

**CF ENERGY CORP.**  
**Management's Discussion and Analysis**  
**for the three-month and nine-month periods ended**  
**September 30, 2022 and 2021**

Dated November 28, 2022

## **Advisory**

This Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to understand the financial position and operations of CF Energy Corp. (hereafter referred to as "CF Energy", "we" or the "Company") and its subsidiaries (collectively referred to as the "Group" or "our Group") as at and for the three-month and nine-month periods ended September 30, 2022. This information should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three-month and nine-months periods ended September 30, 2022 and 2021 and the audited consolidated financial statements and related notes for the year ended December 31, 2021. "CF Energy" includes CF Energy Corp. and its subsidiaries, unless otherwise indicated. Additional information related to CF Energy is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on its website at <http://www.cfenergy.com>.

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

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

Amounts are stated in Renminbi (RMB), the official currency of the People's Republic of China (the "PRC" or "China") and the functional currency of the principal operating subsidiaries of the Company in the PRC, and Canadian dollars (CAD) unless otherwise indicated.

## **Caution Regarding Forward-Looking Information**

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

## **Overview**

CF Energy is a Canadian public company currently listed on the TSX Venture Exchange ("TSX-V") under the stock symbol "CFY". CF Energy is primarily involved in natural gas distribution and sustainable energy utilization, serving residential, commercial and industrial users as well as electric vehicle battery swap service in the PRC.

Our existing business model comprises three main segments:

- (i) Gas distribution utility segment, which comprises of natural gas transmission and sales, including:
  - (a) Pipeline Natural Gas ("PNG") sales and Liquefied Natural Gas ("LNG") supply distribution sales and related service pipeline installation and connection sub-segments;
  - (b) Compressed natural gas ("CNG") vehicle refueling stations; and
  - (c) Natural gas direct transmission;
- (ii) Integrated smart energy segment, which comprises of integrated smart energy system and integrated district energy distribution; and
- (iii) Smart mobility segment, which comprises of the operation of electric vehicle ("EV") battery swap stations.

### **Gas Distribution Utility Segment**

#### ***Pipeline PNG Sales and LNG Supply Distribution Sales***

Major pipeline PNG sales projects are based in Sanya City, Hainan Province and Pingxiang City, Jiangxi Province. The Company has been granted a 30-year exclusive concession right (2007 to 2037) in Sanya to operate the PNG sales as well as the construction and maintenance of the required facilities and pipelines which makes the Company the dominant participant in the Sanya PNG gas distribution market. The Company also distributes PNG to users in the ceramic industry base of Xiangdong District, Pingxiang City, Jiangxi Province under a 30-year distribution right (2010 to 2040) granted to its 40% owned associate.

#### ***CNG Vehicle Refueling***

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

#### ***Natural Gas Direct Transmission***

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

### **Integrated Smart Energy Segment**

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

#### **The Haitang Bay Integrated Smart Energy Project**

The Haitang Bay Integrated Smart Energy Project, which combines the use of multiple clean energy sources, including solar, hydro, electricity, and natural gas (CCHP/Co-Gen), is to supply cooling, heating, as well as hot water to the hotels, shopping centers, and households in the Haitang Bay area of Sanya City, Hainan Province, the PRC. This project is conducted through the Group's 70% held (30% held by the EDF Group) subsidiary company, EDF Changfeng (Sanya) Energy Co., Ltd. ("EDF CF") with authorized capital of RMB119.1 million fully paid up in 2021. Under a 30-year concession right agreement (2017 to 2047), EDF CF has the right to build, own and operate the project in Haitang Bay, Hainan Province.

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The Project has been recognized as a low carbon energy utilization project in the tropical resort city of Sanya, Hainan Province, to provide air-conditioning with reduced emissions for public facilities in the Haitang Bay area. The Project will have four (4) central energy stations, 30km of district cooling and heating distribution networks, and 38 end user stations by the end of 2023. Once fully implemented, the system will distribute cooling, heating and hot water to serve 4.7 million square meters of commercial space, including large scale hotels, shopping malls, entertainment parks and buildings, hospitals and other commercial complexes. The Project uses optimized multi-energy integration program to distribute cooling, heating and hot water to customers. The system will apply many advanced technologies, i.e. multi-level compressed high-efficient refrigeration units, "ice battery" technology, hydro heat pump technology, distributed photovoltaic technology and AI data management to provide more efficient energy supply. The Project integrates advanced energy-saving technologies, such as ice storage, water-source heating pumping. It is expected to save about 30,000 tons of standard coal and reduce about 100,000 tons of carbon dioxide, sulfur dioxide and nitrogen oxide emissions every year once fully implemented.

Construction of the first energy station and the 18,900m of pipeline for the integrated smart energy network (6,000m of pipeline laid through land reclamation bypassing a river) was completed and commenced commercial operation in September 2021. The first group of commercial customers includes the Sanya Edition Hotel, Fairmont Sanya Haitang Bay, and Westin Sanya Haitang Bay Resort. The Company has signed up ten (10) commercial customers in Haitang Bay as of the date of this MD&A. The first phase of first energy station can provide services to 366,900 square meters of cooling space.

**The Meishan Project**

The Meishan Project is a joint investment, construction and operation of an integrated district energy distribution project in the New Economic Development Zone of Meishan City, Sichuan Province (the "Meishan New Economic Development Zone") to be operated by Meishan Hengtai Tianzhiyuan Energy Limited ("Meishan Hengtai"), a company which the Group holds an effective interest of 72%. The Meishan New Economic Development Zone, situated next to the central urban area of Meishan City, Sichuan Province, with a planned development area of 50.5 square kilometers, is to be the hub for manufacturers of drugs, supplements, medical equipment, and other medical related supplies. The year-round constant demand for steam is necessary to produce drugs that makes the Meishan New Economic Development Zone an ideal platform for integrated district energy distribution.

The project commenced trial operation in April 2021 and commercial operation officially in mid-May 2021 and has signed up seven (7) commercial customers with four (4) customers under service as of the date of this MD&A. Pipeline construction for the remaining three (3) customers have been completed and pending completion of installing of their own equipment. Commencement of trial operation is expected by the end of 2022.

The project is expected to significantly improve the district's energy consumption efficiency and reduce local air pollution in line with state policy as more customers connect to the program.

**Smart Mobility Segment*****EV Battery Swap Station***

The EV battery swap station business is a segment of the Group to build and operate battery swap service to electric vehicles. EDF CF has invested, built and operated two (2) EV battery swap stations in Sanya City to serve BAIC Qingxiang Technology Co., Ltd.'s ("BAIC QX") 200 swap-battery EVs for its network taxi hiring business (the "Network Taxis") currently operating in Sanya City and its additional 200 EV Network Taxis planned for Hainan Province in the near term with Blue Valley Smart (Beijing) Energy Technology Co., Ltd. ("Blue Valley"). The two (2) battery swap stations commenced commercial operations in August 2020 and January 2021 respectively. In September 2020, the Company and EDF (China) Holding Ltd. ("EDF (China)") jointly established Hainan EDF Huapu Smart Mobility Company Limited ("Huapu SM"), which signed an 8-year exclusive co-operating agreement with BAIC QX and Blue Valley to provide EV battery swap services in the city of Haikou City, provincial capital of Hainan Province. The first battery swap station in Haikou City commenced operation in August 2021 and the second station commenced operation in January 2022. Concurrently, a memorandum of understanding was also signed among the Company, EDF (China) and Blue Valley to jointly develop the battery swap project in Zhuhai City, Guangdong Province. The first battery swap station of Zhuhai City officially commenced operation in March 2022. The second station of Haikou City, which is being relocated to Sanya City as the third station there to cope with additional traffic of EV taxis, is expected to commence operation by end of 2022.

Following the acquisition of a 70% equity stake in the local Beihai City EV battery swap station operator, Beihai Brighton Road New Energy Ltd. (the "Beihai Company") in Beihai City, Gangxi Province in November 2022. The Beihai Company currently operates two (2) EV battery swap stations and has 344 registered active taxis as its EV battery swap users with 90 more battery swap EV taxis expected to be added by early next year to a total of 434 taxis. There are currently 550 taxis in Beihai City in total, our clientele accounted for approximately 79% of the market. The estimated 90 new battery swap EV taxis will bring the total market to 640 taxis. All of the taxis in Beihai City are battery swap cars, only Beijing Electric Vehicle Co., Ltd. ("Beijing EV") and Dongfeng Electric Vehicle Co., Ltd. ("Dongfeng EV") are within the government's supplier list for taxis.

### **Results for three-month and nine-month periods ended September 30, 2022**

For the three-month period ended September 30, 2022, the Group reported net loss from continuing operations of RMB0.4 million, a decrease of RMB9.9 million, or 104%, from net profit of RMB9.5 million for the three-month period ended September 30, 2021. On a comparable basis, after excluding fair value gain of RMB2.1 million (2021: RMB3.0 million) on derivative financial instrument of loan discharge agreement (see "Related Party Transactions" section on page 22 of this MD&A) and the recognition of share-based payments of RMB0.2 million (2021: RMB0.5 million), the non-IFRS adjusted net loss from continuing operations for the three-month period ended September 30, 2022 was RMB2.3 million, a decrease of RMB9.3 million, or 133% from adjusted net profit of RMB7.0 million as reported for the three-month period ended September 30, 2021.

For the nine-month period ended September 30, 2022, the Group reported net profit from continuing operations of RMB11.0 million, a decrease of RMB16.4 million, or 60%, from RMB27.4 million for the nine-month period ended September 30, 2021. On a comparable basis, after excluding fair value gain of RMB12.8 million (2021: Nil) on derivative financial instrument of loan discharge agreement (see "Related Party Transactions" section on page 22 of this MD&A), recognition of share-based payments of RMB0.5 million (2021: RMB1.5 million), the non-IFRS adjusted net loss from continuing operations for the nine-month period ended September 30, 2022 was RMB1.3 million, a decrease of RMB30.2 million, or 104% from adjusted net profit of RMB28.9 million as reported for the nine-month period ended September 30, 2021.

