

CF ENERGY CORP.

Condensed Interim Consolidated Financial Statements
Three-month and Nine-month periods ended September 30, 2022
and 2021 (Unaudited)

(Expressed in Chinese RMB)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

CF ENERGY CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

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CF ENERGY CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

	NOTES	Three-month period ended		Nine-month period ended	
		September 30	September 30	September 30	September 30
		2022	2021	2022	2021
		RMB'000	RMB'000	RMB'000	RMB'000
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Continuing operations					
Revenue	5	61,590	82,612	240,969	249,994
Cost of sales		(43,725)	(48,855)	(162,561)	(148,144)
Gross profit		17,865	33,757	78,408	101,850
Other income		1,915	227	3,224	1,374
Other gains (losses)		5	(1,113)	(88)	(1,177)
Reversal (recognition) of impairment losses under expected credit loss model		525	(146)	(307)	162
Fair value change on derivative financial instrument	15	2,109	2,969	12,859	-
Selling and marketing expenses		(5,208)	(9,493)	(20,175)	(27,012)
General and administrative expenses		(11,711)	(11,999)	(33,286)	(34,745)
Share of results of associates	11	379	1,181	(5,251)	4,918
Finance costs		(3,688)	(2,194)	(13,653)	(6,104)
Profit before tax	6	2,191	13,189	21,731	39,266
Income tax expense		(2,617)	(3,668)	(10,730)	(11,896)
Profit (loss) for the period from continuing operations		(426)	9,521	11,001	27,370
Discontinued operation					
Profit (loss) for the period from discontinued operation	7	(9)	2	335	(1,480)
Profit (loss) for the period		(435)	9,523	11,336	25,890
Total comprehensive income (expenses) for the period		(435)	9,523	11,336	25,890
Profit (loss) for the period attributable to owners of the Company					
- From continuing operations		1,927	9,664	18,494	27,162
- From discontinued operation		(6)	1	201	(888)
		1,921	9,665	18,695	26,274
Profit (loss) for the period attributable to non-controlling interests					
- From continuing operations		(2,353)	(143)	(7,493)	208
- From discontinued operation		(3)	1	134	(592)
		(2,356)	(142)	(7,359)	(384)
Total comprehensive income (expenses) attributable to					
- Owners of the Company		1,921	9,665	18,695	26,274
- Non-controlling interests		(2,356)	(142)	(7,359)	(384)
		(435)	9,523	11,336	25,890

CF ENERGY CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS
OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

		Three-month period ended		Nine-month period ended	
		September 30		September 30	
	<u>NOTES</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
		RMB	RMB	RMB	RMB
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Earnings per share attributable to owners of the Company					
<i>From continuing and discontinued operations</i>					
- Basic	8	<u>RMB 0.03</u>	<u>RMB 0.15</u>	<u>RMB 0.28</u>	<u>RMB 0.40</u>
- Diluted	8	<u>RMB 0.03</u>	<u>RMB 0.14</u>	<u>RMB 0.28</u>	<u>RMB 0.39</u>
<i>From continuing operations</i>					
- Basic	8	<u>RMB 0.03</u>	<u>RMB 0.15</u>	<u>RMB 0.28</u>	<u>RMB 0.41</u>
- Diluted	8	<u>RMB 0.03</u>	<u>RMB 0.14</u>	<u>RMB 0.28</u>	<u>RMB 0.40</u>

CF ENERGY CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL
POSITION
AT SEPTEMBER 30, 2022 AND DECEMBER 31, 2021

	<u>NOTES</u>	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
NON-CURRENT ASSETS			
Property and equipment	9	777,088	755,050
Right-of-use assets	10	75,409	77,637
Goodwill		1,635	1,635
Intangible assets		11,274	12,048
Interests in associates	11	33,091	38,342
Amount due from an associate	18	12,423	12,423
Amounts due from non-controlling interests of subsidiaries	19	2,384	2,296
Non-current portion of other receivables, prepaid expenses and deposits	14	26,838	22,306
Equity instrument at fair value through other comprehensive income		12,926	12,926
Deferred tax assets		687	687
		<u>953,755</u>	<u>935,350</u>
CURRENT ASSETS			
Current portion of long-term lease prepayments	10	-	100
Inventories		3,948	3,988
Contract assets	12	20,077	19,498
Trade receivables	13	39,581	39,880
Other receivables, prepaid expenses and deposits	14	46,033	57,043
Derivative financial instrument	15	19,940	7,081
Restricted cash	16	-	3,235
Bank balances and cash	16	136,559	127,595
		<u>266,138</u>	<u>258,420</u>
Assets classified as held for sale	7	2,045	1,574
		<u>268,183</u>	<u>259,994</u>

CF ENERGY CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AT SEPTEMBER 30, 2022 AND DECEMBER 31, 2021

	<u>NOTES</u>	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
CURRENT LIABILITIES			
Trade and other payables	17	123,418	133,744
Dividend payable to non-controlling interest of a subsidiary		299	299
Amounts due to non-controlling interest of a subsidiary		1,183	100
Contract liabilities		139,576	124,270
Lease liabilities		2,241	2,240
Income tax payable		6,508	10,602
Short-term bank borrowings	20	49,140	60,860
Current portion of long-term debts	20	72,707	61,354
Convertible debentures	21	3,054	-
		<u>398,126</u>	<u>393,469</u>
Liabilities associated with assets classified as held-for-sale	7	141	5
		<u>398,267</u>	<u>393,474</u>
NET CURRENT LIABILITIES		<u>(130,084)</u>	<u>(133,480)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>823,671</u>	<u>801,870</u>
NON-CURRENT LIABILITIES			
Long-term debts	20	346,769	348,380
Convertible debentures	21	-	2,877
Lease liabilities		5,198	5,327
Deferred income - government grants	22	22,594	18,436
Deferred tax liabilities		8,566	8,706
		<u>383,127</u>	<u>383,726</u>
NET ASSETS		<u>440,544</u>	<u>418,144</u>
CAPITAL AND RESERVES			
Share capital	23	70,978	70,978
Reserves		316,069	296,810
Equity attributable to owners of the Company		<u>387,047</u>	<u>367,788</u>
Non-controlling interests		53,497	50,356
TOTAL EQUITY		<u>440,544</u>	<u>418,144</u>

