

CF ENERGY CORP.

Condensed Interim Consolidated Financial Statements
Three-month and Nine-month periods ended September 30, 2021
and 2020 (Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020

<u>CONTENTS</u>	<u>PAGE(S)</u>
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	3 & 4
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	5 & 6
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY	7
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS	8 & 9
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS	10 - 35

**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020**

	NOTES	Three-month period ended September 30		Nine-month period ended September 30	
		2021 RMB'000 (unaudited)	2020 RMB'000 (restated)	2021 RMB'000 (unaudited)	2020 RMB'000 (restated)
Continuing operations					
Revenue	5	82,612	89,970	249,994	231,293
Cost of sales		(48,855)	(50,063)	(148,144)	(136,879)
Gross profit		33,757	39,907	101,850	94,414
Other income		227	5,363	1,374	6,358
Other losses		(1,113)	(194)	(1,177)	(1,156)
Impairment losses under expected credit loss model, net of reversal		(146)	(470)	162	432
Fair value change on derivative financial instrument	12	2,969	3,561	-	5,113
Selling and marketing expenses		(9,493)	(8,892)	(27,012)	(24,657)
General and administrative expenses		(11,530)	(9,694)	(33,252)	(30,054)
Share based compensation expense	23	(469)	-	(1,493)	-
Finance costs		(2,194)	(1,181)	(6,104)	(4,538)
Share of profit of associates	11	1,181	1,920	4,918	4,936
Profit before tax		13,189	30,320	39,266	50,848
Income tax expense		(3,668)	(7,365)	(11,896)	(13,009)
Profit for the period from continuing operations		9,521	22,955	27,370	37,839
Discontinued operation					
Profit (loss) for the period from discontinued operation	6	2	(326)	(1,480)	(595)
Profit for the period		9,523	22,629	25,890	37,244
Profit and total comprehensive income for the period		9,523	22,629	25,890	37,244
Profit (loss) for the period attributable to owners of the Company					
- From continuing operations		9,664	22,709	27,162	37,438
- From discontinued operation		1	(196)	(888)	(357)
		9,665	22,513	26,274	37,081
Profit (loss) for the period attributable to non-controlling interests					
- From continuing operations		(143)	246	208	401
- From discontinued operation		1	(130)	(592)	(238)
		(142)	116	(384)	163
Total comprehensive income (expenses) attributable to					
- Owners of the Company		9,665	22,513	26,274	37,081
- Non-controlling interests		(142)	116	(384)	163
		9,523	22,629	25,890	37,244

CF ENERGY CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020

		Three-month period ended		Nine-month period ended	
		September 30		September 30	
	<u>NOTES</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
		RMB'000	RMB'000	RMB'000	RMB'000
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Earnings per share					
<i>From continuing and discontinued operations</i>					
- Basic (RMB)	8	<u>0.15</u>	<u>0.34</u>	<u>0.40</u>	<u>0.57</u>
- Diluted (RMB)	8	<u>0.14</u>	<u>0.34</u>	<u>0.39</u>	<u>0.56</u>
<i>From continuing operations</i>					
- Basic (RMB)	8	<u>0.15</u>	<u>0.35</u>	<u>0.41</u>	<u>0.57</u>
- Diluted (RMB)	8	<u>0.14</u>	<u>0.34</u>	<u>0.40</u>	<u>0.56</u>

CF ENERGY CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL
POSITION
AT SEPTEMBER 30, 2021 AND DECEMBER 31, 2020

	<u>NOTES</u>	September 30, <u>2021</u> RMB'000	December 31, <u>2020</u> RMB'000
NON-CURRENT ASSETS			
Property and equipment	9	701,669	565,962
Right-of-use assets	10	78,678	26,538
Long-term lease prepayments	10	-	50
Goodwill		1,635	1,635
Intangible assets		12,189	9,610
Interests in associates	11	38,466	33,548
Amount due from an associate	18	12,423	13,833
Amount due from non-controlling interest of a subsidiary	18	2,267	2,178
Long-term deposits and advances	15	22,883	62,059
Equity instruments at fair value through other comprehensive income	16	15,170	500
		<u>885,380</u>	<u>715,913</u>
CURRENT ASSETS			
Current portion of long-term lease prepayments	10	218	617
Inventories		4,340	3,929
Contract assets	13	23,108	19,107
Trade receivables	14	31,713	39,217
Other receivables, prepaid expenses and deposits	15	73,821	50,399
Derivative financial instrument	12	11,781	11,908
Restricted cash		3,231	5,327
Fixed bank deposits		-	6,000
Bank balances and cash		103,001	138,602
		<u>251,213</u>	<u>275,106</u>
Assets classified as held for sale	6	2,238	991
		<u>253,451</u>	<u>276,097</u>
CURRENT LIABILITIES			
Trade and other payables	17	132,560	135,529
Dividend payable to non-controlling interest of a subsidiary		299	299
Contract liabilities		128,372	108,764
Lease liabilities		2,344	1,639
Income tax payable		9,292	14,615
Short-term bank borrowings	19	46,150	40,000
Current portion of long-term debts		55,854	39,000
		<u>374,871</u>	<u>339,846</u>
Liabilities associated with assets classified as held-for-sale	6	3	-
		<u>374,874</u>	<u>339,846</u>

CF ENERGY CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL
POSITION
AT SEPTEMBER 30, 2021 AND DECEMBER 31, 2020

	<u>NOTES</u>	September 30, <u>2021</u> RMB'000	December 31, <u>2020</u> RMB'000
NET CURRENT LIABILITIES		<u>(121,423)</u>	<u>(63,749)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>763,957</u>	<u>652,164</u>
NON-CURRENT LIABILITIES			
Long-term debts	19	309,666	229,132
Long-term convertible debentures	20	2,897	-
Lease liabilities		6,383	5,492
Deferred income - government grants	21	18,695	18,864
Deferred tax liabilities		<u>9,805</u>	<u>9,728</u>
		<u>347,446</u>	<u>263,216</u>
NET ASSETS		<u>416,511</u>	<u>388,948</u>
CAPITAL AND RESERVES			
Share capital	22	71,201	70,053
Reserves		<u>303,863</u>	<u>277,307</u>
Equity attributable to owners of the Company		375,064	347,360
Non-controlling interests		<u>41,447</u>	<u>41,588</u>
TOTAL EQUITY		<u>416,511</u>	<u>388,948</u>