### **Major Highlight for the three-month period ended September 30, 2022 and up to the date of this MD&A**

#### **Gas Selling Price Adjustment**

The Group's natural gas business is a price regulated industry in China, where its business and operations are susceptible to risks associated with government pricing policy and regulation changes. The Group needs to enter into discussions and negotiations with local governments on pricing from time to time. Over the past years, the Group had been able to increase the selling price several times. In July 2020, as the government natural gas price regulating body in Sanya City, the Sanya City Development and Reform Commission ("SYDRC") finalized the City's natural gas utility pricing formula adjustment (the "Pricing Formula"), which is based on and adjusted with reference to the pricing formula adjustment of gas purchase price (the "Gas Purchasing Price") plus gas distribution cost (the "Gas Distribution Cost"), became the guideline for the Group to follow on its gas selling prices starting from August 1, 2020 (the "New Gas Selling Price") for both residential and commercial customers. The Pricing Formula is part of the pricing control strategy of China's National Development and Reform Commission for the whole of China. The New Gas Selling Price is to be reviewed (semi-annually) and adjusted periodically based on the Pricing Formula.

Following the price adjustments to the Gas Selling Price with effect from May 1, 2022, the New Gas Selling Price per m<sup>3</sup> to commercial customers in Sanya City has been adjusted from RMB3.83 to RMB4.12 while the price to social welfare units such as schools, government facilities, and other not-for-profit organizations which are classified under commercial customers remain unchanged at RMB3.23. The New Gas Selling Price per m<sup>3</sup> to residential customers, which is based on three (3) levels of consumption, with the third level price to be adjusted from RMB3.82 to RMB4.10 while the first and second level prices remain unchanged at RMB 2.94 and RMB3.53 respectively.

Going forward, as the pricing control policy is being further implemented by the SYDRC, the Group expects the New Gas Selling Price would significantly and adversely impact the profitability of its natural gas distribution business segment.

**COVID-19 impact on our business in the Hainan Province**

Sanya City experienced another outbreak of COVID-19 in August 2022. Government authorities have detected the highly transmissible Omicron BA.5.1.3 subvariant in the outbreak, which they believe was spread to the island via contact with overseas seafood dealers in Sanya's Yazhou fishing port. Restrictions and lockdown measures come as China's economy struggles under its stringent "zero-Covid" policy, in which it aims to suppress the spread of infection via lockdowns, mass testing and tough border controls. To stem the outbreak, the whole city was considered under "static management", an official term used to describe the deployment of lockdown measures on 6 August 2022. Public transportation was suspended, people's movements inside the city were restricted to emergency services, and transport links were halted. Most non-essential businesses were closed and residents was ordered to stay home unless necessary. These restrictions and lockdown measures came at the height of the summer tourism season and severely affect tourist industry and travel retail sectors in August 2022 from business recovery since the lifting of last lockdown in June 2022, which evidenced by gradually picked up of demand for natural gas from commercial customers in Sanya City in July 2022.

The restrictions have also affected our other business segments, including the Haitang Bay Integrated Smart Energy Project and the EV battery swap station business. Commencement of operation for some of the hotels in Haitang Bay which were planned to convert to our system were temporarily closed and the schedules for new hotel customers tapping into our system have been delayed. The significant drop in visitors to Sanya has also impacted our EV battery swap station business as demand for network taxi has also reduced.

After 40 days of static management, Sanya City slowly lifting of certain lockdown measures on September 16, 2022 and ended the period of static management.

**Government's Policy Measures to Support Small Enterprises Recovering Business**

The Company has been advised of the announced policy measures from the State Department and Sanya City (the "Policy Measures") that aimed to stabilize the economy in China. One of the items in the Policy Measures recommended that utility companies should allow small and micro enterprises and individual business owners (the "Small Companies") to delay their utility payments of June to November 2022 to December 2022 without being charged delaying payment penalties. CF Energy has fully followed the Policy Measures and made appropriate adjustments to the delay gas payment arrangements accordingly. For indication purposes, these qualified customers accounted for approximately 38% and 32% respectively of total revenue of commercial customers of the Group for the June to November 2021 and 2020 periods, and approximately 27% and 24% respectively of total revenue of the Group for the June to November 2021 and 2020 periods. As of the date of this MD&A, 343 customers who are mainly small catering business owners are qualified under the Policy Measure with a total gas sales revenue of RMB9.5 million for June to October 2022 and the amount of such deferral accounted for less than 6% of qualified gas sales revenue.

**Award of "Zero-Carbon Hotel" Demonstrative Project Status from The Investment Association of China**

Haitang Bay Integrated Smart Energy Project has been awarded as a "Zero-Carbon Hotel" Demonstrative Project in 2021 by the Energy Investment Committee of The Investment Association of China ("EICIAC"). EICIAC evaluated 87 carbon-reduction projects being selected from the whole of China and issued one "Zero-Carbon" demonstrative project status in each of the ten categories. The final results of the ten "Zero-Carbon" demonstrative projects were announced at the Carbon Neutrality, Zero Carbon China Summit 2022, the 5th China International Energy Investment Forum. EICIAC regarded the Haitang Bay Integrated Smart Energy Project as a reproducible and scalable "Zero-Carbon" hotel demonstrative project that can help promote the green and low-carbon development of energy in China.

**CF Energy Adds 232 Battery Swap Electric Vehicle Taxis As Customers In Sanya City**

In August 2022, following a successful bidding process, the Group has signed a three-party exclusive battery swap type EV purchase and EV battery swap service cooperating agreement (the "Agreement") with Sanya Feima Vehicle Operating Management Ltd. Co. ("Feima") and Hainan Huacheng Minghong New Energy Vehicle Sale and Service Ltd. Co. ("Huacheng") in Sanya City. Under the Agreement, Feima is to purchase 232 BAIC EU5 battery swap type EVs excluding batteries from Huacheng to be used as taxis in Sanya City and these taxis will exclusively use the batteries procured by the Group and its EV battery swap station network in Sanya City for swapping of their batteries with a limited number of times of fast charging per month

allowed. As of the date of this MD&A, first batch of 119 EV taxis were delivered and the rest is expected to be delivered by the end of 2022.

### **Expansion of Battery Swap Business in Beihai City**

In November 2022, the Group has acquired 70% stake in a profitable local Beihai City EV battery swap station operator, Beihai Brighton Road New Energy Ltd. (the "Beihai Company") in Beihai City, Gangxi Province, the PRC for a consideration of RMB1.24 million with reference to the valuation of RMB1.77 million for the Beihai Company.

The Company provided strategic advice and support to the Beihai Company in establishing the first two EV battery swap stations in Beihai City, and only completed the acquisition when the Beihai Company met all pre-set goals of the development plan. Since the first EV battery swap station became operational on May 23, 2022, by the end of October 2022, with both stations in operation, the Beihai Company had generated total revenue of RMB1.11 million and EBITDA of RMB0.33 million. The Beihai Company currently has 344 registered active taxis as its EV battery swap users with 90 more battery swap EV taxis expected to be added by early next year to a total of 434 taxis. There are currently 550 taxis in Beihai City in total, our clientele accounted for 79% of the market. The estimated 90 new battery swap EV taxis will bring the total market to 640 taxis. All of the taxis in Beihai City are battery swap cars, only Beijing EV and Dongfeng EV are within the government's supplier list for taxis.

To strengthen the financial position of the Beihai Company, the Group is currently in the final stage of raising RMB 14.0 million of long-term financing for the refinancing of the equipment and battery inventory, pending internal approval procedures of the lending finance institution.

The Company's EV battery swap business development strategy in the Beihai City expansion has delivered successful results. This reported case may be viewed as evidence to show that CF Energy has the ability to capitalize its early mover advantage with accumulated extensive market developing and operating experience. Many cities of similar size and characters in China may present fresh new opportunities in the early development stage of the EV battery swap markets to the Company. While the Company will continue to grow its established EV battery swap markets in Sanya, Haikou, and Beihai City, it will keep its eyes open for good new opportunities in other cities.

### **Outlook**

As the Company forewarned when released its interim results for the six months ended June 30, 2022 that the citywide lockdown controls implemented by the government due to COVID-19 infections in the Hainan Province had extended their impact to the third quarter of 2022. The lockdown lasted for less than two months and residents were obligated to stay home for the entire lockdown period. This has negatively impacted all our business segments. The COVID-19 controls eased up near the end of September 2022 and we began to see recovery and our EV battery swap station in Sanya City had started construction immediately in order to serve the upcoming 119 BAIC EU5 taxis, which were expected to be operational starting by the end of 2022. We have also taken the initiative to expand our EV battery swap business footprint to Beihai City through acquisition. Despite the ever-changing and difficult operating environment experienced, the Company is determined to charter through such obstacles and remain on our strategic directions and development going forward.

For the three-month and nine-month periods ended September 30, 2022 and 2021

## **Selected quarterly Financial Information**

The following table provide selected financial information for the three-month and nine-month periods ended September 30, 2022 and 2021 in Chinese RMB.