The unaudited condensed interim consolidated financial statements on pages 1 to 39 were approved and authorized for issue by the Board of Directors on November 28, 2022 and are signed on its behalf by:

YongBiao Ding

WenCheng Zhang

YONGBIAO DING
DIRECTOR

WENCHENG ZHANG
DIRECTOR

CF ENERGY CORP.

**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021**

	Attributable to owners of the Company								Total RMB'000
	Share capital RMB'000	Contributed surplus RMB'000 (Note a)	Statutory surplus reserve RMB'000 (Note b)	Fair value through other comprehensive income reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non- controlling interests RMB'000	
As at January 1, 2021	70,053	19,178	53,258	-	(537)	205,408	347,360	41,588	388,948
Profit (loss) and total comprehensive income for the period	-	-	-	-	-	26,274	26,274	(384)	25,890
Acquisition of non-controlling interest in a subsidiary (note c)	-	-	-	-	(250)	-	(250)	243	(7)
Issuance of share awards (note 23)	1,148	(1,148)	-	-	-	-	-	-	-
Recognition of equity-settled share-based payments	-	1,493	-	-	-	-	1,493	-	1,493
Options expired/forfeited	-	(133)	-	-	-	133	-	-	-
Recognition of equity component of convertible debentures (Note 21)	-	-	-	-	187	-	187	-	187
As at September 30, 2021	<u>71,201</u>	<u>19,390</u>	<u>53,258</u>	<u>-</u>	<u>(600)</u>	<u>231,815</u>	<u>375,064</u>	<u>41,447</u>	<u>416,511</u>
As at January 1, 2022	70,978	18,809	53,602	(2,062)	(284)	226,745	367,788	50,356	418,144
Profit (loss) and total comprehensive income for the period	-	-	-	-	-	18,695	18,695	(7,359)	11,336
Capital injection by non-controlling interest (note d)	-	-	-	-	-	-	-	10,500	10,500
Recognition of equity-settled share-based payments	-	564	-	-	-	-	564	-	564
As at September 30, 2022	<u>70,978</u>	<u>19,373</u>	<u>53,602</u>	<u>(2,062)</u>	<u>(284)</u>	<u>245,440</u>	<u>387,047</u>	<u>53,497</u>	<u>440,544</u>

Notes:

- (a) Contributed surplus comprises capital contribution from shareholders and share-based compensation reserve.
- (b) Statutory surplus reserve represents the statutory surplus reserve fund attributable to the Group set up by the subsidiaries in the People's Republic of China (the "PRC"). According to the relevant PRC regulations, the subsidiaries in the PRC are required to appropriate 10% of net profit as reported in the statutory financial statements to the statutory surplus reserve fund, and the statutory surplus reserve fund may be used for making up losses, if any, and increasing registered capital. The maximum amount appropriate to the statutory surplus reserve fund is 50% of the registered capital of the respective PRC subsidiaries. The statutory surplus reserve is not distributable.
- (c) On April 13, 2021, Sanya Changfeng Clean Energy Co., Ltd., a wholly-owned subsidiary of the Group acquired a 20% equity interest in the non-controlling interest of Hainan Hengtai Energy Co., Ltd. ("Hainan Hengtai") with no consideration. As a result, the Group's effective interest in Hainan Hengtai increased from 80% to 100%, the carrying amount of the non-controlling interest as of April 13, 2021 was recognized as other reserve as at September 30, 2021.
- (d) During the nine-month ended September 30, 2022, EDF (China) Holding Ltd ("EDF China"), the non-controlling interest of Hainan EDF Huapu Smart Mobility Co., Ltd., a subsidiary of the Group, made the share capital injection of RMB10,500,000.

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UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

	Nine-month period ended September 30,	
	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Increase in contract liabilities	15,306	19,610
Increase in contract assets	(1,217)	(4,100)
Other operating cash inflow	60,889	23,303
Interest received	487	276
Interest paid	(16,352)	(12,961)
Income tax paid	(14,964)	(17,142)
NET CASH FROM OPERATING ACTIVITIES	<u>44,149</u>	<u>8,986</u>
INVESTING ACTIVITIES		
Deposit paid for acquisition of property and equipment	(4,924)	(244)
Deposit paid for acquisition of land use right	-	(18,858)
Acquisition of land use right	-	(234)
Acquisition of property and equipment	(44,449)	(123,472)
Acquisition of pipelines for relocation projects	(2,276)	(947)
Receipt of compensation on pipeline relocation projects	2,060	787
Proceeds on disposal of property, plant and equipment	333	54
Purchase of equity instrument at fair value through other comprehensive income	-	(14,670)
Withdrawal of restricted cash	3,235	2,104
Withdraw of fixed bank deposits	-	6,000
Receipt of government grants relating to assets	4,630	-
Decrease in amount due from an associate	-	1,410
NET CASH USED IN INVESTING ACTIVITIES	<u>(41,391)</u>	<u>(148,070)</u>
FINANCING ACTIVITIES		
New short-term borrowings raised	39,140	42,650
Repayment of short-term bank borrowings	(50,860)	(36,500)
New long-term debt raised	46,096	121,887
Repayment of long-term debt	(36,354)	(24,500)
New long-term convertible debentures raised	-	3,050
Repayment of lease liabilities	(1,160)	(2,762)
Additional capital contribution received from non-controlling interest of a subsidiary	10,500	-
NET CASH FROM FINANCING ACTIVITIES	<u>7,362</u>	<u>103,825</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,120	(35,259)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	128,062	138,602
Effect of foreign exchange rate changes	1	(22)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>138,183</u>	<u>103,321</u>