The unaudited condensed interim consolidated financial statements on pages 1 to 35 were approved and authorized for issue by the Board of Directors on November 29, 2021 and are signed on its behalf by:

YongBiao Ding

YONGBIAO DING
DIRECTOR

WengCheng Zhang

WENCHENG ZHANG
DIRECTOR

CF ENERGY CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020

	Attributable to owners of the Company					Subtotal RMB'000	Non- controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Contributed surplus RMB'000 (Note a)	Statutory surplus reserve RMB'000 (Note b)	Other reserves RMB'000	Retained earnings RMB'000			
As at January 1, 2020	69,861	17,580	53,258	(531)	156,596	296,764	31,269	328,033
Profit and total comprehensive income for the period	-	-	-	-	37,081	37,081	163	37,244
Options exercised	564	(191)	-	-	-	373	-	373
Options expired/forfeited	-	(19)	-	-	19	-	-	-
Capital injection by non-controlling interests	-	-	-	-	-	-	12,000	12,000
As at September 30, 2020	70,425	17,370	53,258	(531)	193,696	334,218	43,432	377,650
As at January 1, 2021	70,053	19,178	53,258	(537)	205,408	347,360	41,588	388,948
Profit and total comprehensive income for the period	-	-	-	-	26,274	26,274	(384)	25,890
Acquisition of non-controlling interest in a subsidiary (note c)	-	-	-	(250)	-	(250)	243	(7)
Share-based compensation expense	-	1,493	-	-	-	1,493	-	1,493
Issuance of share awards (Note 23)	1,148	(1,148)	-	-	-	-	-	-
Options expired/forfeited	-	(133)	-	-	133	-	-	-
Recognition of equity component of convertible debentures (Note 20)	-	-	-	187	-	187	-	187
As at September 30, 2021	71,201	19,390	53,258	(600)	231,815	375,064	41,447	416,511

Notes:

- (a) Contributed surplus comprises capital contribution from shareholders and share-based compensation reserve.
- (b) Statutory surplus reserve represents the statutory surplus reserve fund attributable to the Group set up by the subsidiaries in the People's Republic of China (the "PRC"). According to the relevant PRC regulations, the subsidiaries in the PRC are required to appropriate 10% of net profit as reported in the statutory financial statements to the statutory surplus reserve fund, and the statutory surplus reserve fund may be used for making up losses, if any, and increasing registered capital. The maximum amount appropriate to the statutory surplus reserve fund is 50% of the registered capital of the respective PRC subsidiaries. The statutory surplus reserve is not distributable.
- (c) On April 13, 2021, Sanya Changfeng Clean Energy Co., Ltd., a wholly-owned subsidiary of the Group acquired a 20% equity interest in the non-controlling interest of Hainan Hengtai Energy Co., Ltd. ("Hainan Hengtai") with no consideration. As a result, the Group's effective interest in Hainan Hengtai increased from 80% to 100%, the carrying amount of the non-controlling interest as of April 13, 2021 was recognized as other reserve as at September 30, 2021.

CF ENERGY CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020

	NOTES	Nine-month period ended September 30,	
		2021 RMB'000	2020 RMB'000
OPERATING ACTIVITIES			
Increase in contract liabilities		19,610	5,342
Increase in contract assets		(4,100)	(5,642)
Other operating cash inflow		23,303	69,182
Interest received		276	797
Interest paid		(12,961)	(7,845)
Income tax paid		(17,142)	(9,900)
NET CASH FROM OPERATING ACTIVITIES		<u>8,986</u>	<u>51,934</u>
INVESTING ACTIVITIES			
Deposit paid for acquisition of property and equipment		(244)	(9,945)
Deposit paid for acquisition of land use right		(18,858)	(31,751)
Acquisition of land use right		(234)	-
Acquisition of property and equipment		(123,472)	(53,753)
Acquisition of intangible assets		-	(792)
Acquisition of pipelines for relocation projects		(947)	(2,690)
Receipt of compensation on pipeline relocation projects		787	586
Proceeds on disposal of property, plant and equipment		54	-
Purchase of equity instrument at fair value through other comprehensive income		(14,670)	-
Withdrawal of restricted cash		2,104	42
Withdraw of fixed bank deposits		6,000	6,000
Placement of fixed bank deposits		-	(6,000)
Receipt of government grants relating to assets	21	-	12,110
Decrease in amount due from an associate		1,410	-
NET CASH USED IN INVESTING ACTIVITIES		<u>(148,070)</u>	<u>(86,193)</u>
FINANCING ACTIVITIES			
Dividend paid to non-controlling interests of subsidiaries		-	(1,707)
Proceeds on exercised share options		-	373
New short-term borrowings raised		42,650	41,774
Repayment of short-term bank borrowings		(36,500)	-
New long-term debt raised		121,887	7,718
Repayment of long-term debt		(24,500)	(8,500)
New long-term convertible debentures raised	20	3,050	-
Repayment of lease liabilities		(2,762)	(7,148)
Additional capital contribution received from non-controlling interest of a subsidiary		-	12,000
NET CASH FROM FINANCING ACTIVITIES		<u>103,825</u>	<u>44,510</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		<u>(35,259)</u>	<u>10,251</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		<u>138,602</u>	<u>127,990</u>
Effect of foreign exchange rate changes		(22)	3
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		<u>103,321</u>	<u>138,244</u>

CF ENERGY CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020

	Nine-month period ended	
	September 30,	September 30,
	<u>2021</u>	<u>2020</u>
	RMB'000	RMB'000
Represented by:		
Bank balances and cash	103,001	138,244
Cash and cash equivalents included in assets held-for-sale	<u>320</u>	<u>-</u>
	<u>103,321</u>	<u>138,244</u>

CF ENERGY CORP.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2021 AND 2020

1. GENERAL

CF Energy Corp. (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. The registered office of the Company is located at Suite 2600, Three Bentall Center, P.O. BOX 49314, 595 Burrard Street, Vancouver, British Columbia, V7X 1L3, Canada and the head office of the Company is located at 3100 Steeles Ave East, Suite 3008, Markham, Ontario, L3R 8T3, Canada. The principal operations of the Company's business are in 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 condensed interim consolidated financial statements are presented in Renminbi ("RMB"), which is the official currency of the PRC and also the functional currency of the Company.