<i>In thousands of Chinese RMB except percentages and per share amounts</i>	Three months ended Sept 30,				Nine months ended Sept 30,			
	2022	2021	Change	%	2022	2021	Change	%
<b>Continuing Operations</b>								
Revenue	61,590	82,612	(21,022)	-25%	240,969	249,994	(9,025)	-4%
Gross profit	17,865	33,757	(15,892)	-47%	78,408	101,850	(23,442)	-23%
% of revenue	29.0%	40.9%	-11.9%		32.5%	40.7%	-8.2%	
Other income	1,915	227	1,688	744%	3,224	1,374	1,850	135%
Other losses, net	5	(1,113)	1,118	-100%	(88)	(1,177)	1,089	-93%
Impairment losses under expected credit loss model, net of reversal	525	(146)	671	-460%	(307)	162	(469)	-290%
Fair value change on derivative financial instrument	2,109	2,969	(860)	-29%	12,859	-	12,859	100%
Selling and marketing expenses	(5,208)	(9,493)	4,285	-45%	(20,175)	(27,012)	6,837	-25%
% of revenue	8.5%	11.5%	-3.0%		8.4%	10.8%	-2.4%	
General and administrative expenses	(11,520)	(11,530)	10	0%	(32,722)	(33,252)	530	-2%
% of revenue	18.7%	14.0%	4.7%		13.6%	13.3%	0.3%	
Share-based compensation expenses (note 4)	(191)	(469)	278	-59%	(564)	(1,493)	929	-62%
Share of results of associates	379	1,181	(802)	-68%	(5,251)	4,918	(10,169)	-207%
Finance costs	(3,688)	(2,194)	(1,494)	68%	(13,653)	(6,104)	(7,549)	124%
<b>Profit before tax</b>	<b>2,191</b>	<b>13,189</b>	<b>(10,998)</b>	<b>-83%</b>	<b>21,731</b>	<b>39,266</b>	<b>(17,535)</b>	<b>-45%</b>
% of revenue	3.6%	16.0%	-12.4%		9.0%	15.7%	-6.7%	
Income tax expense	(2,617)	(3,668)	1,051	-29%	(10,730)	(11,896)	1,166	-10%
% of revenue	4.2%	4.4%	-0.2%		4.5%	4.8%	-0.3%	
<b>Profit (loss) for the period from continuing operations</b>	<b>(426)</b>	<b>9,521</b>	<b>(9,947)</b>	<b>-104%</b>	<b>11,001</b>	<b>27,370</b>	<b>(16,369)</b>	<b>-60%</b>
% of revenue	-0.7%	11.5%	-12.2%		4.6%	10.9%	-6.4%	
<b>Discontinued operation (note 1)</b>								
Profit (loss) for the period from discontinued operation	(9)	2	(11)	>-999%	335	(1,480)	1,815	-123%
<b>Profit (loss) for the period</b>	<b>(435)</b>	<b>9,523</b>	<b>(9,958)</b>	<b>-105%</b>	<b>11,336</b>	<b>25,890</b>	<b>(14,554)</b>	<b>-56%</b>
<b>Profit (loss) and total comprehensive income (expenses) for the period</b>	<b>(435)</b>	<b>9,523</b>	<b>(9,958)</b>	<b>-105%</b>	<b>11,336</b>	<b>25,890</b>	<b>(14,554)</b>	<b>-56%</b>
<b>Profit (loss) for the period attributed to owners of the Company</b>								
- from continuing operations	1,927	9,664	(7,737)	-80%	18,494	27,162	(8,668)	-32%
- from discontinued operation	(6)	1	(7)	-700%	201	(888)	1,089	-123%
	1,921	9,665	(7,744)	-80%	18,695	26,274	(7,579)	-29%
<b>Profit (loss) for the period attributed to non-controlling interests</b>								
- from continuing operations	(2,353)	(143)	(2,210)	>999%	(7,493)	208	(7,701)	>-999%
- from discontinued operation	(3)	1	(4)	-400%	134	(592)	726	-123%
	(2,356)	(142)	(2,214)	>999%	(7,359)	(384)	(6,975)	>999%
	(435)	9,523	(9,958)	-105%	11,336	25,890	(14,554)	-56%
<b>Total comprehensive income (expenses) attributable to</b>								
- Owners of the Company	1,921	9,665	(7,744)	-80%	18,695	26,274	(7,579)	-29%
- Non-controlling interests	(2,356)	(142)	(2,214)	>999%	(7,359)	(384)	(6,975)	>999%
	(435)	9,523	(9,958)	-105%	11,336	25,890	(14,554)	-56%
<b>EBITDA from continuing operations (note 2)</b>								
EBITDA	14,855	21,902	(7,047)	-32%	61,939	64,754	(2,815)	-4%
% of revenue	24.1%	26.5%			25.7%	25.9%		
<b>From continuing and discontinued operations</b>								
Basic EPS	0.03	0.15			0.28	0.40		
Diluted EPS	0.03	0.14			0.28	0.39		
<b>From continuing operations</b>								
Basic EPS	0.03	0.15			0.28	0.41		
Diluted EPS	0.03	0.14			0.28	0.40		

Note 1: Discontinued operation is in respect of the termination of the operation of Hebei Riheng Clean Energy Co., Ltd. ("Riheng")

Note 2: EBITDA is identified and defined under the section "Non-IFRS Financial Measures".

Note 3: Share-based payments are included in general administrative expenses for the purpose of presentation in the unaudited condensed interim consolidated financial statements.

For the three-month and nine-month periods ended September 30, 2022 and 2021

## **Selected quarterly Financial Information**

The following tables provide selected financial information for the three-month and nine-month periods ended September 30, 2022 and 2021 in Canadian dollars. Presentation in Canadian dollars is for information purpose only.

<i>In thousands of Canadian Dollars except percentages and per share amounts</i>	Three months ended Sept 30,				Nine months ended Sept 30,			
	2022	2021	Change	%	2022	2021	Change	%
<b>Continuing Operations</b>								
Revenue	11,973	15,977	(4,004)	-25%	46,844	48,349	(1,505)	-3%
Gross profit	3,473	6,529	(3,056)	-47%	15,243	19,698	(4,455)	-23%
% of revenue	29.0%	40.9%	-11.9%		32.5%	40.7%	-8.2%	
Other income	372	44	328	745%	627	266	361	136%
Other losses, net	1	(215)	216	-100%	(17)	(228)	211	-93%
Impairment losses under expected credit loss model, net of reversal	102	(28)	130	>-999%	(60)	31	(91)	-294%
Fair value change on derivative financial instrument	410	574	(164)	-29%	2,500	-	2,500	100%
Selling and marketing expenses	(1,012)	(1,836)	824	-45%	(3,922)	(5,224)	1,302	-25%
% of revenue	8.5%	11.5%	-3.0%		8.4%	10.8%	-2.4%	
General and administrative expenses	(2,239)	(2,230)	(9)	0%	(6,361)	(6,431)	70	-1%
% of revenue	18.7%	14.0%	4.7%		13.6%	13.3%	0.3%	
Share-based compensation expenses (note 4)	(37)	(91)	54	-59%	(110)	(289)	179	-62%
Share of results of associates	74	228	(154)	-68%	(1,021)	951	(1,972)	-207%
Finance costs	(717)	(424)	(293)	69%	(2,654)	(1,181)	(1,473)	125%
<b>Profit before tax</b>	<b>427</b>	<b>2,551</b>	<b>(2,124)</b>	<b>-83%</b>	<b>4,225</b>	<b>7,593</b>	<b>(3,368)</b>	<b>-44%</b>
% of revenue	3.6%	16.0%	-12.4%		9.0%	15.7%	-6.7%	
Income tax expense	(509)	(709)	200	-28%	(2,086)	(2,301)	215	-9%
% of revenue	4.3%	4.4%	-0.2%		4.5%	4.8%	-0.3%	
<b>Profit (loss) for the period from continuing operations</b>	<b>(82)</b>	<b>1,842</b>	<b>(1,924)</b>	<b>-104%</b>	<b>2,139</b>	<b>5,292</b>	<b>(3,153)</b>	<b>-60%</b>
% of revenue	-0.7%	11.5%	-12.2%		4.6%	10.9%	-6.4%	
<b>Discontinued operation (note 1)</b>								
Profit (loss) for the period from discontinued operation	(3)	-	(3)	100%	65	(286)	351	-123%
<b>Profit (loss) for the period</b>	<b>(85)</b>	<b>1,842</b>	<b>(1,927)</b>	<b>-105%</b>	<b>2,204</b>	<b>5,006</b>	<b>(2,802)</b>	<b>-56%</b>
<b>Profit (loss) and total comprehensive income (expenses) for the period</b>	<b>(85)</b>	<b>1,842</b>	<b>(1,927)</b>	<b>-105%</b>	<b>2,204</b>	<b>5,006</b>	<b>(2,802)</b>	<b>-56%</b>
<b>Profit (loss) for the period attributed to owners of the Company</b>								
- from continuing operations	375	1,869	(1,494)	-80%	3,595	5,253	(1,658)	-32%
- from discontinued operation	(1)	1	(2)	-200%	40	(172)	212	-123%
	374	1,870	(1,496)	-80%	3,635	5,081	(1,446)	-28%
<b>Profit (loss) for the period attributed to non-controlling interests</b>								
- from continuing operations	(457)	(28)	(429)	>999%	(1,457)	40	(1,497)	>-999%
- from discontinued operation	(1)	-	(1)	100%	26	(115)	141	-123%
	(458)	(28)	(430)	>999%	(1,431)	(75)	(1,356)	>999%
	(84)	1,842	(1,926)	-105%	2,204	5,006	(2,802)	-56%
<b>Total comprehensive income (expenses) attributable to</b>								
- Owners of the Company	374	1,870	(1,496)	-80%	3,635	5,081	(1,446)	-28%
- Non-controlling interests	(458)	(28)	(430)	>999%	(1,431)	(75)	(1,356)	>-999%
	(84)	1,842	(1,926)	-105%	2,204	5,006	(2,802)	-56%
<b>EBITDA from continuing operations (note 2)</b>								
EBITDA	2,888	4,236	(7,047)	-32%	12,041	12,523	(482)	-4%
% of revenue	24.1%	26.5%			25.7%	25.9%		
<b>From continuing and discontinued operations</b>								
Basic EPS	0.01	0.03			0.06	0.08		
Diluted EPS	0.01	0.03			0.06	0.08		
<b>From continuing operations</b>								
Basic EPS	0.01	0.03			0.06	0.08		
Diluted EPS	0.01	0.03			0.06	0.08		

Note 1: Canadian dollars were converted from RMB at the respective average rates of RMB1.000 to CAD 0.1944 and RMB1.000 to CAD 0.1934 for the nine months ended September 30, 2022 and 2021 respectively.