CF ENERGY CORP.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

	Nine-month period ended September 30,	
	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
Represented by:		
Bank balances and cash	136,559	103,001
Cash and cash equivalents included in assets held-for-sale	<u>1,624</u>	<u>320</u>
	<u>138,183</u>	<u>103,321</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS
FOR NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

1. GENERAL INFORMATION

CF Energy Corp. (the "Company") is a public limited company originally incorporated under the Canada Business Corporations Act on May 4, 2006 until it changed its incorporation jurisdiction to British Columbia on June 18, 2018 under the Business Corporations Act (British Columbia). Its shares are listed on the TSX Venture Exchange. The registered office of the Company is located at Suite 2600, Three Bentall Center, P.O. BOX 49314, 595 Burrard Street, Vancouver, British Columbia, V7X 1L3, Canada and the head office of the Company is located at 3100 Steeles Ave East, Suite 3008, Markham, Ontario, L3R 8T3, Canada. The principal operations of the Company's business are in the PRC. Its ultimate controlling party is the estate of Mr. Huajun Lin ("Mr. Lin"), who was also an officer and director of the Company until he resigned from such positions with effect from February 22, 2019.

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

The condensed interim consolidated financial statements are presented in Renminbi ("RMB").

2. BASIS OF PREPARATION

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB"). Accordingly, they do not include all of the information required for full annual financial statements required by IAS 1 Presentation of Financial Statements as issued by the IASB. Therefore, the condensed interim consolidated financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2021, which include information necessary to understand the Group's business and financial statement presentation.

At September 30, 2022, the Group's current liabilities exceeded its current assets by RMB 130,084,000. In view of these circumstances, management of the Group has given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Management is satisfied that the Group will have sufficient financial resources to meet its financial obligations including the capital commitments. Taking into account the Group's cash flow projection, including the term facility, the Group's ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, management considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the condensed interim consolidated financial statements have been prepared on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed interim consolidated financial statements for the nine-month period ended September 30, 2022 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2021.

Amendments to IFRSs that are mandatorily effective for the current nine-month period

In the current nine-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 nine-month period and prior period have been prepared and presented.

4. USE OF JUDGEMENTS AND ESTIMATES

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

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

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

5. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the nine-month periods ended September 30, 2022 and 2021 are as follows:

	Nine-month period ended September 30,	
	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
Gas distribution utility		
- Gas sales	115,837	130,602
- Pipeline installation and connection	96,007	82,133
- CNG vehicle refuelling	19,799	35,469
Integrated smart energy	8,650	1,577
Smart mobility	676	213
	<u>240,969</u>	<u>249,994</u>

	Nine-month period ended September 30,	
	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
Timing of revenue recognition		
A point in time	142,938	167,861
Over time	98,031	82,133
Total	<u>240,969</u>	<u>249,994</u>

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

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

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

- (a) Gas distribution utility which includes gas sales, pipeline installation and connection, and CNG vehicles refueling
 - (i) provides gas pipeline installation and connection services and delivers natural gas to residential, commercial and industrial customers through its pipeline networks and associated facilities in Sanya City, Hainan Province, the PRC;

5. REVENUE AND SEGMENT INFORMATION - continued

- (ii) operates CNG vehicle refueling stations to supply gas for taxicabs and public transportation vehicles in Sanya City, Hainan Province and Changsha City, Hunan Province, the PRC; and
 - (iii) transmits of natural gas via the Group’s pipeline networks for its customers in Zhaoqing City, Guangdong Province, the PRC.
- (b) Integrated smart energy
- (i) uses multiple clean energy sources, including solar, hydro, electricity, and natural gas (CCHP/Co-Gen) to supply cooling, heating, as well as hot water to its customers in the Haitang Bay area of Sanya City, Hainan Province, the PRC; and
 - (ii) supplies heat and power via the Group’s pipeline networks to its customers in Meishan City, Sichuan Province, the PRC.
- (c) Smart mobility
- (i) operates electric vehicle (“EV”) battery swap business in Sanya and Haikou City, Hainan Province and Zhuhai City, Guangdong Province, the PRC.

Segment revenues and results

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

For the nine-month period ended September 30, 2022

Continuing operations

	Gas distribution utility RMB'000	Integrated smart energy RMB'000	Smart mobility RMB'000	<u>Consolidated</u> RMB'000
Segment revenue	274,400	8,650	676	283,726
Inter-segment revenue	(42,757)	-	-	(42,757)
Revenue from external customers	<u>231,643</u>	<u>8,650</u>	<u>676</u>	<u>240,969</u>
Segment profit (loss)	<u>48,781</u>	<u>(20,606)</u>	<u>(3,497)</u>	<u>24,678</u>
Share of results of associates				(5,251)
Fair value change on derivative financial instrument				12,859
Unallocated other income				211
Unallocated corporate expenses				(10,766)
Profit before tax from continuing operations				<u>21,731</u>

5. REVENUE AND SEGMENT INFORMATION - continued

Segment revenues and results – continued

For the nine-month period ended September 30, 2021

Continuing operations

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

Note: Certain comparative figures have been reclassified to conform with the presentation of the current period.