At the end of December 31, 2020, following the Group's realignment of its future business strategies with major focus on the development of clean energy solutions with high growth potentials, made the decision to terminate the operation of Riheng as its operation no longer fitted in with the Group's future strategies and to direct its future resources toward key projects that are with higher growth potentials and in line with the China Central government's future development policy focus going forward. Further details of this are set out in note 6. Accordingly, as of September 30, 2021, Riheng was considered as a discontinued operation and accordingly, the results of Riheng for the nine-month period ended September 30, 2021 have been presented separately as a discontinued operation. The comparative figures of Riheng for the nine-month period ended September 30, 2020 have been restated and presented separately as a discontinued operation.

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, 2020, which include information necessary to understand the Group's business and financial statement presentation.

2. BASIS OF PREPARATION - continued

At September 30, 2021, the Group's current liabilities exceeded its current assets by RMB 121,423,000. In view of these circumstances, management of the Group has given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Management is satisfied that the Group will have sufficient financial resources to meet its financial obligations including the capital commitments. Taking into account the Group's cash flow projection, including the term facilities, the Group's ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, management considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair value, as appropriate.

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, 2021 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2020.

New and amendments to IFRSs that are mandatorily effective for the current period

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 for the preparation of the Group's condensed interim consolidated financial statements:

Amendment to IFRS 16	Covid-19-Related Rent Concessions ¹
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2 ²

¹ Effective for annual periods beginning on or after June 1, 2020

² Effective for annual periods beginning on or after January 1, 2021

Except for the new and amendments to IFRSs mentioned below, the management of the Group anticipates that the application of new and amendments to IFRSs and Interpretations has no material impact on the condensed interim consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES – continued

Amendment to IFRS 16 *Covid-19-Related Rent Concessions*

In May 2020, the IASB provided a practical expedient that permits lessees (not lessors) to not assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions in profit or loss as if they were not lease modifications.

The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments due on or before September 30, 2021; and
- there is no substantive change to other terms and conditions of the lease.

When applying the practical expedient, the rent relief could be treated as either:

1. a variable rent expense in profit or loss against the lease liability to derecognise the part of the lease liability that has been forgiven or waived, or;
2. a deferral of lease payments from one period to another, which only affects the timing of payments. A lessee would continue to recognise interest on the lease liability and reduce that liability for lease payments, or;
3. a combination of the above.

During the nine-month period ended September 30, 2021, one of the Group's subsidiaries received rent recessions equivalent to three months' rent in 2020. The Group applied the practical expedient and treated the rent recessions as a variable rent expense in profit or loss against the lease liability. The total amount of the rent recessions was RMB215,000.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing the condensed interim consolidated financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual consolidated financial statements.

CF ENERGY CORP.

5. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the nine-month periods ended September 30, 2021 and 2020 are as follows:

	Nine-month period ended September 30,	
	<u>2021</u>	<u>2020</u>
	RMB'000	RMB'000
		(Restated)
Gas distribution utility		
- Gas sales	130,602	120,665
- Pipeline installation and connection	82,133	76,234
- CNG vehicles refueling	35,469	34,387
Integrated smart energy	1,577	-
Smart mobility	213	7
	<u>249,994</u>	<u>231,293</u>

	Nine-month period ended September 30,	
	<u>2021</u>	<u>2020</u>
	RMB'000	RMB'000
		(Restated)
Timing of revenue recognition		
A point of time	167,861	155,059
Over time	82,133	76,234
Total	<u>249,994</u>	<u>231,293</u>

Information is reported to the Chief Executive Officer of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of each 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. With the new electric vehicle battery swap station business and the integrated smart energy business, which were under development, having progressively becoming operational, CODM considered it appropriate to include these businesses as standalone business segments.

For the nine-month period ended September 30, 2021, the operating segments have been realigned from two business segments, namely the gas distribution utility segment and CNG vehicle refueling segment previously adopted to three business segments, namely the gas distribution utility segment, the integrated smart energy segment and the smart mobility segment.

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

- (a) Gas distribution utility
- (b) Integrated smart energy
- (c) Smart mobility

5. REVENUE AND SEGMENT INFORMATION - continued

(a) Gas distribution utility segment:

- (i) provides gas pipeline installation and connection services and delivers natural gas to residential, commercial and industrial customers through its pipeline networks and associated facilities in Sanya City, Hainan Province in the PRC;
- (ii) transmits of natural gas via the Group's pipeline networks for its customers in Zhaoqing City, Guangdong Province in the PRC; and
- (iii) operates CNG vehicle refueling stations to supply gas for taxicabs and public transportation vehicles in Sanya City, Hainan Province and Changsha City, Hunan Province in the PRC.

(b) Integrated smart energy segment:

- (i) uses multiple clean energy sources, including solar, hydro, electricity, and natural gas (CCHP/Co-Gen) to supply cooling, heating, as well as hot water to its customers in the Haitang Bay area of Sanya City, Hainan Province, the PRC; and
- (ii) supplies heat and power via the Group's pipeline networks to its customers in Meishan City, Sichuan Province, the PRC.

(c) Smart mobility segment

- (i) operation of electric vehicle ("EV") battery swap station business in Sanya City and Haikou City, Hainan Province, the PRC.

5. REVENUE AND SEGMENT INFORMATION - continued

Segment revenues and results

The following is an analysis of Group's revenue and results from continuing operations by reportable segments:

For the nine-month period ended September 30, 2021

Continuing operations

	Gas distribution <u>utility</u> RMB'000	Integrated smart <u>energy</u> RMB'000	Smart <u>mobility</u> RMB'000	<u>Consolidated</u> RMB'000
Segment revenue	298,414	1,577	213	300,204
Inter-segment revenue	(50,210)	-	-	(50,210)
Revenue from external customers	<u>248,204</u>	<u>1,577</u>	<u>213</u>	<u>249,994</u>
Segment profit/(loss)	<u>49,919</u>	<u>(2,213)</u>	<u>(2,265)</u>	45,441
Share of profit of associates				4,918
Fair value change on derivative financial instrument				-
Unallocated income				98
Unallocated expenses				<u>(11,191)</u>
Profit before tax from continuing operations				<u>39,266</u>