For the three-month and nine-month periods ended September 30, 2022 and 2021

## **Result of Operations**

### **Total Revenue and Sales Volume sold**

#### **Continuing Operations**

<b>Revenue (Summary table)</b>								
<b>Total Revenue</b> <b>(in RMB'000)</b>	<b>Three months ended Sept 30,</b>				<b>Nine months ended Sept 30,</b>			
	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
<b>Gas Distribution Utility</b>								
- Gas supply	31,206	34,411	(3,205)	-9%	115,837	130,602	(14,765)	-11%
- Pipeline installation and connection	22,900	35,327	(12,427)	-35%	96,007	82,133	13,874	17%
- CNG vehicle refueling	5,035	11,559	(6,524)	-56%	19,799	35,469	(15,670)	-44%
<b>Integrated Smart Energy</b>	<b>2,206</b>	<b>1,245</b>	<b>961</b>	<b>77%</b>	<b>8,650</b>	<b>1,577</b>	<b>7,073</b>	<b>449%</b>
<b>Smart Mobility</b>	<b>243</b>	<b>70</b>	<b>173</b>	<b>247%</b>	<b>676</b>	<b>213</b>	<b>463</b>	<b>217%</b>
<b>Total Revenue in RMB'000</b>	<b>61,590</b>	<b>82,612</b>	<b>(21,022)</b>	<b>-25%</b>	<b>240,969</b>	<b>249,994</b>	<b>(9,025)</b>	<b>-4%</b>
<b>Total Revenue in CAD'000</b>	<b>11,973</b>	<b>15,977</b>	<b>(4,004)</b>	<b>-25%</b>	<b>46,844</b>	<b>48,349</b>	<b>(1,505)</b>	<b>-3%</b>

Located in an international tourist destination in the PRC's only tropical province, Sanya City, our business is affected by demand of natural gas generated by tourists in hotel stay and travelling activities such as catering in restaurants.

Total revenue from continuing operations for the three-month period ended September 30, 2022 (the "Third Quarter in 2022") was RMB61.6 million, a decrease of RMB21.0 million, or 25%, from RMB82.6 million for the three-month period ended September 30, 2021 (the "Third Quarter in 2021"). Revenue from gas supply for the Third Quarter in 2022 was RMB31.2 million, a decrease of RMB3.2 million, or 9% as compared to RMB34.4 million for the Third Quarter in 2021. Revenue from pipeline installation and connection for the Third Quarter in 2022 was RMB22.9 million, a decrease of RMB12.4 million, or 35% as compared to RMB35.3 million for the Third Quarter in 2021. CNG vehicle refueling revenue for the Third Quarter in 2022 was RMB5.0 million, a decrease of RMB6.5 million, or 56% as compared to RMB11.5 million for the Third Quarter in 2021.

Total revenue from continuing operations for the nine-month period ended September 30, 2022 ("Nine Months in 2022") was RMB241.0 million, a decrease of RMB9.0 million, or 4%, from RMB250.0 million for the nine-month period ended September 30, 2021 ("Nine Months in 2021"). Revenue from gas supply for the Nine Months in 2022 was RMB115.8 million, a decrease of RMB14.8 million, or 11% as compared to RMB130.6 million for the Nine Months in 2021. Revenue from pipeline installation and connection for the Nine Months in 2022 was RMB96.0 million, an increase of RMB13.9 million, or 17% as compared to RMB82.1 million for the Nine Months in 2021. CNG vehicle refueling revenue for the Nine Months in 2022 was RMB19.8 million, a decrease of RMB15.7 million, or 44% as compared to RMB35.5 million for the Nine Months in 2021.

Sanya City experienced another outbreak of COVID-19 in August 2022 as mentioned earlier in this MD&A. To stem the outbreak, the whole city was under static management from 6 August 2022 to September 16, 2022. Public transportation was suspended, people's movements inside the city were restricted to emergency services, and transport links were halted. After 40 days of static management, Sanya City slowly lifted certain lockdown measures by mid-September 2022.

These restriction and lockdown measures came at the height of the summer tourism season and heavily affected the demand for natural gas in the Sanya City. Despite demand for natural gas in Sanya City from commercial customers gradually recovered in the month of July 2022 after the first outbreak in April/May 2022 but demand got hit again in the month of August 2022 with the second city lockdown. The increase in total revenue for the Nine Months in 2022 was mainly attributed to the increase in revenue from residential customers of pipeline installation and connection as the activities of construction of temporary housing under activation of city redevelopment plan was not affected during the static management period in the Sanya City.

The Haitang Bay Smart Energy Project commenced operation in September 2021 and began contributing revenue to the Integrated Smart Energy segment alongside the Meishan Project. Revenue from the Integrated Smart Energy segment for the Third Quarter and Nine Months in 2022 was RMB2.2 million and RMB8.7 million respectively.

Revenue from EV battery swap of the Smart Mobility segment for the Third Quarter and Nine Months in 2022 was RMB0.2 million and RMB0.7 million respectively.

For the three-month and nine-month periods ended September 30, 2022 and 2021

Sales volume sold								
Gas sales	Three months ended Sept 30,				Nine months ended Sept 30,			
	2022	2021	Change	%	2022	2021	Change	%
<b>Sales volume sold (m<sup>3</sup>)</b>								
Sanya City, Hainan Province	9,038,298	10,082,676	(1,044,378)	-10%	35,450,595	38,469,833	(3,019,238)	-8%
Other cities	-	-	-	0%	-	1,839	(1,839)	-100%
<b>Total gas sales volume (m<sup>3</sup>)</b>	<b>9,038,298</b>	<b>10,082,676</b>	<b>(1,044,378)</b>	<b>-10%</b>	<b>35,450,595</b>	<b>38,471,672</b>	<b>(3,021,077)</b>	<b>-8%</b>
<b>CNG refueling</b>								
Sanya CNG/LNG	488,477	1,969,130	(1,480,653)	-75%	2,558,076	6,527,239	(3,969,163)	-61%
Changsha CNG	498,458	872,065	(373,607)	-43%	1,478,408	2,581,273	(1,102,865)	-43%
<b>Total CNG/LNG volume (m<sup>3</sup>)</b>	<b>986,935</b>	<b>2,841,195</b>	<b>(1,854,260)</b>	<b>-65%</b>	<b>4,036,484</b>	<b>9,108,512</b>	<b>(5,072,028)</b>	<b>-56%</b>
<b>Total sales volume sold (m<sup>3</sup>)</b>	<b>10,025,233</b>	<b>12,923,871</b>	<b>(2,898,638)</b>	<b>-22%</b>	<b>39,487,079</b>	<b>47,580,184</b>	<b>(8,093,105)</b>	<b>-17%</b>

Total sales volume from continuing operations for the Third Quarter in 2022 was 10.0 million m<sup>3</sup>, a decrease of 2.9 million m<sup>3</sup>, or 22% as compared to 12.9 million m<sup>3</sup> for the Third Quarter in 2021. Decrease in gas sales volume in Sanya City of 1.1 million m<sup>3</sup>, or 10% from 10.1 million m<sup>3</sup> for the Third Quarter in 2021 to 9.0 million m<sup>3</sup> for the Third Quarter in 2022 was attributable to the decrease in volume from commercial customers which was attributed to the downturn in consumption of gas due to the temporary government travel restriction measures being implemented to combat the resurgence of the outbreak of COVID-19 in August 2022.

Total sales volume from continuing operations for the Nine Months in 2022 was 39.5 million m<sup>3</sup>, a decrease of 8.1 million m<sup>3</sup>, or 17% as compared to 47.6 million m<sup>3</sup> for the Nine Months in 2021. The decrease was mainly attributable to the impact of COVID-19 which saw the decrease in both gas and CNG refueling demands in Sanya City.

#### Gas Sales volume by nature of customers

Gas sales								
Sanya City, Hainan Province	Three months ended Sept 30,				Nine months ended Sept 30,			
	2022	2021	Change	%	2022	2021	Change	%
<b>Gas volume sold (m<sup>3</sup>)</b>								
Residential customers	3,384,313	3,351,970	32,343	1%	15,252,398	12,572,827	2,679,572	21%
Commercial customers	5,653,986	6,730,706	(1,076,720)	-16%	20,198,197	25,897,006	(5,698,809)	-22%
	<b>9,038,299</b>	<b>10,082,676</b>	<b>(1,044,377)</b>	<b>-10%</b>	<b>35,450,595</b>	<b>38,469,833</b>	<b>(3,019,238)</b>	<b>-8%</b>
<b>Other cities</b>								
<b>Gas volume sold (m<sup>3</sup>)</b>								
Commercial customers	-	-	-	0%	-	1,839	(1,839)	-100%
<b>Total</b>	<b>9,038,299</b>	<b>10,082,676</b>	<b>(1,044,377)</b>	<b>-10%</b>	<b>35,450,595</b>	<b>38,471,672</b>	<b>(3,021,077)</b>	<b>-8%</b>

Gas sales volume of residential customers for the Third Quarter in 2022 was 3.4 million m<sup>3</sup>, remained at same level for the Third Quarter in 2021. Gas sales volume for commercial customers for the Third Quarter in 2022 was 5.6 million m<sup>3</sup>, a decrease of 1.1 million m<sup>3</sup>, or 16% as compared to 6.7 million m<sup>3</sup> for the Third Quarter in 2021.

Gas sales volume of residential customers for the Nine Months in 2022 was 15.3 million m<sup>3</sup>, an increase of 2.7 million m<sup>3</sup>, or 21% as compared to 12.6 million m<sup>3</sup> for the Nine Months in 2021. Gas sales volume for commercial customers for the Nine Months in 2022 was 20.2 million m<sup>3</sup>, a decrease of 5.7 million m<sup>3</sup>, or 22% as compared to 25.9 million m<sup>3</sup> the Nine Months in 2021.

With the resurgence of the outbreak of COVID-19 in August 2022, the demand for natural gas from commercial customers in Sanya City for that month dropped 30.0% and 34.5% respectively when compared with July 2022 and August 2021. In contrast, demand for natural gas from residential customers in August 2022 increased 10.3% as compared with the corresponding month in 2021 which experienced more home stay during the lockdown.

The adverse effect of resurgence of the outbreak of COVID-19 was evidenced by the Sanya City Bureau of Statistics which showed significant drop in overnight visitors to Sanya City in August and September 2022. Tourists went extinct in these two months which saw the number of overnight visitors to Sanya City dropped to 0.2 million times and 0.1 million times respectively representing a significant decrease of 66.3% and 87.6% as compared to 0.7 million times in August 2021 and 1.1 million times in September 2021. Also, according to Sanya City Bureau of Statistics, the hotel occupancy rates of Sanya City followed the decreasing trend of overnight visitors and recorded single digit of 8.0% in the month of September 2022, a significant decrease of 28.0 percentage point from 36.0% in September 2021.

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Certain small catering businesses closed down under the period of static management in Sanya City for the Third Quarter in 2022, which contributed part of the decrease in gas sales volume for commercial customers for the corresponding period in 2022.