Geographical information

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

Information about major customers

No single customer accounted for more than 10% of the Group's sales in nine-month periods ended September 30, 2022 and 2021 or the Group's trade receivables at September 30, 2022 and 2021.

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6. INCOME TAX EXPENSE

Continuing operations

	Nine-month period ended September 30,	
	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	10,870	11,219
PRC withholding EIT	-	600
	<u>10,870</u>	<u>11,819</u>
Deferred tax (credit) expense	(140)	77
	<u>10,730</u>	<u>11,896</u>

The Company was incorporated in Canada and is therefore subject to Canadian federal and Ontario statutory income tax at a rate of 26.5% (2021: 26.5%) on assessable profits in Canada during the reporting period.

The subsidiary, Hainan Energy Ltd., incorporated in the British Virgin Islands, is tax exempted under the laws of the British Virgin Islands.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the reporting period (2021: 25%).

7. DISCONTINUED OPERATION

In 2021, management determined to dispose of all of Hebei Riheng Clean Energy Co., Ltd.'s ("Riheng") operations and considered Riheng as a discontinued operation. Negotiations with several interested parties have subsequently taken place. The assets and liabilities attributable to Riheng, which are expected to be sold within twelve months, were accordingly classified as a disposal group held for sale and were separately presented in the condensed interim consolidated statement of financial position as set out below.

	For nine-month period ended September 30,	
	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
Revenue	-	70
Cost of sales	-	(69)
Other income	1	72
Selling and marketing expenses	-	(48)
General and administrative expenses	(29)	(291)
Other losses	-	(1,214)
Reversal of impairment loss	363	-
	<u>335</u>	<u>(1,480)</u>
Profit (loss) before tax	-	-
Income tax expense	-	-
	<u>335</u>	<u>(1,480)</u>

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7. DISCONTINUED OPERATION - continued

Under the EIT Law, the tax rate of Riheng is 25% for both periods. Riheng did not have assessable income for PRC tax for both periods.

The major classes of assets and liabilities of Riheng as at September 30, 2022, which have been presented separately in the condensed interim consolidated statements of financial position, are as follows:

	<u>September 30, 2022</u> RMB'000
Other receivables, prepaid expenses and deposits	421
Bank balances and cash	1,624
	<hr/>
Total assets classified as held-for-sale	2,045
	<hr/>
Receipts in advance from customers and other payables	141
Amount due to the Group	6,219
	<hr/>
	6,360
Less: inter-company elimination	(6,219)
	<hr/>
Total liabilities associated with assets classified as held-for-sale	141
	<hr/>

The net cash flows attributable to the operating, investing and financing activities of Riheng are shown as follows:

	For nine-month period ended September 30,	
	<u>2022</u> RMB'000	<u>2021</u> RMB'000
Net cash from (used in) operating activities	<u>1,158</u>	<u>(61)</u>

8. EARNINGS PER SHARE

From continuing and discontinued operations

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

	Three-month period ended September 30,		Nine-month period ended September 30,	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Earnings</u>				
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	1,921	9,665	18,695	26,274
<u>Number of shares</u>				
Weighted average number of shares for the purpose of basic earnings per share	65,885,155	65,985,655	65,885,155	65,853,595
Effect of dilutive potential shares:				
Share awards and share options	1,020,000	1,798,330	1,020,000	1,824,287
Weighted average number of shares for the purpose of diluted earnings per share	66,905,155	67,783,985	66,905,155	67,677,882
Basic earnings per share (Note)	RMB0.03	RMB0.15	RMB0.28	RMB0.40
	CAD0.01	CAD0.03	CAD0.06	CAD0.08
Diluted earnings per share (Note)	RMB0.03	RMB0.14	RMB0.28	RMB0.39
	CAD0.01	CAD0.03	CAD0.06	CAD0.08

Note: The CAD figures presented above are shown for reference only and have been arrived at based on the exchange rate of RMB1.0000 to CAD0.1906 and RMB1.0000 to CAD0.1944 for three-month and nine-month ended September 30, 2022, respectively, and RMB1.0000 to CAD0.1947 and RMB1.0000 to CAD0.1934 for three-month and nine-month ended September 30, 2021, respectively, being the average exchange rate that prevailed during the respective periods.

The computation of diluted earnings per share did not assume the exercise of certain of the Company's share options and the convertible bonds because the exercise prices of those options and the convertible bonds were higher than the average market price for the shares for nine-month periods ended September 30, 2022 and 2021.

8. EARNINGS PER SHARE - continued

From discontinued operations

The calculations of basic and diluted loss per share for the discontinued operation attributable to owners of the Company are based on the loss from the discontinued operation of RMB6,000 for the three-month period (2021: profit of RMB1,000) and profit of RMB201,000 for the nine-month period (2021: loss of RMB888,000) ended September 30, 2022, respectively, and the denominators detailed above. Both basic and diluted earnings per share for the three-month period and nine-month period ended September 30, 2022 are RMB nil (2021: RMB nil for the three-month period and loss of RMB 0.01 for the nine-month period).