For the nine-month period ended September 30, 2020

Continuing operations

	Gas distribution <u>utility</u> RMB'000 (Restated)	Smart <u>Mobility</u> RMB'000	<u>Consolidated</u> RMB'000 (Restated)
Segment revenue	266,172	7	266,179
Inter-segment revenue	(34,886)	-	(34,886)
Revenue from external customers	<u>231,286</u>	<u>7</u>	<u>231,293</u>
Segment profit/(loss)	<u>53,404</u>	<u>(239)</u>	53,165
Share of profit of associates			4,936
Fair value change on derivative financial instrument			5,113
Unallocated income			112
Unallocated expenses			<u>(12,478)</u>
Profit before tax from continuing operations			<u>50,848</u>

5. REVENUE AND SEGMENT INFORMATION - continued

Geographical information

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

6. DISCONTINUED OPERATION / ASSETS CLASSIFIED AS HELD-FOR-SALE

In 2020, the Group realigned its future business strategies with major focus on the development of clean energy solutions with high growth potential, including the integrated smart energy and electric vehicle battery swap, and made the first move into the EV battery swap business. As Hebei Riheng Clean Energy Co., Ltd. ("Riheng")'s business and operating model no longer aligns with the Group's new business focus and growth expectations, in the best interests of the Group, the management of the Company decided to terminate the operation of Riheng and direct its future resources toward key projects that are with higher growth potentials and in line with the China Central government's future development policy focus going forward.

As at the end the year ended December 31, 2020, the Group has entered into sales agreement with several buyers to dispose certain property, plant and equipment of Riheng, which is expected to be sold within twelve months. As of September 30, 2021, Riheng was considered as a discontinued operation and accordingly, the results of Riheng for the nine-month period ended September 30, 2021 have been presented separately as a discontinued operation as set out below. The comparative figures of Riheng for the nine-month period ended September 30, 2020 have been restated and presented separately as a discontinued operation as set out below.

	Nine-month period ended September 30,	
	<u>2021</u>	<u>2020</u>
	RMB'000	RMB'000
Revenue	70	22,926
Cost of sales	(69)	(21,868)
Other income	72	17
Selling and marketing expenses	(48)	(1,052)
General and administrative expenses	(291)	(582)
Interest expenses	-	(36)
Other losses	(1,214)	-
Loss before tax	(1,480)	(595)
Income tax expense	-	-
Loss for the period	<u>(1,480)</u>	<u>(595)</u>

Under the EIT Law, the tax rate of Riheng is 25% for both periods. No provision for taxation in PRC has been made as Riheng incurred tax losses in the PRC for both periods.

CF ENERGY CORP.

6. DISCONTIUED OPRATION / ASSETS CLASSIFIED AS HELD-FOR-SALE - continued

The major classes of assets and liabilities of Riheng as at September 30, 2021, which have been presented separately in the condensed interim consolidated statements of financial position, are as follows:

	<u>September 30, 2021</u> RMB'000
Property and equipment	991
Trade receivables	213
Other receivables, prepaid expenses and deposits	714
Bank balances and cash	320
Total assets classified as held-for-sale	<u>2,238</u>
Receipts in advance from customers	3
Amount due to the Group	6,219
	<u>6,222</u>
Less: inter-company elimination	<u>(6,219)</u>
Total liabilities associated with assets classified as held-for-sale	<u>3</u>

The assets held-for-sale of Riheng as at December 31, 2020 represented property, plant and equipment of RMB991,000.

7. INCOME TAX EXPENSE

	Nine-month period ended September 30,	
	<u>2021</u> RMB'000	<u>2020</u> RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	11,219	11,731
PRC withholding EIT	600	330
	<u>11,819</u>	<u>12,061</u>
Deferred tax expense	77	948
	<u>11,896</u>	<u>13,009</u>

The Company was incorporated in Canada and is therefore subject to Canadian federal and Ontario statutory income tax at a rate of 26.5% (2020: 26.5%) on assessable profits in Canada during the reporting period.

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the reporting period (2020: 25%).

CF ENERGY CORP.

8. EARNINGS PER SHARE – continued

From continuing operations

The calculation of the basic and diluted earnings (loss) 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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</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	9,665	22,513	26,274	37,081
Less: Profit (loss) for the period from discontinued operations attributable to owners of the Company	<u>1</u>	<u>(196)</u>	<u>(888)</u>	<u>(357)</u>
Earnings for the purpose of basic earnings per share from continuing operations	<u>9,664</u>	<u>22,709</u>	<u>27,162</u>	<u>37,438</u>

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

From discontinued operation

The calculations of basic and diluted earnings (loss) per share for the discontinued operation attributable to owners of the Company are based on the earnings from the discontinued operation of RMB1,000 for the three-month period (2020: loss of RMB196,000) and loss from the discontinued operation of RMB888,000 for the nine-month period (2020: RMB357,000) ended September 30, 2021, respectively, and the denominators detailed above. Both basic and diluted loss per share is RMB nil for the three-month period (2020: RMB0.01) and RMB0.01 (2020: RMB nil) for the nine-month period ended September 30, 2021.

9. PROPERTY AND EQUIPMENT

During the current nine-month period, the Group incurred approximately RMB120,700,000 (September 30, 2020: RMB96,938,000) for construction in progress. Construction in progress of approximately RMB269,370,000 (September 30, 2020: RMB10,173,000) have been transferred to property and equipment during the nine-month period ended September 30, 2021.

10. RIGHT-OF-USE ASSETS AND LONG-TERM LEASE PREPAYMENTS

	<u>Leasehold properties</u> RMB'000	<u>Leased lands</u> RMB'000	<u>Total</u> RMB'000
As at January 1, 2020			
Carrying amount	4,221	17,132	21,353
As at December 31, 2020			
Carrying amount	7,234	19,304	26,538
As at September 30, 2021			
Carrying amount	8,382	70,296	78,678
For the period ended September 30, 2021			
Depreciation charge	(2,961)	(943)	(3,904)
For the period ended September 30, 2020			
Depreciation charge	(1,069)	(896)	(1,965)

For both periods, the Group leases various offices and staff quarters for its operations. Lease contracts are entered into for fixed terms of 1 year to 11 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group also leases land in the PRC for gas utility distribution and gas stations. Other than a land lease in Hunan province, the PRC, the land leases are usually prepaid upfront. Terms of the land leases are ranging from 5 to 50 years.