As an international tourist destination and the only tropical province in the PRC, Sanya City's travelling activities has a direct impact on gas revenue from commercial customers with travelling activities as a large portion of gas revenue was generated from this sub-segment.

Commercial customers in Sanya City include non-residential customers such as hotels, resorts and restaurants and attributed approximately 85.0% of total volume from commercial customers, whereas social welfare units such as schools, government facilities, and other not-for-profit organizations attributed approximately 15.0% of total volume from commercial customers. Customers outside of Sanya City are all commercial customers which mainly come from brick manufacturers in Wenchang City, Hainan Province.

Gas sales by number of customers								
Sanya City, Hainan Province	Three months ended Sept 30,				Nine months ended Sept 30,			
	2022	2021	Change	%	2022	2021	Change	%
<b>Customers newly started gas supply</b>								
Residential customers	3,624	3,779	(155)	-4%	15,606	13,121	2,485	19%
Commercial customers	-	43	(43)	-100%	55	92	(37)	-40%
<b>Total customers</b>								
Residential customers	278,576	255,366	23,210	9%	278,576	255,366	23,210	9%
Commercial customers	1,348	1,266	82	6%	1,348	1,266	82	6%

Despite the imposition of temporary travelling restrictions, the overall residential sector recorded 3,624 new customers for the Third Quarter in 2022. Increase in new residential customers is attributed to the connection of gas supply to the temporary housing for relocating residences of certain old residential areas in Sanya city under the government policy of city planning and organic growth of residential customers.

No new commercial customers for the Third Quarter in 2022 were recorded. Those new commercial customers gained in the first half of the year were small business owners and many of which are owners of catering establishments.

15,606 and 55 new residential and commercial customers respectively were obtained for the Nine Months in 2022, as compared to 13,121 and 92 new residential and commercial customers were obtained for the Nine Months in 2021.

There was a total of 278,576 residential customers and 1,348 commercial customers as at September 30, 2022, as compared to 255,366 residential customers and 1,266 commercial customers as at September 30, 2021.

**Gas sales revenue by customers**

Gas sales								
Sanya City, Hainan Province	Three months ended Sept 30,				Nine months ended Sept 30,			
	2022	2021	Change	%	2022	2021	Change	%
<b>Gas sales revenue</b>								
(in RMB'000)								
Residential customers	9,391	9,189	202	2%	40,922	33,855	7,067	21%
Commercial customers	20,785	23,795	(3,010)	-13%	71,772	92,393	(20,621)	-22%
	30,176	32,984	(2,808)	-9%	112,694	126,248	(13,554)	-11%
<b>Other cities</b>								
<b>Gas sales revenue</b>								
(in RMB'000)								
Commercial customers	1,030	1,427	(397)	-28%	3,143	4,354	(1,211)	-28%
<b>Total gas sales by customers</b>	31,206	34,411	(3,205)	-9%	115,837	130,602	(14,765)	-11%

Gas sales revenue from residential customers in Sanya City for the Third Quarter in 2022 was RMB9.4 million, which remained at similar level for the Third Quarter in 2021. Gas sales revenue from commercial customers in Sanya City for the Third Quarter in 2022 was RMB20.8 million, a decrease of RMB3.0 million, or 13%, from RMB23.8 million for the Third Quarter in 2021.

Gas sales revenue from residential customers in Sanya City for the Nine Months in 2022 was RMB40.9 million, an increase of RMB7.1 million, or 21% from RMB33.8 million for the Nine Months in 2021. Gas sales revenue from commercial customers in Sanya City for the Nine Months in 2022 was RMB71.8 million, a decrease of RMB20.6 million, or 22%, from RMB92.4 million for the Nine Months in 2021.

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Sales revenue in Sanya City was driven by the sales volume and gas selling price. As mentioned earlier in this MD&A, the New Gas Selling Price impacts the profitability of the Group's natural gas distribution business segment. The New Gas Selling Price per m<sup>3</sup> to commercial customers in Sanya City was RMB3.83 for the months of January to April 2022 and increased to RMB4.12 from May 2022. On a comparable basis, the weighted average of the New Selling Price per m<sup>3</sup> to commercial customers increased RMB0.18 per m<sup>3</sup>, or 4.5% from RMB3.94 for the Third Quarter in 2021 to RMB4.12 for the Third Quarter in 2022. The weighted average of the New Selling Price per m<sup>3</sup> to commercial customers remained the same at RMB3.99 for the Nine Months in both years.

The New Gas Selling Price to third level of consumption for residential customers in Sanya City was RMB3.82 for the months of January to April 2022 and increased to RMB4.1 from May 2022. Third level of consumption in residential customers was less than 5% of total sales to residential customers and its effect of increase on selling price was minor.

While the price for social welfare units such as schools, government facilities, and other not-for-profit organizations which are classified under commercial customers remained unchanged at RMB3.23, the New Gas Selling Price for the first and second level of consumption in residential customers remained unchanged at RMB2.94 and RMB3.53 respectively for the Nine Months in both years.

Gas sales revenue in other cities included gas transmission fee charged for natural gas transmitted to the Datang Gaoyao Plant in Zhaoqing City, Guangdong Province which amounted to RMB1.0 million and RMB3.1 million for the Third Quarter and Nine Months in 2022 respectively. Production of Datang Gaoyao Plant has not been affected by the COVID-19 pandemic with steady gas volume being transmitted.

Pipeline installation and connection

<b>Sanya City, Hainan Province</b>								
<b>Pipeline connection by number of customers</b>	<b>Three months ended Sept 30,</b>				<b>Nine months ended Sept 30,</b>			
	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
<b>Customers newly connected</b>								
Residential customers	1,578	3,141	(1,563)	-50%	10,536	11,383	(847)	-7%
Commercial customers	14	50	(36)	-72%	62	108	(46)	-43%
<b>Total customers connected</b>								
Residential customers	346,517	332,329	14,188	4%	346,517	332,329	14,188	4%
Commercial customers	1,427	1,325	102	8%	1,427	1,325	102	8%
<b>Pipeline connection revenue (in RMB'000)</b>								
Residential customers	20,751	29,916	(9,165)	-31%	84,065	70,119	13,946	20%
Commercial customers	2,149	5,411	(3,262)	-60%	11,942	12,014	(72)	-1%
<b>Total</b>	<b>22,900</b>	<b>35,327</b>	<b>(12,427)</b>	<b>-35%</b>	<b>96,007</b>	<b>82,133</b>	<b>13,874</b>	<b>17%</b>

Pipeline installation and connection revenue from residential customers for the Third Quarter in 2022 was RMB20.8 million, a decrease of RMB9.2 million, or 31% from RMB30.0 million for the Third Quarter in 2021. Pipeline installation and connection revenue from commercial customers for the Third Quarter in 2022 was RMB2.1 million, a decrease of RMB3.3 million, or 60% from RMB5.4 million for the Third Quarter in 2021.

Pipeline installation and connection revenue from residential customers for the Nine Months in 2022 was RMB84.0 million, an increase of RMB13.9 million, or 20% from RMB70.1 million for the Nine Months in 2021. Pipeline installation and connection revenue from commercial customers for the Nine Months in 2022 was RMB11.9 million, which remained at the same level for the Nine Months in 2021.

Revenue from residential customers recovered faster than revenue from commercial customers under COVID-19. Sales revenue from residential customers continued to increase which mainly attributed to the connection of gas supply to the temporary housing for relocating residences of certain old residential areas in Sanya city under the government policy of city planning. The pipeline installation and connection revenue from commercial customers is still being affected by COVID-19 where fewer large commercial projects were undertaken for the Third Quarter in 2022.

There were 1,578 and 10,536 new residential customers for the Third Quarter and Nine Months in 2022 respectively as compared to 3,141 and 11,383 new residential customers for the Third Quarter and Nine Months in 2021 respectively. There were 14 and 62 new commercial customers for the Third Quarter and Nine Months in 2022 respectively as compared to 50 and 108 new commercial customers for the Third Quarter and Nine Months in 2021 respectively. There were 346,517 residential customers and 1,427 commercial

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customers as at September 30, 2022, as compared to 332,329 residential customers and 1,325 commercial customers as at September 30, 2021 respectively. No star rated hotel was connected in the Third Quarter and commercial customers connected are all small catering business owners.

**CNG Vehicle refueling**

<b>CNG refueling</b>								
<b>Vehicles refueling stations</b>								
<b>CNG Sales Volume</b>	<b>Three months ended Sept 30,</b>				<b>Nine months ended Sept 30,</b>			
<b>(in m<sup>3</sup>)</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
Sanya CNG/LNG	488,477	1,969,130	(1,480,653)	-75%	2,558,076	6,527,239	(3,969,163)	-61%
Changsha CNG	498,458	872,065	(373,607)	-43%	1,478,408	2,581,273	(1,102,865)	-43%
<b>Total Sales Volume (m<sup>3</sup>)</b>	<b>986,935</b>	<b>2,841,195</b>	<b>(1,854,260)</b>	<b>-65%</b>	<b>4,036,484</b>	<b>9,108,512</b>	<b>(5,072,028)</b>	<b>-56%</b>
<b>Total Revenue</b>	<b>Three months ended Sept 30,</b>				<b>Nine months ended Sept 30,</b>			
<b>(in RMB'000)</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
<b>CNG Sales Revenue</b>								
Sanya CNG/LNG	2,505	7,781	(5,276)	-68%	12,392	24,287	(11,895)	-49%
Changsha CNG	2,530	3,778	(1,248)	-33%	7,407	11,182	(3,775)	-34%
<b>Total Revenue (RMB'000)</b>	<b>5,035</b>	<b>11,559</b>	<b>(6,524)</b>	<b>-56%</b>	<b>19,799</b>	<b>35,469</b>	<b>(15,670)</b>	<b>-44%</b>

Total sales volume of vehicle refueling stations in Sanya and Changsha for the Third Quarter in 2022 was 1.0 million m<sup>3</sup>, a decrease of 1.8 million m<sup>3</sup>, or 65% from 2.8 million m<sup>3</sup> for the Third Quarter in 2021. Combined sales volume of vehicle refueling stations in Sanya and Changsha for the Nine Months in 2022 was 4.0 million m<sup>3</sup>, a decrease of 5.1 million m<sup>3</sup>, or 56% from 9.1 million m<sup>3</sup> for the Nine Months in 2021.