For continuing operations

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

	Three-month period ended September 30,		Nine-month period ended September 30,	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Earnings</u>				
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	1,921	9,665	18,695	26,274
Less: Profit (loss) for the period from discontinued operations attributable to owners of the Company	<u>(6)</u>	<u>1</u>	<u>201</u>	<u>(888)</u>
Earnings for the purpose of basic earnings per share from continuing operations	<u>1,927</u>	<u>9,664</u>	<u>18,494</u>	<u>27,162</u>
<u>Number of shares</u>				
Weighted average number of shares for the purpose of basic earnings per share	65,885,155	65,985,655	65,885,155	65,853,595
Effect of dilutive potential shares:				
Share awards and share options	<u>1,020,000</u>	<u>1,798,330</u>	<u>1,020,000</u>	<u>1,824,287</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>66,905,155</u>	<u>67,783,985</u>	<u>66,905,155</u>	<u>67,677,882</u>
Basic earnings per share (Note)	<u>RMB0.03</u>	<u>RMB0.15</u>	<u>RMB0.28</u>	<u>RMB0.41</u>
	<u>CAD0.01</u>	<u>CAD0.03</u>	<u>CAD0.06</u>	<u>CAD0.08</u>
Diluted earnings per share (Note)	<u>RMB0.03</u>	<u>RMB0.14</u>	<u>RMB0.28</u>	<u>RMB0.40</u>
	<u>CAD0.01</u>	<u>CAD0.03</u>	<u>CAD0.06</u>	<u>CAD0.08</u>

9. MOVEMENTS IN PROPERTY AND EQUIPMENT

During the current nine-month period, the Group incurred approximately RMB41,648,000 (2021: RMB120,700,000) for acquiring pipelines which are used in the construction and other equipment. Construction in progress of approximately RMB62,123,000 (2021: RMB269,370,000) have been transferred to property and equipment during the nine-month period ended September 30, 2022.

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

	<u>Leasehold properties</u> RMB'000	<u>Leased lands</u> RMB'000	<u>Total</u> RMB'000
As at January 1, 2021			
Carrying amount	7,234	19,304	26,538
As at December 31, 2021			
Carrying amount	7,733	69,904	77,637
As at September 30, 2022			
Carrying amount	6,681	68,727	75,408
For nine-month period ended September 30, 2022			
Depreciation charge	(2,084)	(1,176)	(3,260)
For nine-month period ended September 30, 2021			
Depreciation charge	(2,961)	(943)	(3,904)

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

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

The Group regularly entered into short-term leases for staff quarters. As at September 30, 2022, the portfolio of short-term leases is similar to that as of December 31, 2021.

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

Variable lease payments

Lease of a land for a CNG vehicle refueling station contains both fixed lease payments and variable lease payments that are based on the volume of gas refueled by customers. During the nine-month period ended September 30, 2022, the original lease term expired and the Company renewed the lease for one year. Both fixed and variable lease payments of the renewed lease were included in the prepaid expenses and deposits as of September 30, 2022. Variable lease payments of the original lease not included in the measurement of lease liabilities for the period ended September 30, 2022 amounting to RMB nil (December 31, 2021: RMB100,000).

During the nine-month period ended September 30, 2021, one of the Group's subsidiaries received rent concessions with a forgiveness of certain amount of lease payments that occurred as a direct consequence of the Covid-19 pandemic amounting to RMB215,000 which were originally due on or before September 30, 2021. The Group applied the practical expedient [basis] and treated the rent concessions as a negative variable lease payment against the lease liability and recorded the forgiven amount in profit.

11. INTERESTS IN ASSOCIATES

	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
Cost of investments in associates - unlisted	32,710	32,710
Share of post-acquisition profits and other comprehensive income	<u>381</u>	<u>5,632</u>
	<u><u>33,091</u></u>	<u><u>38,342</u></u>

Details of the Group's associates as at September 30, 2022 and December 31, 2021 are as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Paid-up capital		Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			30/9/2022 RMB'000	31/12/2021 RMB'000	30/9/2022	31/12/2021	30/9/2022	31/12/2021	
Pingxiang Xinao CF	The PRC	The PRC	32,460	32,460	40%	40%	40%	40%	Gas sales and distribution and pipeline installation and connection
Sichuan Xiangshu Petrochemical Co., Ltd* (Note) 四川湘蜀石油化工有限公司 ("Xiangshu") (note)	The PRC	The PRC	250	250	23.2%	23.2%	23.2%	23.2%	Refined oil sales and distribution

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

Note: Hunan CNPC Energy Co., Ltd, a non-wholly owned subsidiary of the Group, has a 40% ownership with the right to appoint two out of five members to the board of directors according to the agreement. As a result, the effective interest held by the Group is 23.2%, the management of the Company considers that the Group has significant influence over Xiangshu and therefore it is classified as an associate of the Group.

All of the associates are accounted for using the equity method in these financial statements.

11. INTERESTS IN ASSOCIATES - continued

Summarized financial information of a material associate

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

Pingxiang Xinao CF

	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
Current assets	49,065	42,619
Non-current assets	172,092	164,281
Current liabilities	166,288	138,960
	For nine-month period ended September 30,	
	<u>2022</u> RMB'000	<u>2021</u> RMB'000
Revenue	282,774	205,422
Profit for the period	13,071	12,377
Total comprehensive income for the period	13,071	12,377

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

	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
Net assets of Pingxiang Xinao CF	54,869	67,940
Proportion of the Group's interest in Pingxiang Xinao CF	40%	40%
	21,948	27,176
Add: Fair value adjustment	11,009	11,009
Carrying amount of the Group's interest in Pingxiang Xinao CF	32,957	38,185

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12. CONTRACT ASSETS

	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
Contract assets from pipeline construction works	20,821	19,604
Less: Allowance for credit losses	<u>(744)</u>	<u>(106)</u>
	<u>20,077</u>	<u>19,498</u>

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

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

Construction contracts of pipeline construction works

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

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

13. TRADE RECEIVABLES

	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
Trade receivables		
- Gas sales	17,119	19,681
- Pipeline installation and connection	<u>27,110</u>	<u>25,178</u>
	44,229	44,859
Less: Allowance for credit losses	<u>(4,648)</u>	<u>(4,979)</u>
	<u>39,581</u>	<u>39,880</u>