The Group regularly enters short-term leases for staff quarters and such leases are exempted from being classified as right-of-use assets. As at September 30, 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases as of December 31, 2020.

Variable lease payments

Lease of a land for a CNG vehicle refueling station contains both fixed lease payments and variable lease payments that are based on the volume of gas refueled by customers. Variable lease payments not included in the measurement of lease liabilities for the period ended September 30, 2021 amounting to RMB218,000 (December 31, 2020: RMB667,000).

CF ENERGY CORP.

11. INTERESTS IN ASSOCIATES

	September 30, 2021 RMB'000	December 31, 2020 RMB'000
Cost of investments in associates - unlisted	32,710	32,710
Share of post-acquisition profits and other comprehensive income	5,756	838
	<u>38,466</u>	<u>33,548</u>

Details of the Group's associates as at September 30, 2021 and December 31, 2020 are as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Paid-up capital		Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			31/3/2021 RMB'000	31/12/2020 RMB'000	31/3/2021	31/12/2020	31/3/2021	31/12/2020	
Pingxiang Xinao Changfeng Gas Co., Ltd 萍乡新奥长丰燃气有限公司 ("Pingxiang Xinao CF")	The PRC	The PRC	32,460	32,460	40%	40%	40%	40%	Gas sales and distribution and pipeline installation and connection
Sichuan Xiangshu Petrochemical Co., Ltd 四川湘蜀石油化工有限公司 ("Xiangshu")	The PRC	The PRC	250	250	23.2%	23.2%	23.2%	23.2%	Refined oil sales and distribution

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

All of the associates are accounted for using the equity method in the condensed interim consolidated financial statements.

Summarized financial information of material associate

Summarized financial information in respect of material associate is set out below. The Summarized financial information below represents amounts shown in Pingxiang Xinao CF's financial statements prepared in accordance with IFRSs.

Pingxiang Xinao CF

	September 30, 2021 RMB'000	December 31, 2020 RMB'000
Current assets	31,642	24,202
Non-current assets	158,800	146,167
Current liabilities	122,240	112,455
Non-current liabilities	-	2,088

11. INTERESTS IN ASSOCIATES – continued

Summarized financial information of material associate – continued

	Nine-month period ended September 30,	
	<u>2021</u>	<u>2020</u>
	RMB'000	RMB'000
Revenue	205,422	123,562
Profit for the period	12,377	12,424
Total comprehensive income for the period	<u>12,377</u>	<u>12,424</u>

Reconciliation of the above summarized financial information to the carrying amount of the Group's interest in Pingxiang Xinao CF recognized in the financial statements:

	September 30, <u>2021</u>	December 31, <u>2020</u>
	RMB'000	RMB'000
Net assets of Pingxiang Xinao CF	68,202	55,826
Proportion of the Group's interest in Pingxiang Xinao CF	40%	40%
	<u>27,281</u>	<u>22,330</u>
Add: Fair value adjustment	11,009	11,009
Carrying amount of the Group's interest in Pingxiang Xinao CF	<u>38,290</u>	<u>33,339</u>

12. DERIVATIVE FINANCIAL INSTRUMENT

	September 30, <u>2021</u>	December 31, <u>2020</u>
	RMB'000	RMB'000
Derivative financial asset	<u>11,781</u>	<u>11,908</u>

In 2007, Mr. Lin, advanced loans in the aggregate amount of RMB40,000,000 to the Group pursuant to a subordination and forbearance agreement dated April 27, 2007 (the "Subordination and Forbearance Agreement"). On May 25, 2017, the Group entered into a loan discharge agreement with Mr. Lin ("Loan Discharge Agreement") to repay an aggregate amount of RMB36,000,000 and the Group's obligation stated in the Subordination and Forbearance Agreement, has been fully discharged. Accordingly, the remaining RMB4,000,000 was recognized as shareholder's contribution.

In addition, the Loan Discharge Agreement provided that if the IPO 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 subscription price for such common shares shall be the volume-weighted average price of the common shares of the Company in the period of 30 calendar days preceding June 28, 2019 on the TSX Venture Exchange.

12. DERIVATIVE FINANCIAL INSTRUMENT -continued

As the IPO was not completed on or prior to June 28, 2019, the Company announced that the Board determined to exercise the Company's option pursuant to the Loan Discharge Agreement to require the estate of Mr. Lin (the "Estate") to subscribe for an aggregate amount of CAD6,862,000 (approximately RMB36,000,000) in common shares of the Company at a price of CAD0.68 per common share on July 26, 2019. Following the subscription, based on the prevailing exchange rate of June 28, 2019, the number of shares to be issued is 10,090,568. The management of the Group considered that the share subscription is a forward contract. As at September 30, 2021, the market price of the common shares of the Company was CAD0.45 (December 31, 2020: CAD0.45) and the closing exchange rate of RMB to CAD as at September 30, 2021 was RMB1.0000 to CAD0.1970 (December 31, 2020: RMB1.0000 to CAD0.1949).

13. CONTRACT ASSETS

	September 30, <u>2021</u> RMB'000	December 31, <u>2020</u> RMB'000
Contract assets from pipeline construction works	23,207	19,148
Less: Allowance for credit losses	<u>(99)</u>	<u>(41)</u>
	<u>23,108</u>	<u>19,107</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. The contract assets are transferred to trade receivables when the rights become unconditional.

Typical payment terms which impact on the amount of contract assets recognized are as follows:

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 ranging from 30% to 70% of total contract amount 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 satisfied.