Decrease in sales volume for the Third Quarter in 2022 was attributed to the reduction in gas demand under deployment of lockdown measures imposed by the Central government to combat the resurgence of the outbreak of COVID-19 in Sanya City in August and September 2022 and the reduction in consumption of CNG due to common usage of EV taxis in Changsha City. Sales volume in Sanya City in August 2022 respectively dropped 85.5% and 91.9% as compared to July 2022 and August 2021. Sales volume in Sanya City gradually increased in September 2022 but still recorded a significant decrease of 86.9% as compared to the corresponding month in 2021.

**Integrated Smart Energy**

<b>Integrated smart Energy</b>								
<b>Integrated Smart Energy System</b>	<b>Three months ended Sept 30,</b>				<b>Nine months ended Sept 30,</b>			
<b>Sanya City, Hainan Province</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
<b>(in RMB'000)</b>								
Commerical customers	1,594	566	1,028	182%	5,829	566	5,263	930%
<b>Integrated district energy distribution</b>								
<b>Meishan City, Sichuan Province</b>								
<b>(in RMB'000)</b>								
Commerical customers	612	679	(67)	-10%	2,821	1,011	1,810	179%
<b>Total</b>	<b>2,206</b>	<b>1,245</b>	<b>961</b>	<b>77%</b>	<b>8,650</b>	<b>1,577</b>	<b>7,073</b>	<b>449%</b>

The integrated smart energy segment is a newly created segment which comprises the Haitang Bay Integrated Smart Energy Project (integrated smart energy system) which commenced commercial operation in September 2021 and the Meishan Project (integrated district energy distribution project) which commenced commercial operation in May 2021. The Haitang Bay Integrated Smart Energy Project was in its implementation stage. Three of the hotels in Haitang Bay are currently using the system and connection of two other hotels are under construction.

With the resurgence of the outbreak of COVID-19 in Sanya City in May and August 2022, tourism industry in Sanya City and surrounding area was heavy affected with noticeable drop in occupancy rates which led to a reduction in usage of integrated smart energy system as projected.

**Smart Mobility**

<b>Smart Mobility</b>								
<b>EV Battery Swap Revenue</b>	<b>Three months ended Sept 30,</b>				<b>Nine months ended Sept 30,</b>			
<b>(in RMB'000)</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
Sanya and Haikou City, Hainan Province	242	70	172	246%	666	213	453	213%
Zhuhai City, Guangdong Province	1	-	1	100%	10	-	10	100%
<b>Total Revenue (RMB'000)</b>	<b>243</b>	<b>70</b>	<b>173</b>	<b>247%</b>	<b>676</b>	<b>213</b>	<b>463</b>	<b>217%</b>

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The smart mobility segment is a newly created segment which comprises the EV battery swap business. There are a total of five (5) EV battery swap stations currently in operation, two stations in Sanya City which are located at the Sanya airport and Haitang Bay respectively, two stations located in Haikou City which commenced operation in August 2021 and January 2022 respectively and the last station located in Zhuhai City which commenced operation in March 2022.

**Foreign exchange rates**

CF Energy reports its financial results in Renminbi (RMB), its functional currency as it earns all its revenues and incurs most of its expenses in RMB. As the Company is listed in TSX-V Canada, certain financial information and/or comparative analysis are also presented in Canadian dollars (CAD), fluctuations in the exchange rates between RMB and CAD should also be considered.

The exchange rate between the RMB and the CAD is summarized below.

<b>One Chinese RMB to Canadian dollars</b>	<b>Q3 2022</b>	<b>Q3 2021</b>	<b>% change</b>
Spot rate at the end of the period	0.1923	0.1970	-2.4%
Average rate for the period	0.1944	0.1934	0.5%

**Gross margin**

Gross profit from continuing operations for the Third Quarter in 2022 was RMB17.9 million, a decrease of RMB15.9 million, or 47%, from RMB33.8 million for the Third Quarter in 2021. Gross profit margin for the Third Quarter in 2022 was 29.0%, a decrease of 11.9 percentage points as compared to 40.9% for the Third Quarter in 2021.

Gross profit from continuing operations for the Nine Months in 2022 was RMB78.4 million, a decrease of RMB23.4 million, or 23%, from RMB101.8 million for the Nine Months in 2021. Gross profit margin for the Nine Months in 2022 was 32.5%, a decrease of 8.2 percentage points as compared to 40.7% for the Nine Months in 2021.

With the gas selling price adjustments, the weighted average gas selling price of residential customers of the Group in Sanya City remained the same for the Third Quarter and the Nine Months in 2022 as compared to corresponding periods of 2021 since the price adjustment only affected the third level of consumption in residential customers where the gas volume for this type of customers has not been significant. Weighted average selling price for commercial customers of the Group in Sanya City for the Third quarter in 2022 increased RMB0.14 per m<sup>3</sup>, or 4.0% from RMB3.54 per m<sup>3</sup> for the Third Quarter in 2021 to RMB3.68 per m<sup>3</sup> for the same quarter in 2022. Such increase was mainly attributed to the increase in the New Gas Selling Price in May 2022 while the weighted average selling price for commercial customers for the Nine Months in 2022 and 2021 remained similar.

The drop in gross profit margin from continuing operations for the Third Quarter and the Nine Months in 2022 as compared to the same periods in 2021 was mainly as a result of the drop in margin of gas supply and the negative margin for the Integrated Smart Energy segment.

The drop in gross profit margins for gas supply from continuing operations for both the Third Quarter and the Nine Months in 2022 as compared to same periods in 2021 were attributable to lower gross profit margin for revenue from residential customers as compared to commercial customers in gas supply, continuous raise in purchase price of LNG for the Third Quarter and the Nine Months in 2022 which could not be fully transferred to our customers in Sanya CNG vehicle station and the increase in purchase price of pipeline gas which attributed to the renewal of two-year gas purchase contracts with China National Offshore Oil Corporation ("CNOOC") which became effective on April 1, 2022.

Composition of revenue from residential customers in gas sales revenue increased from 27.9% for the Third Quarter in 2021 to 31.1% for the Third Quarter in 2022. Composition of revenue from residential customers in gas sales revenue increased from 26.8% for the Nine Months in 2021 to 36.3% for the Nine Months in 2022.

Average purchase price of LNG raised to approximately RMB4.7 per m<sup>3</sup> and RMB4.3 per m<sup>3</sup> for the Third Quarter and the Nine Months in 2022 respectively which drove the overall level of LNG purchase price to a record high as compared to the average of RMB2.7 per m<sup>3</sup> and RMB2.5 per m<sup>3</sup> for the same periods in 2021.

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LNG cost contributed approximately 8.2% and 9.5% of total cost of gas purchase for the Third Quarter and the Nine Months in 2022 respectively.

Average purchase price of pipeline gas raised by 12.1% and 6.2% for the Third Quarter and the Nine Months in 2022 respectively as compared to the same periods in 2021. Pipeline gas cost contributed approximately 87.0% and 86.7% of total cost of gas purchase for the Third Quarter and the Nine Months in 2022 respectively.

The negative gross profit margin for the Integrated Smart Energy segment from continuing operations for the Third Quarter and the Nine Months in 2022 as compared to the same periods in 2021 was mainly attributable to the impact of COVID-19 resulting the drop in revenue which meant fixed costs such as depreciation which comprised approximately 46.5% and 39.3% of cost of sales in the Integrated Smart Energy segment for the Third Quarter and the Nine Months in 2022 could not be fully absorbed.

**Operating expenses**

**Selling and marketing expenses** of continuing operations for the Third Quarter in 2022 were RMB5.2 million, a decrease of RMB4.3 million, or 45% from RMB9.5 million for the Third Quarter in 2021. Selling and marketing expenses as a percentage of sales for the Third Quarter in 2022 was 8.5%, a decrease of 3.0 percentage point as compared to 11.5% for the Third Quarter in 2021.

Selling and marketing expenses of continuing operations for the Nine Months in 2022 were RMB20.2 million, a decrease of RMB6.8 million, 25% from RMB27.0 million for the Nine Months in 2021. Selling and marketing expenses as a percentage of sales for the Nine Months in 2022 was 8.4%, a decrease of 2.4 percentage point as compared to 10.8% for the Nine Months in 2021. The decrease for the Third Quarter and Nine Months in 2022 was mainly attributable to the continuous reduction in selling and marketing activities as compared to the same periods in 2021.

**General and administrative expenses** of continuing operations for the Third Quarter in 2022 were RMB11.5 million, remained at similar level as compared to the Third Quarter in 2021. General and administrative expenses as a percentage of sales for the Third Quarter in 2022 was 18.7%, an increase of 4.7 percentage point as compared to 14.0% for the Third Quarter in 2021.

General and administrative expenses of continuing operations for Nine Months in 2022 were RMB32.7 million, a decrease of RMB0.5 million, 2% as compared to RMB33.2 million for the Nine Months in 2021. General and administrative expenses as a percentage of sales for the Nine Months in 2022 was 13.6%, an increase of 0.3 percentage point as compared to 13.3% for the Nine Months in 2021.

Unlike sales and marketing expenses, general and administrative expenses by nature will not always fluctuate in line with the level of sales activities.

**Finance Costs**

Finance costs from continuing operations for the Third Quarter in 2022 were RMB3.7 million, an increase of RMB1.5 million, or 68% from RMB2.2 million for the Third Quarter in 2021. Finance costs from continuing operations for the Nine Months in 2022 were RMB13.6 million, an increase of RMB7.5 million, or 124% from RMB6.1 million the Nine Months in 2021. Finance costs reflected interests on lease liabilities and interest on Convertible Debentures, short-term bank borrowings and long-term bank financing for the development of the Group's projects under development, net of RMB3.1 million (Nine Months in 2021: RMB7.0 million) capitalized on projects under development.