14. OTHER RECEIVABLES, PREPAID EXPENSES AND DEPOSITS

	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
Pipeline relocation receivables (note)	21,632	21,592
Deposits paid for acquisition of property and equipment	4,924	215
Deposits paid for land use right	18,858	18,858
Prepayments for gas purchase	2,818	5,486
Rental deposits	1,900	1,280
VAT recoverable	17,130	29,013
Receivables on disposal of Pingxiang Xinao CF	126	126
Other prepayments and deposits	5,805	3,101
	<u>73,193</u>	<u>79,671</u>
Less: impairment loss recognized	(322)	(322)
	<u>72,871</u>	<u>79,349</u>
Analized for reporting purposes as follows:		
- Current assets	46,033	57,043
- Non-current assets	26,838	22,306
	<u>72,871</u>	<u>79,349</u>

Note: During the nine-month periods ended September 30, 2022 and 2021, due to the change in city planning, local government notified the Group to relocate its gas pipelines for complying with the revised city plan and agreed that the local government would compensate part of the costs incurred by the Group as a result of the notified relocation. The balance represents cost incurred on construction of new pipelines as a result of the relocation notices. The Group expects RMB18,590,000 (December 31, 2021: RMB18,385,000) would be refunded by the local government in 2022 with the remaining balance of RMB3,042,000 (December 31, 2021: RMB3,207,000) to be refunded beyond 2022.

15. DERIVATIVE FINANCIAL INSTRUMENT

	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
Derivative financial assets	<u>19,940</u>	<u>7,081</u>

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

In addition, the Loan Discharge Agreement provided that if the Initial Public Offering ("IPO") has not been completed on or prior to June 28, 2019, the Group shall have the right for a period of 90 days following June 28, 2019 to require Mr. Lin, directly or indirectly, to subscribe for common shares of the Company on the TSX Venture Exchange, in the amount of RMB36,000,000 or its CAD equivalent. The subscription price for such common shares shall be the volume-weighted average price of the common shares of the Company in the period of 30 calendar days preceding June 28, 2019 on the TSX Venture Exchange.

The IPO was not completed on or prior to June 28, 2019. On July 26, 2019, the Company announced that the Board determined to exercise the Company's option pursuant to the Loan Discharge Agreement to require the estate of Mr. Lin (the "Estate") to subscribe for an aggregate amount of CAD6,862,000 (approximately RMB36,000,000) in common shares of the Company at a price of CAD0.68 per common share. Following the subscription, based on the prevailing exchange rate of June 28, 2019, the number of shares to be issued is 10,090,568. The management of the Company considered that the share subscription is a forward contract. As at September 30, 2022, the market price of the common shares of the Company was CAD0.30 (December 31, 2021: CAD0.54) and the closing exchange rate of RMB to CAD as at September 30, 2022 was RMB1.0000 to CAD0.1923 (December 31, 2021: RMB 1.0000 to CAD0.1995).

16. BANK BALANCES AND CASH/RESTRICTED CASH

Bank balances and restricted cash carried market interest rates which ranged from 0.3% to 1.49% per annum as at September 30, 2022 (2021: 0.3% to 1.49%).

The balance of restricted cash represents deposits of letter of guarantee as at December 31, 2021. The restriction was removed as at September 30, 2022.

There were no fixed bank deposits with original maturity more than three months but less than nine months as at September 30, 2022 and December 31, 2021.

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17. TRADE AND OTHER PAYABLES

	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
Trade and construction payables	28,075	26,582
Security deposit received from customers for natural gas supplies	4,982	6,896
Payable on property and equipment acquisition	75,638	78,360
Accrued wages and staff benefits	2,547	8,378
Accrued audit fee	1,646	2,401
Compensation payable for land acquisition	2,906	2,906
Other tax payables	1,674	1,401
Other payables and accrued expenses	5,950	6,820
	<u>123,418</u>	<u>133,744</u>

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

18. RELATED PARTY BALANCES/TRANSACTIONS DISCLOSURE

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

Balances

<u>Name of related party</u>	<u>Relationship</u>	<u>Terms</u>	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
Pingxiang Xinao CF	Associate	Non-trade, unsecured and non-interest bearing (note)	<u>12,423</u>	<u>12,423</u>

Note: The balance represents a loan of RMB11,000,000 to Pingxiang Xinao CF plus interest accrued at 4.35% per annum until October 16, 2019 when the Group entered a supplemental agreement with Ping Xiang Xinao CF to waive accruing interest from October 17, 2019 and onwards.

No transaction was made between related parties for the nine-month period ended September 30, 2022 and 2021.

18. RELATED PARTY BALANCES/TRANSACTIONS DISCLOSURE - continued

Compensation of key management personnel

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

	For nine-month period ended September 30,	
	<u>2022</u> RMB'000	<u>2021</u> RMB'000
Short-term benefits	2,308	1,958
Share-based payments	152	392
	<u>2,460</u>	<u>2,350</u>

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

19. AMOUNTS DUE FROM NON-CONTROLLING INTERESTS OF SUBSIDIARIES

The balance represents the loan to Sichuan Tianzhiyuan Energy Technology Limited as unsettled capital injected into Meishan Hengtai Tianzhiyuan Energy Co., Ltd. bearing interest at 5.88% per annum amounted to RMB2,384,000 (December 31, 2021: RMB2,296,000). In the opinion of the management of the Company, the outstanding balance is not expected to be repaid within 12 months after the end of reporting period and therefore the amount is classified as non-current asset.

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

During the nine-month period ended September 30, 2022, the Group obtained new short-term bank borrowings amounted to RMB39,140,000 (2021: RMB42,650,000) and new long-term debts amounted to RMB46,096,000 (2021: RMB121,887,000). Short-term bank borrowings of RMB50,860,000 (2021: RMB36,500,000) and long-term debts of RMB36,354,000 (2021: RMB24,500,000) were repaid during the nine-month period ended September 30, 2022.

