018, share options of 2,440,000 were granted to management and employees and consultant, respectively, on April 13, 2018. The fair values of these options determined at the date of grant using the Black-Scholes option were RMB2,982,000 and RMB344,000, respectively.

During the nine-month period ended September 30, 2019, all holders of stock options granted on April 13, 2018 voluntarily surrendered their options for cancellation and their options were duly cancelled.

During the nine-month period ended September 30, 2019, no share-based compensation was recognized (September 30, 2018: RMB2,150,000).

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20. CHANGE OF INTERESTS OF SUBSIDIARIES

- (a) During the nine-month period ended September 30, 2018, Hunan CNPC NEI disposed a 9% equity interest in Riheng, a non wholly-owned subsidiary of the Company, to Ruiheng, an independent third party, for a consideration of RMB900,000. As a result, the effective interest in Riheng held by the Group reduced from 60.0% to 54.6% without losing control.

During the nine-month period ended September 30, 2019, 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, totaling RMB938,000. As a result, the Group's effective interest in Riheng increased to 60%.

- (b) During the nine-month period ended September 30, 2018, Sanya Changfeng New Energy Investment Co., Ltd. has transferred its 100% equity interest in Gaoyao, a wholly-owned subsidiary, to Zhuhai Henghui Energy Co. Ltd, a non-wholly owned subsidiary, for a consideration of RMB10,000,000. As a result, the Group deemed to have disposed of 39% interest in Gaoyao with its effective interest of 61% without losing control.

21. SEASONALITY OF OPERATIONS

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

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

22. CAPITAL COMMITMENT

	September 30, <u>2019</u> RMB'000	December 31, <u>2018</u> RMB'000
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 consolidated financial statements	<u>18,522</u>	<u>26,058</u>