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

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14. TRADE RECEIVABLES

	September 30, <u>2021</u> RMB'000	December 31, <u>2020</u> RMB'000
Trade receivables		
- Gas sales	10,077	18,280
- Pipeline installation and connection	25,256	24,782
	<u>35,333</u>	<u>43,062</u>
Less: Allowance for credit losses	(3,620)	(3,845)
	<u>31,713</u>	<u>39,217</u>

15. OTHER RECEIVABLES, PREPAID EXPENSES AND DEPOSITS

	September 30, <u>2021</u> RMB'000	December 31, <u>2020</u> RMB'000
Pipeline relocation receivables (note 1)	21,444	21,631
Deposits paid for acquisition of property and equipment	244	6,906
Deposits paid for land use right (note 2)	18,858	51,701
Prepayments for gas purchase	15,276	2,093
Rental deposits	1,312	911
VAT recoverable	36,013	25,430
Receivables from Xinao Gas on disposal of Pingxiang Xinao CF	126	415
Other prepayments and deposits	3,431	3,371
	<u>96,704</u>	<u>112,458</u>
Less: impairment loss recognized (note 3)	-	(138)
	<u>96,704</u>	<u>112,320</u>
Analyzed for reporting purposes as follows:		
- Current assets	73,821	50,399
- Non-current assets	22,883	62,059
	<u>96,704</u>	<u>112,458</u>

Notes:

- 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 the local government would compensate part of the costs incurred by the Group as a result of the notified relocation. At September 30, 2021, the balances incurred are approximately RMB21,444,000 (December 31, 2020: RMB21,631,000) on construction of new pipelines as a result of the relocation notices. The Group expected RMB18,041,000 (December 31, 2020: RMB18,444,000) would be refunded by the local government in twelve-month period and RMB3,403,000 (December 31, 2020: RMB3,187,000) to be refunded beyond twelve-month period.
- During the nine-month period ended September 30, 2021, deposit paid for land use right amounted to RMB51,935,000 was transferred to leased land under right-of-use assets and long-term lease prepayments upon the receipt of land certificate.
- The management of the Company decided to terminate the operation of Riheng, and the recoverable amount of Riheng was lower than its carrying amount. An impairment loss of RMB 138,000 on other receivables, prepaid expenses and deposits was recognized in the year ended December 31, 2020. As at September 30, 2021, all assets of Riheng have been reclassified as assets held for sale.

CF ENERGY CORP.

16. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	September 30, <u>2021</u> RMB'000	December 31, <u>2020</u> RMB'000
:		
Unlisted equity investments	15,170	500

The above unlisted equity investments represent the Group's equity interest in private entities incorporated in the PRC. The directors of the Company have elected to designate these investments in equity instruments as FVTOCI as they believe that the Group will hold these investments for medium to long-term strategic purposes.

17. TRADE AND OTHER PAYABLES

	September 30, <u>2021</u> RMB'000	December 31, <u>2020</u> RMB'000
Trade and construction payables	16,104	28,131
Security deposit received from customers for natural gas supplies	6,994	5,363
Payable on property and equipment acquisition	93,654	77,446
Accrued wages and staff benefits	5,676	13,170
Accrued audit fee	1,542	2,588
Compensation payable for land acquisition	2,906	2,906
Other tax payables	995	724
Other payables and accrued expenses	4,689	5,201
	<u>132,560</u>	<u>135,529</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.

18. RELATED PARTY BALANCES/TRANSACTIONS DISCLOSURE

During the period, the Group entered into the following transactions and balances with related parties:

Name of related party	Relationship	Nature of transactions	For nine-month period ended September 30,	
			<u>2021</u> RMB'000	<u>2020</u> RMB'000
<u>Transactions</u>				
Sichuan Tianzhiyuan Energy Technology Limited ("Tianzhiyuan")	Non-controlling interest of a subsidiary	Interest income	83	83

CF ENERGY CORP.

18. RELATED PARTY BALANCES/TRANSACTIONS DISCLOSURE - continued

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

Name of related party	Relationship	Terms	September 30, December 31,	
			2021 RMB'000	2020 RMB'000
Balances				
Pingxiang Xinao CF	Associate	Non-trade, unsecured and interest bearing (note a)	12,423	12,423
		Trade, unsecured, non-interest bearing (note b)	-	1,410
Tianzhiyuan	Non-controlling interest of a subsidiary	Non-trade, unsecured, interest bearing and repayable on demand (note c)	2,267	2,178

Notes:

- (a) The balance represents loan to Pingxiang Xinao CF amounted to RMB12,423,000 as at September 30, 2021 (December 31, 2020: RMB12,423,000).
- (b) The balance as at December 31, 2020 represented amount due from Pingxiang Xinao CF amounted of RMB1,410,000 (September 30, 2021: RMB nil) after signing of the Concessionary Agreement with Xiangdong District Government of Pingxiang, Jiangxi province and obtaining the concessionary right for natural gas pipeline distribution. The balance was fully settled in May 2021.
- (c) The balance represents the loan to Tianzhiyuan as unsettled capital injected into Meishan bearing interest at 5.88% per annum amounted to RMB2,267,000 (December 31, 2020: RMB2,178,000). In the opinion of the management of the Company, the outstanding balance is not expected to be repaid within 12 months after the end of reporting period and therefore the amount is classified as non-current asset.

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

During the nine-month period ended September 30, 2021, the Group repaid short-term bank borrowings with total amount of RMB36,500,000 (2020: nil) and obtained new short-term bank borrowings with total amount of RMB42,650,000 (2020: RMB41,774,000). In addition, the Group repaid long-term debts of RMB24,500,000 (2020: RMB8,500,000) and obtained new long-term debts of RMB121,887,260 (2020: RMB7,718,000).

20. CONVERTIBLE DEBENTURES

On May 20, 2021, the Group completed a non-brokered private placement of unsecured convertible debentures in the aggregate principal amount of RMB3,046,000 (CAD600,000) (the “Convertible Debentures”). The Convertible Debentures have a term of two years ending on May 19, 2023 (the “Maturity Date”) with 7% interest per annum to be paid semi-annually, with an option of the holders of the debenture (the “Debenture Holders”) to convert the principal amount outstanding under the Convertible Debentures into common shares of the Company (“Shares”) at a conversion price of CAD0.66 (the “Conversion Price”) per Share. Under the terms of the Convertible Debentures, the Company has the right to require the Debenture Holders to convert all principal amounts outstanding under the Convertible Debentures at the Conversion Price if, for any fifteen consecutive trading days prior to the Maturity Date, the daily volume-weighted average price of the Shares on the TSX Venture Exchange equals or exceeds CAD0.85 per Share.