21. CONVERTIBLE DEBENTURES

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

21. CONVERTIBLE DEBENTURES- continued

At initial recognition, the equity component of the Convertible Debentures representing the fair value of the embedded option to convert the financial liability into equity of the Group was separated from the liability component as follows:

	RMB'000	CAD'000
Proceeds for issue of the Convertible Debentures	3,127	600
- Equity component	138	26
- Deferred tax liability	50	10
- Liability component	2,939	564
<i>Equity component</i>		
Recognition of the equity component	188	36
Deferred tax	(50)	(10)
Carrying amount	<u>138</u>	<u>26</u>

The equity component was presented in equity heading “other reserves” which will not be reclassified subsequently to profit or loss. The interest charge to the liability component is calculated by applying an effective interest rate of 10.68% since the Convertible Debentures were issued. The liability component is measured at amortised cost.

The movement of the liability component of the Convertible Debentures for current nine-month period is set out below:

	RMB'000	CAD'000
<i>Liability component</i>		
Carrying amount at the date of issue	2,939	564
Interest charge	177	34
Interest paid and payable	(126)	(24)
Exchange differences	(113)	-
Carrying amount at December 31, 2021	<u>2,877</u>	<u>574</u>
Interest charge	232	45
Interest paid and payable	(162)	(32)
Exchange differences	107	-
Carrying amount at September 30, 2022	<u>3,054</u>	<u>587</u>

	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
Analyzed for reporting purposes as follows:		
- Current liabilities	3,054	-
- Non-current liabilities	-	2,877
	<u>3,054</u>	<u>2,877</u>

22. DEFERRED INCOME - GOVERNMENT GRANTS

The Group received RMB5,269,000, RMB2,553,000, RMB12,110,000 and RMB4,630,000 in government grants to fund the construction of certain items of property and equipment for the Group's operation in Sanya City in 2012, 2019, 2020 and 2022, respectively. These government grants were recognized as a long-term liability and will be recognized in the consolidated statement of profit or loss on the same basis as depreciation of the related property and equipment over the expected useful lives of the relevant assets. As at September 30, 2022, part of the property and equipment are ready for use and RMB472,000 (2021: RMB169,000) is recognized as other income. As at September 30, 2022, the government grants of RMB22,594,000 was recognized as a non-current liability (December 31, 2021: RMB18,436,000).

23. SHARE CAPITAL

Share capital of the Company

	<u>Number of shares</u>	<u>Amount RMB'000</u>
Common shares		
Issued and fully paid:		
At December 31, 2020	65,463,155	70,053
Issuance of share awards (Note 24)	522,500	1,150
Shares repurchased (note)	<u>(100,500)</u>	<u>(225)</u>
At December 31, 2021 and September 30, 2022	<u>65,885,155</u>	<u>70,978</u>

Note: On November 24, 2021, the Company repurchased 100,500 shares of its common shares with a consideration of RMB225,000 (CAD44,677). All the shares were cancelled in November 2021.

24. SHARE-BASED COMPENSATION

Equity-settled share option scheme of the Company

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

24. SHARE-BASED COMPENSATION - continued

At the annual general meeting of the Company held on July 26, 2019, the shareholders of the Company approved the resolution for the amendments to the existing Option Scheme from the "fixed" option plan to a "rolling" option plan whereby (i) options can be granted to subscribe for up to a maximum number of shares of the Company equal to 10% of the issued and outstanding shares of the Company from time to time; and (ii) subject to the maximum referred to in (i) above, options granted and exercised can be re-granted under the scheme. The Rolling Option Scheme is subject to annual renewal and approval by shareholders at each annual general meeting of the Company after initial approval and the current plan was subsequently approved by the shareholders of the Company at the annual general meeting of the Company held on October 29, 2020 and December 23, 2021.

There were no additional share options granted during the nine months periods ended September 30, 2022 and 2021.

	<u>Number of share options</u>
Outstanding as at January 1, 2022	4,450,000
Expired/forfeited during the period	<u>(1,000,000)</u>
Outstanding as at September 30, 2022	<u>3,450,000</u>

Equity-settled share-based award scheme of the Company

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

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

24. SHARE-BASED COMPENSATION – continued

Equity-settled share-based award scheme of the Company

On December 18, 2020, a total of 2,090,000 common shares were granted to employees and management at the price of CAD0.43 per common share which was based on the volume weighted average trading price of the Company’s shares on the TSX Venture Exchange for the 10 trading days immediately preceding the grant date as prescribed under the terms of the Award Scheme. The first batch of the 522,500 shares which are not subject to any condition was issued during the nine-month period ended September 30, 2021. In 2021, 547,500 shares were forfeited as the participants failed to satisfy the agreed performance condition and service condition. The remaining 1,020,000 share awards which are subject to the fulfilment of certain considerations remained outstanding as at September 30, 2022.

25. CAPITAL COMMITMENTS

	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
Capital expenditure in respect of the acquisition of property and equipment and the construction of pipelines under development contracted for but not provided in the financial statements	80,701	140,816
Capital injection in respect of the investment in Hainan Shanglian Investment Co., Ltd. contracted for but not provided in the financial statements	950	950
Capital injection in respect of the investment in EDF Changfeng (Sanya) Energy Co., Ltd. contracted for but not provided in the financial statements	<u>23,900</u>	<u>23,900</u>

26. CAPITAL RISK MANAGEMENT

The Group considers its capital structure to consist of share capital, contributed surplus, retained earnings, short-term bank borrowings, long-term debts and convertible debentures. The Group's objectives are to maintain an effective structure that supports its ability to explore strategic business development opportunities in the PRC and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk level. The Group manages its capital structure and makes adjustments to it, based on the funds available to the Group. The Board does not establish quantitative return-on-capital criteria for management, but rather is responsible for overseeing the process undertaken by management to sustain future development of its business.