**Share of results of associates**

Share of results of associates represents the Group's share of profit of RMB0.4 million and loss of RMB5.3 million for the Third Quarter and Nine Months in 2022 respectively (Share of profit for the Third Quarter and Nine Months in 2021: RMB1.1 million and RMB4.9 million) of its associates. The loss of RMB5.3 million mainly represents the share of loss of the Group's 40% held associate, Pingxiang Xinao Changfeng Gas Co., Ltd. ("Pingxiang Xinao CF") as its business was heavily impacted by the increasing LNG purchase prices in the first half of the year which cannot be transferred to customers. For the Third Quarter in 2022, benefiting from successful connection of gas pipelines in Xiangdong District, Pingxiang City, Pingxiang Xinao CF's reliance on LNG was reduced resulting in net profit being recorded for the period.

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**EBITDA from continuing operations**

EBITDA from continuing operations (non-IFRS measure as identified and defined under section "Non-IFRS Measures") for the Third Quarter in 2022 was RMB14.9 million, a decrease of RMB7.0 million, or 32%, from RMB21.9 million for the Third Quarter in 2021. EBITDA from continuing operations for the Nine Months in 2022 was RMB61.9 million, a decrease of RMB2.8 million, or 4%, from RMB64.7 million for the Nine Months in 2021.

EBITDA from continuing operations included a gain of RMB2.1 million for the Third Quarter in 2022 (2021: gain of RMB3.0 million) and RMB12.8 million for the Nine Months in 2022 (2021: Nil) on fair value change on derivative financial instrument of loan discharge agreement relating to the commitment of the estate of Mr. Huajun Lin to subscribe for the common shares of the Company in the amount of RMB36.0 million (please refer to the section headed "Related Party Transactions" on page 22 of the MD&A for more details), which is in line with IFRS, has been classified as a "derivative financial instrument", subject to periodic fair value assessment and adjustment (as applicable). The derivative financial instrument in question was initially recognized at fair value at the date when the derivative contract was entered into and is subsequently remeasured to its fair value at the end of each reporting period.

Market price of the common shares of the Company was CAD0.30 as at September 30, 2022, CAD0.34 as at June 30, 2022 and CAD0.54 as at December 31, 2021 respectively. A gain of RMB2.1 million in fair value change on derivative financial instrument of loan discharge agreement was recognized for the Third Quarter in 2022 which arose from the downward difference of CAD0.04 between the market price of the Company between September 30, 2022 and June 30, 2022. A gain of RMB12.8 million in fair value change on derivative financial instrument of loan discharge agreement was recognized for the Nine Months in 2022 as the market price of the Company as at September 30, 2022 had a downward difference of CAD0.24 between the market price of the Company between September 30, 2022 and December 31, 2021.

On a comparable basis, after excluding the effects of the above-mentioned fair value change on derivative financial instrument and recognition of share-based payments, the adjusted EBITDA from continuing operations for the Third Quarter in 2022 was RMB12.9 million, a decrease of RMB6.5 million, or 33%, from RMB19.4 million for the Third Quarter in 2021. Adjusted EBITDA from continuing operations for the Nine Months in 2022 was RMB49.6 million, a decrease of RMB16.6 million, or 25%, from RMB66.2 million for the Nine Months in 2021.

**Profit (loss) for the period from continuing operations**

The Group reported net loss from continuing operations of RMB0.4 million for the Third Quarter in 2022, a decrease of RMB9.9 million, or 104%, from net gain of RMB9.5 million for the Third Quarter in 2021. Net profit from continuing operations for the Nine Months in 2022 was RMB11.0 million, a decrease of RMB16.4 million, or 60%, from RMB27.4 million for the Nine Months in 2021.

Earnings per share ("EPS") from continuing operations was RMB0.03 (CAD0.01) (basic and diluted) for the Third Quarter in 2022 as compared to RMB0.15 (CAD0.03) and RMB0.14 (CAD0.03) (basic and diluted) per share for the Third Quarter in 2021. Earnings per share ("EPS") from continuing operations was RMB0.28 (CAD0.06) (basic and diluted) for the Nine Months in 2022 as compared to RMB0.40 (CAD0.08) and RMB0.39 (CAD0.08) (basic and diluted) per share for the Nine Months in 2021.

**Adjusted net profit (loss) for the period from continuing operations (non-IFRS)**

In RMB thousands (except for % figures)	Three months ended Sept 30,				Nine months ended Sept 30,			
	2022	2021	Change	%	2022	2021	Change	%
<b>Continuing operations</b>								
Net profit (loss) for the period from continuing operations	(426)	9,521	(9,947)	-104%	11,001	27,370	(16,369)	-60%
<b>Non-recurring items</b>								
Fair value change on derivative financial instrument	(2,109)	(2,969)	860	-29%	(12,859)	-	(12,859)	100%
Recognition of share-based payments	191	469	(278)	-59%	564	1,493	(929)	-62%
<b>Adjusted net profit (loss) for the period from continuing operations (non-IFRS)</b>	<b>(2,344)</b>	<b>7,021</b>	<b>(9,365)</b>	<b>-133%</b>	<b>(1,294)</b>	<b>28,863</b>	<b>(30,157)</b>	<b>-104%</b>

All non-GAAP measures have been identified. On a comparable basis (please refer to the section headed "EBITDA from continuing operations" above for more details), after excluding the gain in fair value change on derivative financial instrument of loan discharge agreement and recognition of share-based payments, the Company reported an adjusted net loss of RMB2.3 million for the Third Quarter in 2022, a decrease of RMB9.3 million, or 133% from an adjusted net gain of RMB7.0 million as reported for the Third Quarter in 2021.

After excluding the gain in fair value change on derivative financial instrument of loan discharge agreement and recognition of share-based payments, the Company reported an adjusted net loss of RMB1.3 million for

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the Nine Months in 2022, a decrease of RMB30.2 million, or 104% from that of RMB28.9 million as reported for the Nine Months in 2021.

Adjusted EPS (loss per share) was derived from the adjusted net profit (loss) for the period from continuing operations (non-IFRS) divided by weighted average number of ordinary shares for the purpose of diluted earnings per share. Adjusted loss per share from continuing operations was RMB0.04 (CAD0.01) per share (basic and diluted) for the Third Quarter in 2022 as compared to adjusted EPS from continuing operations of RMB0.10 (CAD0.02) (basic and diluted) for the Third Quarter in 2021. Adjusted loss per share from continuing operations was RMB0.02 (CAD0.01) per share (basic and diluted) for the Nine Months in 2022 as compared to adjusted EPS from continuing operations of RMB0.43 (CAD0.08) (basic and diluted) for the Nine Months in 2021.

### **Profit (loss) for the period from a discontinued operation**

Discontinued operation related to the termination of the operation of Riheng as part of the Group's policy to realign its future business strategies with major focus on clean energy solutions with high growth potential. Profit from a discontinued operation for the Nine Months in 2022 was RMB0.4 million (2021: loss of RMB1.5 million) which attributed to a recovery of accounts receivable amount that was written off in previous period.

## **Selected quarterly results**

The following set out the Company's unaudited consolidated quarterly results for the most recent eight quarters:

In thousands of RMB, except per share amounts

Quarterly data (RMB '000)	2022			2021			2020	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
except per share amounts								
Revenue	61,590	84,000	95,379	105,239	82,612	86,177	81,205	109,007
Gross profit	17,865	23,194	37,349	32,182	33,757	34,474	33,619	44,626
Profit (loss) for the period from continuing operations	(426)	90	11,337	(5,689)	9,521	14,854	2,995	14,860
Profit (loss) for the period attributed to owners of the Company from continuing operations	1,927	2,688	13,879	(4,151)	9,664	14,397	3,101	15,388
EPS (loss) of continuing and discontinued operations								
- basic (RMB)	0.03	0.04	0.21	(0.07)	0.15	0.21	0.04	0.18
- diluted (RMB)	0.03	0.04	0.21	(0.06)	0.14	0.20	0.04	0.18
EPS (loss) from continuing operations								
- basic (RMB)	0.03	0.04	0.21	(0.06)	0.15	0.22	0.04	0.24
- diluted (RMB)	0.03	0.04	0.21	(0.05)	0.14	0.21	0.04	0.25

## **Selected Financial Data**

(RMB000's)	September 30, 2022	December 31, 2021
Bank balances and cash	136,559	127,595
Net current liabilities	(130,084)	(133,480)
Adjusted working capital (note1)	(14,184)	1,555
Property and equipment	777,088	755,050
Right-of-use of assets	75,409	77,637
Total assets	1,221,938	1,195,344
Non-current liabilities	383,127	383,726
Shareholders' equity	440,544	418,144

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

Bank balance and cash increased by RMB9.0million from RMB127.6 million as at December 31, 2021 to RMB136.6 million as at September 30, 2022, primarily resulted from the net effect of the increase in net cash generated from operating activities of RMB44.1 million, cash used for acquisition of property and equipment of RMB44.4 million, and net draw down of new short-term borrowings and long-term debt of RMB1.9 million and an additional capital contribution from non-controlling interests of a subsidiary of the Group amounted to RMB10.5 million.

**Adjusted Working Capital**

The adjusted working capital (see "Non-IFRS Financial Measures") was negative RMB14.2 million as at September 30, 2022, a decrease of RMB15.8 million, from the adjusted working capital of RMB1.6 million as at December 31, 2021. Adjusted working capital excludes the receipt in advance from customers included in contract liabilities of RMB66.8 million related to receipts received in advance from customers from pipeline installation and connection project prior to commencement and natural gas sales and short-term bank borrowings of RMB49.1 million.

**Liquidity and Capital Resources**

The Group's principal sources of short-term funding are existing bank and cash balances, operating cash flows and borrowings under its lines of credit and long-term funding are bank term loan facilities provided to the Group which amounted to RMB49.1 million and RMB419.5 million respectively as at September 30, 2022.

The Company's principal sources of liquidity are cash provided from operation, including advance payments from residential and commercial and industrial customers related to construction contracts for gas connection included in contract liabilities, refund liabilities and access to credit facilities and capital resources.

The Company's primary short-term cash requirement is to fund working capital and repay the remainder of its outstanding withdrawal on its lines of credit as they fall due.

The Company's medium and long-term cash goals are to fund construction of its pipeline networks and gas distribution facilities and projects under development, to acquire capital and intangible assets for its growth initiatives in China and to repay its long-term loan facilities from bank.

In the short term, management does not expect to face any liquidity problems considering its current bank and cash position, available undrawn bank facilities and, despite the impact of COVID-19 pandemic, the expectation to continue to generate cash flows from operations in the short and long term. During the three-month period and nine-month periods ended and as at September 30, 2022, the Group was in compliance with all of its debt covenants.