The net proceeds received from the issue of the Convertible Debentures have been split between the financial liability element and an equity component, representing the fair value of the embedded option to convert the financial liability into equity of the Group, as follows:

	RMB'000	CAD'000
Proceeds of issue of Convertible Debentures	3,050	600
Equity component	187	36
Liability component at date of issue	2,863	564
Interest charged (using effective interest rate)	112	22
Interest payable	(78)	(15)
Carrying amount of liability component at September 30, 2021	<u>2,897</u>	<u>571</u>

The equity component of RMB187,000 has been credited to other reserve as of September 30, 2021. The interest expensed for the nine-month period ended September 30, 2021 is calculated by applying an effective interest rate of 10.68% to the liability component since the Convertible Debentures were issued. The liability component is measured at amortised cost. The difference between the carrying amount of the liability component at the date of issue and the amount reported at September 30, 2021 represents the effective interest rate less interest payable to that date.

21. DEFERRED INCOME - GOVERNMENT GRANTS

The Group received RMB5,269,000, RMB2,553,000 and RMB12,110,000 in government grants to fund the construction of certain items of property and equipment for the Group's operation in Sanya City in 2012, 2019 and 2020. These government grants were recognized as a long-term liability and will be recognized in the consolidated statement of profit or loss over the expected useful lives of these property and equipment when these property and equipment are ready for use. As at September 30, 2021, part of the property and equipment are ready for use and RMB169,000 (2020: RMB170,000) is recognized as other income. As at September 30, 2021, the government grants of RMB18,695,000 was recognized as a non-current liability (December 31, 2020: RMB18,864,000).

CF ENERGY CORP.

22. SHARE CAPITAL

	<u>Number of shares</u>	<u>Amount RMB'000</u>
Common shares		
Issued and fully paid:		
At January 1, 2020	65,263,155	69,861
Exercised options	200,000	192
At December 31, 2020	65,463,155	70,053
Issuance of share awards (Note 23)	522,500	1,148
At September 30, 2021	<u>65,985,655</u>	<u>71,201</u>

23. SHARE-BASED COMPENSATION

Share Option

The share option scheme of the Company (the "Option Scheme") was 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 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.

At the annual general meeting of the Company held on July 26, 2019, the shareholders of the Company approved the resolution for the amendments to the existing Option Scheme from the "fixed" option plan to a "rolling" option plan (the "Rolling Option Scheme") whereby (i) options can be granted to subscribe for up to a maximum number of shares of the Company equal to 10% of the issued and outstanding shares of the Company from time to time; and (ii) subject to the maximum referred to in (i) above, options granted and exercised can be re-granted under the scheme. The Rolling Option Scheme is subject to annual renewal and approval by shareholders at each annual general meeting of the Company after initial approval and the current plan was subsequently approved by the shareholders of the Company at the annual general meeting of the Company held on October 29, 2020.

	<u>Number of share options</u>
Outstanding as at January 1, 2021	4,600,000
Expired/forfeited during the period	(100,000)
Outstanding as at September 30, 2021	<u>4,500,000</u>

23. SHARE-BASED COMPENSATION – continued

Share Awards

The employee stock award plan (the "Award Scheme") was adopted by the shareholders of the Company at the annual general meeting of the Company on October 29, 2020 for the primary purpose of compensating eligible employees of the Company and subsidiaries of the Company for their shortfall in salaries and motivating the employees to retain in the Group so that they may participate in any future growth of the Group. Under the Award Scheme, the Board may grant awards shares (the "Award Shares") to eligible participants including all employees on the payroll records of the Group. The aggregate number of shares that may be issued under the Award Scheme is fixed at 6,546,315, representing 10% of the issued and outstanding shares of the Company at the date of adoption of the Award Scheme. The total number of shares which may be reserved for issuance to any one individual under the Award Scheme within any one-year period shall not exceed 5% of the issued and outstanding shares and the total number of shares which may be reserved for issuance to any consultant within any one year period shall not exceed 2% of the issued and outstanding shares.

Under the Award Scheme, the Company may grant Award Shares to eligible employees provided that the employees have satisfied any performance conditions set by the Board, the Company may issue and deliver to each eligible employee an award of a number of Award Shares equal to (i) the value of the compensation determined by the Board to be earned by such eligible employee on the date of approval of an Award (the "Compensation"), divided by (ii) the Average Market Price of the shares on the date of approval of the granting of the Award Shares less the maximum allowable discount to the average market price permitted by the securities exchange upon which the shares are listed.

On December 18, 2020, a total of 2,090,000 common shares were granted to employees and management at the price of CAD0.43 per common share which was based on the volume weighted average trading price of the Company's shares on the TSX Venture Exchange for the 10 trading days immediately preceding the grant date as prescribed under the terms of the Award Scheme. The first batch of the 522,500 Award Shares, which are not subject any conditions, have been issued. The remaining 1,567,500 Award Shares, which are subject to the fulfilment of certain considerations, remained un-issued as at September 30, 2021.

24. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	September 30, <u>2021</u> RMB'000	December 31, <u>2020</u> RMB'000
Financial assets		
Financial assets at amortized cost	174,205	226,788
Equity instruments at FVTOCI	15,170	500
Derivative financial instrument	11,781	11,908
	<u> </u>	<u> </u>
Financial liabilities		
Liabilities measured at amortized cost	529,322	422,115
Convertible Debentures	2,897	-
	<u> </u>	<u> </u>

24. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, pipeline relocation receivables, receivables from Xinao Gas other receivables and deposits, amounts due from an associate and non-controlling interests of subsidiaries, restricted cash, fixed bank deposits, bank balances and cash, equity instrument at FVTOCI, derivative financial instrument, trade and other payables, dividend payable to non-controlling interest of a subsidiary, short-term bank borrowings and long-term debts. The risks associated with these financial instruments include market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's businesses transacted in RMB, the aforesaid currencies are determined as the functional currencies of the Company and its subsidiaries.

The Company and its subsidiaries have foreign currency: bank balances and cash and other payables, which expose them to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	<u>Liabilities</u>		<u>Assets</u>	
	September 30, <u>2021</u>	December 31, <u>2020</u>	September 30, <u>2021</u>	December 31, <u>2020</u>
	RMB'000	RMB'000	RMB'000	RMB'000
United States Dollars ("US\$")	-	-	177	1,619
CAD	(3,151)	(132)	1,990	1,448
Hong Kong Dollars ("HKD")	-	-	304	100
	<u>-</u>	<u>-</u>	<u>304</u>	<u>1,448</u>

Sensitivity analysis

The management of the Company considers that the exposure to fluctuations in exchange rate of US\$, CAD and HKD against RMB are not significant and thus no sensitivity analysis is presented.

24. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Market risk - continued***Interest rate risk***

Interest rate risk is the risk that changes in interest rates will affect the Group's income or value of or cash flows related to its financial instruments. The Group is exposed to interest rate risk arising from its bank balances, restricted cash, fixed bank deposits, long-term debts, short-term bank borrowings and lease liabilities. The Group is exposed to fair value interest rate risk in relation to fixed-rate short-term bank borrowings. The Group's interest rate on its long-term debts are based upon the prescribed lending rate of the PBOC, which is subject to fluctuation, and may result in an increase or decrease in interest expense. The Group does not use derivative instruments to reduce its exposure to interest rate risk.

By excluding the impact of interest capitalization, 1% increase or decrease in the interest rate would have had the following impact on the Group's profit for the nine-month periods ended September 30, 2021 and 2020:

	Impact on profit for the nine-month period ended <u>September 30,</u>	
	<u>2021</u>	<u>2020</u>
	RMB'000	RMB'000
Interest rate + 1%	1,953	464
Interest rate - 1%	(1,953)	(464)

Credit risk

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, contract assets, other receivables and deposits, restricted cash, fixed bank deposits, bank balances and amounts due from an associate and non-controlling interests of subsidiaries. Other than the security deposits collected from certain customers from gas sales, the Group does not hold any other collateral or other credit enhancements to cover its credit risks associated with its financial assets.

As at September 30, 2021 and December 31, 2020, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at September 30, 2021 and December 31, 2020 in relation to each class of recognized financial assets is the carrying amount of those financial assets as stated in the consolidated statement of financial position.

Other than concentration of credit risk on bank balances which are deposited with several banks in the PRC and Canada with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, and spread across diverse industries and geographical areas.

24. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk -continued

Trade receivables and contract assets arising from contracts with customers

In order to minimize the credit risk of trade receivables and contract assets, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group performs impairment assessment under ECL model based on provision matrix. Trade receivables and contract assets are grouped under different provision matrix by nature of products and services based on credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers, reversal of impairment loss, RMB162,000 (2020: RMB432,000) is recognized for the nine-month period ended September 30, 2021.

Bank balances/fixed bank deposits/restricted cash

The credit risks on bank balances, fixed bank deposits and restricted cash are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies. The Group assessed 12m ECL for bank balances, fixed bank deposits and restricted cash by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances, fixed bank deposits and restricted cash is considered to be insignificant. No expected credit loss was recognized as the amount involved is insignificant.

Amounts due from an associate and non-controlling interests of a subsidiary

The Group regularly monitors the business performance of the associates and joint venture. The Group's credit risks in these balances are mitigated through the value of the assets held by these entities and the power to participate or jointly control the relevant activities of these entities. The directors of the Company consider that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. No expected credit loss was recognized as the amount involved is insignificant.

Other receivables and deposits

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the nine-month periods ended September 30, 2021 and 2020, the Group assessed the ECL for other receivables and deposits were insignificant and thus no loss allowance was recognized.

24. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents deemed adequate by management of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group's financial liabilities consist of long-term debts and trade payables, dividend payable to non-controlling interest of a subsidiary and short-term bank borrowings which are expected to be realized within one year.

At September 30, 2021, the Group's current liabilities exceeded its current assets by RMB 121,423,000. In view of these circumstances, management of the Group has given consideration to the future liquidity and performance of the Group and its available sources of finance. 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, 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.

(c) Fair value measurements of financial instruments

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

There were no transfers between different levels during both periods.

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30/9/2021	31/12/2020		
Derivative financial instruments	Asset – RMB11,781,000	Asset - RMB11,908,000	Level 2	Discounted cash flow The fair value is calculated by subtracting the present value of the initial forward price from the spot rate
Equity instruments at FVTOCI	Asset – RMB15,170,000	Asset - RMB500,000	Level 1	Recent transaction

Derivative financial instruments

The Group owns a right to require the estate of Mr. Lin to subscribe an aggregate amount of RMB36,000,000 (approximately CAD6,862,000 based on the prevailing exchange rate) in common shares of the Company at a price of CAD0.68 per share. The IPO has not been completed on or prior to June 28, 2019. The management of the Group considered that the share subscription is a derivative financial instrument. As at September 30, 2021, the market price of the common share is CAD0.45 (December 31, 2020: CAD0.45) and the closing exchange rate for RMB1.0000 to CAD0.1970 (December 31, 2020: CAD0.1949) for the nine-month period ended September 30, 2021. The derivative financial instrument is classified as financial assets at FVTPL and is measured at fair value at reporting date.

The management of the Group determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of derivative financial instrument, the Group uses discounted cash flow method by subtracting the present value of the initial forward price from the spot rate.

Equity instruments at FVTOCI

During the nine-month period ended September 30, 2021, the Group entered into an agreement to acquire approximately 3.43% of the total equity shares of Blue Valley Smart Energy (Beijing) Technology Co., Ltd.* (蓝谷智慧(北京)能源科技有限公司), a privately held EV battery technology development and service company in the PRC. Total consideration of RMB14,670,000 was paid and business registration of share transfer was completed in May 2021.

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

25. RELATED PARTY DISCLOSURES

Apart from details of the balances and transactions with related parties disclosed in note 18 to the unaudited condensed interim consolidated statements of financial position and other details disclosed elsewhere in the condensed interim consolidated financial statements, the Group has not entered into any significant transactions with related parties during both reporting periods.

25. RELATED PARTY DISCLOSURES - continued

Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the reporting periods are as follows:

	Nine-month period ended September 30,	
	<u>2021</u>	<u>2020</u>
	RMB'000	RMB'000
Short-term benefits	1,638	1,548
Share-based payments	392	-
	<u>2,030</u>	<u>1,548</u>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals of the Group and market trends.

26. 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.

27. CAPITAL COMMITMENTS

	September 30,	December 31,
	<u>2021</u>	<u>2020</u>
	RMB'000	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 unaudited condensed interim consolidated financial statements/consolidated financial statements	99,062	210,163
Capital injection in respect of the investment in Hainan Shanglian Investment Co., Ltd. contracted for but not provided in the financial statements	<u>1,500</u>	<u>1,500</u>

29. COMPARATIVE FIGURES

The presentation of comparative information in respect of the period ended September 30, 2020 have been restated in line with the basis of presentation for the current period.