The Group's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and through credit lines. Gas supply revenue, gas connection revenue, available cash balances, drawdowns on credit lines and long-term bank debts are the Group's principal sources of capital used to pay for operating expenses and capital expenditures in its business.

The Group reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of its operations, is reasonable. The Group monitors its compliance with all of its capital requirements, including financial covenants and non-financial covenants relating to the credit lines and bank loans, as applicable. As at September 30, 2022, the Company was in compliance with all of its covenants.

There were no changes in the Group's approach to capital management during the nine-month periods ended September 30, 2022 and 2021.

During the nine-month period ended September 30, 2022, no dividend was declared to the shareholders (2021: Nil).

27. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
Financial assets		
Financial assets at amortized cost	214,479	209,371
Equity instruments at FVTOCI	12,926	12,926
Derivative financial instrument	19,940	7,081
	<u> </u>	<u> </u>
Financial liabilities		
Liabilities measured at amortized cost	591,978	596,070
	<u> </u>	<u> </u>

27. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies

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

Market risk***Foreign exchange risk***

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

The Company and its subsidiaries have foreign currencies included in bank balances and cash and other payables which expose them to foreign currency risk.

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

	<u>Liabilities</u>		<u>Assets</u>	
	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000	September 30, <u>2022</u> RMB'000	December 31, <u>2021</u> RMB'000
United States Dollars ("US\$")	-	-	142	149
CAD	(3,239)	(3,686)	5,785	3,428
Hong Kong Dollars ("HKD")	(119)	(107)	315	513
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Sensitivity analysis

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

27. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

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

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

By excluding the impact of interest capitalization, 1% increase or decrease in the interest rate would have had the following impact on the Group's profit for the period:

	Impact on profit for the nine-month period ended <u>September 30,</u>	
	<u>2022</u>	<u>2021</u>
	RMB'000	RMB'000
Interest rate + 1%	2,134	1,953
Interest rate - 1%	(2,134)	(1,953)

Credit risk and impairment assessment

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

As at September 30, 2022 and December 31, 2021, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at September 30, 2022 and December 31, 2021, in relation to each class of recognized financial assets is the carrying amount of those financial assets as stated in the condensed interim consolidated statement of financial position.

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

27. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Trade receivables and contract assets arising from contracts with customers

In order to minimize the credit risk of trade receivables and contract assets, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group performs impairment assessment under ECL model based on provision matrix. Trade receivables and contract assets are grouped under different provision matrix by nature of products and services based on credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers, impairment loss of RMB307,000 (2021: reversal of RMB162,000) is recognized for the nine-month period ended September 30, 2022.

Bank balances/fixed bank deposits/restricted cash

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

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

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

27. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Other receivables and deposits

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there was no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the nine-month periods ended September 30, 2022 and 2021, the Group assessed the ECL for other receivables and deposits were insignificant and thus no loss allowance was recognized.

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents deemed adequate by management of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group has given considerations to its future performance and cash flow projection through monitoring the utilization of bank borrowings and ensuring its ability to renew or refinance the banking facilities upon maturity, to meet its financial obligations including the capital commitments.

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

At September 30, 2022, the Group's current liabilities exceeded its current assets by RMB 130,084,000. In view of these circumstances, management of the Group has given consideration to the future liquidity and performance of the Group and its available sources of finance. Management is satisfied that the Group will have sufficient financial resources to meet its financial obligations including the capital commitments. Taking into account the Group's cash flow projection, including the term facility, the Group's ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, management considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period.

27. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments

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

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

There was no transfers between different levels during both periods.

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30/9/2022	31/12/2021		
Derivative financial instruments	Asset – RMB19,940,000	Asset - RMB7,081,000	Level 2	The fair value is calculated by multiplying the change in the price of the Company's common shares with the number of shares initially required to subscribe.
Equity instrument	Asset - RMB11,921,000	Asset - RMB11,921,000	Level 3	Market approach – in this approach, the appraisal value of an asset was based on the transaction price of similar items, whether from recent transactions or using market multiples and guideline public company method.
Equity instrument	Asset – RMB1,005,000	Asset - RMB1,005,000	Level 3	Income approach - in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of its investee, based on a appropriate discount rate.

27. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

Fair value measurements and valuation processes

Derivative financial instruments

As disclosed in note 15, the Group owns a right to require the estate of Mr. Lin to subscribe an aggregate amount of RMB36,000,000 (approximately CAD6,862,000 based on the prevailing exchange rate) in common shares of the Company at a price of CAD0.68 per share. The management of the Group considered that the share subscription is a derivative financial instrument. As at September 30, 2022, the market price of the common share is CAD0.30 (December 31, 2021: CAD0.54) and the closing exchange rate for RMB1.0000 to CAD0.1923 (December 31, 2021: RMB1.0000 to CAD0.1995) for the nine-month period ended September 30, 2022. The derivative financial instrument is classified as financial assets at FVTPL and is measured at fair value at reporting date.

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

In estimating the fair value of derivative financial instrument, the Group multiplies the change in the price of the Company's common shares from the initial subscription price to the closing market price as of September 30, 2022 with the number of shares calculated using the initial subscription price.

28. SEASONALITY OF OPERATIONS

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

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

29. 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 m³ 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 m³ 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.

30. SUBSEQUENT EVENTS

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 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 Electric Vehicle Co., Ltd. and Dongfeng Electric Vehicle Co., Ltd. are within the government's supplier list for taxis.