The net gearing ratio is calculated by dividing interest-bearing borrowings, convertible debentures and lease liabilities, net of cash and cash equivalents, by total equity attributable to equity shareholders of the Company. The Group's net gearing ratio was approximately 77.8% as at September 30, 2022, a decrease of 6.7 percentage points as compared to 84.5% as at December 31, 2021.

**Capital Commitments**

As at September 30, 2022, capital expenditure in respect of the acquisition of property and equipment and the construction of pipelines under development contracted for but not provided in the unaudited condensed interim consolidated financial statements amounted to RMB80.7 million, a decrease of RMB60.1 million as compared to RMB140.8 million as at December 31, 2021. The significant decrease in capital commitment was attributable to the advancement of the development of the Haitang Bay Integrated Smart Energy Project as much of the unspent capital commitments brought forward from December 31, 2021 were utilized during the nine-month period of 2022 following its commencement of operation in September 2021. Capital commitments as at September 30, 2022 also included a remaining initial investment of RMB0.9 million for the 2% equity interests in Hainan Shanglian Investment Co., Ltd., and remaining capital injection in respective of investment in EDF CF of RMB23.9 million.

**Share Capital**

As at September 30, 2021, the Company has 65,885,155 common shares and 3,450,000 stock options outstanding.

950,000 share options granted on April 10, 2017 and 50,000 share options granted on August 10, 2017 expired/forfeited in the second quarter of 2022. The Company has no warrants outstanding as of the date of this MD&A.

On December 18, 2020, the Company awarded a total of 2,090,000 shares to senior management and employees of the Group under the Employee Stock Award Plan, of which 25% of the Award Shares, 522,500 shares at the price of CAD0.43 per common share which were not subject to any conditions were issued. 547,500 shares award rights expired/forfeited as the participants failed to satisfy the agreed performance condition and service condition for the year ended December 31, 2021 with the remaining 1,020,000 shares

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award rights which are subject to the fulfilment of certain considerations remained un-issued as at September 30, 2022.

**Non-IFRS Financial Measures**

This MD&A contains certain financial measures that do not have any standardized meaning prescribed by IFRS. Therefore, these financial measures may not be comparable to similar measures presented by other companies or issuers. Investors are cautioned that these measures should not be construed as alternatives to net income or to cash provided by operating, investing, and financing activities determined in accordance with IFRS, as indicators of its performance. The Group provides these measures to assist investors in determining its ability to generate income and cash provided by operating activities and to provide additional information on how these cash resources are used. These measures are listed and defined below.

**EBITDA from continuing operations**

EBITDA is defined herein as earnings before income tax expense, finance costs, depreciation and amortization. EBITDA does not have any standardized meaning prescribed by IFRS and therefore may not conform to the definition used by other companies or issuers. A reconciliation of net profit from continuing operations to EBITDA and adjusted EBITDA are presented in the MD&A as follows:

In RMB thousands (except for % figures)	Three months ended Sept 30,				Nine months ended Sept 30,			
	2022	2021	Change	%	2022	2021	Change	%
<b>Continuing operation</b>								
Net profit (loss) for the period from continuing operations	(426)	9,521	(9,947)	-104%	11,001	27,370	(16,369)	-60%
Add:								
Finance costs	3,688	2,194	1,494	68%	13,653	6,104	7,549	-124%
Income tax expense	2,617	3,668	(1,051)	-29%	10,730	11,896	(1,166)	10%
Depreciation and amortization	8,976	6,519	2,457	38%	26,555	19,384	7,171	37%
<b>EBITDA for the period from continuing operations</b>	<b>14,855</b>	<b>21,902</b>	<b>(7,047)</b>	<b>-32%</b>	<b>61,939</b>	<b>64,754</b>	<b>(2,815)</b>	<b>-4%</b>
Non-recurring items								
Fair value change on derivative financial instrument	(2,109)	(2,969)	860	-29%	(12,859)	-	(12,859)	100%
Recognition of share-based payments	191	469	(278)	-59%	564	1,493	(929)	-62%
<b>Adjusted EBITDA from continuing operations</b>	<b>12,937</b>	<b>19,402</b>	<b>(6,465)</b>	<b>-33%</b>	<b>49,644</b>	<b>66,247</b>	<b>(16,603)</b>	<b>-25%</b>

**Adjusted working capital**

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

The Group believes that the working capital as a supplemental measure, as adjusted based on the above parameters, provides a more appropriate indication of the Group's ability to settle its debt obligations as they fall due.

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

In RMB thousands			Sept 30, 2022	December 31, 2021
As at	Note			
Current assets			268,183	259,994
Less: Current liabilities			(398,267)	(393,474)
<b>Net current liabilities</b>			<b>(130,084)</b>	<b>(133,480)</b>
Add: Receipts in advance from customers	1		66,760	74,175
Add: Short-term bank borrowings			49,140	60,860
<b>Adjusted working capital</b>			<b>(14,184)</b>	<b>1,555</b>

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

**Management's Discussion and Analysis**

For the three-month and nine-month periods ended September 30, 2022 and 2021

As at September 30, 2022, the Group's current liabilities exceeded its current assets by RMB130.1 million, a decrease of RMB3.4 million in net current liabilities as compared to RMB133.5 million as at December 31, 2021 was mainly attributed to an increase of cash and bank balance of RMB9.0 million in the nine-months period in 2022 as compared to December 31, 2021.

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 capital commitments. Taking into account the Group's cash flow projections, including the term facilities, unutilized bank facilities, the Group's ability to renew or refinance existing banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, management considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the unaudited condensed interim consolidated financial statements have been prepared on a going concern basis.

**Free Cashflow from continuing operations**

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

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

In RMB thousands	Nine months ended Sept 30,	
	2022	2021
Net profit for the period from continuing operations	11,001	27,370
Add: Finance costs	13,653	6,104
Income tax expense	10,730	11,896
EBIT	35,384	45,370
<i>Effective tax rate</i>	49%	30%
<b>EBIT net of tax</b>	<b>17,913</b>	<b>31,625</b>
<i>Non-cash income and expense</i>		
Depreciation and amortization	26,555	19,384
Impairment losses under expected loss model, net	307	(162)
Share of result of associates	5,251	(4,918)
Recognition of share-based payments	564	1,493
(Gain) loss on disposals of property and equipment	(168)	4
Fair value change on derivative financial instrument	(12,859)	-
Unrealized exchange loss on monetary items	107	140
Change in net current liabilities	(3,396)	57,674
Less: Capital expenditures	(46,724)	(139,089)
<b>Free Cash Flow</b>	<b>(12,450)</b>	<b>(33,849)</b>

Negative free cash flow from continuing operations for the Nine Months in 2022 amounted to RMB12.5 million, a significant improvement of RMB21.3 million as compared to the negative free cash flow of RMB33.8 million for the Nine Months in 2021.

**Management's Discussion and Analysis**

For the three-month and nine-month periods ended September 30, 2022 and 2021

**Related Party Transactions**

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

<u>Name of related party</u>	<u>Relationship</u>	<u>Terms</u>	Sept 30, <u>2022</u> RMB'000	Dec 31, <u>2021</u> RMB'000
<b><u>Balances</u></b>				
Pingxiang Xiao CF	Associate	Non-trade, unsecured and interest bearing (Note)	<u>12,423</u>	<u>12,423</u>

Note: The balance represented a loan of RMB11.0 million to Pingxiang Xinao CF plus interest accrued until October 16, 2019 when the Group entered a supplemental agreement with Ping Xiang Xinao CF to pay additional interest which had been bearing interest at 4.35% per annum until October 16, 2019.

The loan discharge agreement (the "Loan Discharge Agreement") dated May 25, 2017 entered among Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd. ("CF China") and Mr. Lin, provided that if the HKIPO 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-V, in the amount of RMB36.0 million or its CAD equivalent.

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

Notices for the Investment (the "Notices") were sent to the four beneficiaries of the Estate. Among the four beneficiaries of the Estate, Siyin Lin (Ann) and Siqin Lin had provided written statements to the Company, respectively, that they were in full agreement to honor the Investment. The remaining two beneficiaries of the Estate, namely Mingfei He and Zhipei (Trevor) Lin, however, have not agreed to honor the Investment. On June 2, 2021, Ann Lin sent in her letter to the Company and CF China reiterated her consent to honor the Investment. Since the issuance of the Notices, the Board and management of the Company have made continuous effort of communication with Mingfei He and Trevor Lin requesting and persuading them to honor the Investment. However, given the time that has passed for the Estate to subscribe for shares, the Company is left with no alternative but to take legal action to enforce the Loan Discharge Agreement and the Investment.

On June 21, 2021, the Company together with CF China filed a contract dispute case (the "Claim") against the Estate in the Sanya Intermediate People's Court, Sanya City, Hainan Province, the PRC to enforce the execution of the Loan Discharge Agreement and the Investment. Subsequent to the filing of the Claim, on June 23, 2021, Ann Lin sent in her letter to the Company and CF China reiterated her consent to honor the Investment, and on June 24, 2021, the Court issued the subpoena requiring all parties related to the Claim to attend the court hearing scheduled to be held on August 31, 2021 in Sanya City, Hainan Province, the PRC.

**Use of Estimates and Judgements**

The preparation of unaudited condensed interim consolidated financial statements in compliance with IAS 34 requires the use of certain critical accounting estimates. There have been no material revisions to the nature and amount of changes in estimates of amounts reported in the audited consolidated financial statements for the year ended December 31, 2021.

## **Risks and Uncertainties**

There have been no material revisions to the nature of risks and uncertainties as reported in the audited consolidated financial statements and the MD&A for the year ended December 31, 2021.

## **Principal Accounting Policy**

### **Amendments to IFRSs that are mandatorily effective for the current three-month period**

In the current three-month period, the Group has applied the following amendments to IFRSs issued by the International Accounting Standard Board ("IASB") for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2022 for the preparation of the condensed interim consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract
Amendments to IFRS	Standards Annual Improvements to IFRS Standards 2018 – 2020

The adoption of these amended IFRSs had no material impact on how the results and financial position for the current three-month period and prior period have been prepared and presented.