

Consolidated Financial Statements
(Expressed in Canadian dollars)

CHANGFENG ENERGY INC.

Years ended December 31, 2014 and 2013



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Changfeng Energy Inc.

We have audited the accompanying consolidated financial statements of Changfeng Energy Inc., which comprise the consolidated balance sheets as at December 31, 2014 and 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Changfeng Energy Inc. as at December 31, 2014 and 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

May 29, 2015
Toronto, Canada

CHANGFENG ENERGY INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2014 and 2013

	2014	2013
		(Recasted - note 23)
Assets		
Current assets:		
Cash	\$ 12,119,980	\$ 15,151,430
Trade and other receivables (note 5)	6,060,800	4,296,974
Prepaid expenses and deposits	948,812	997,091
Inventories (note 6)	1,008,946	691,789
Total current assets	20,138,538	21,137,284
Non-current assets:		
Long-term deposits and advances (note 7)	1,023,609	1,675,317
Investment in associate (note 8)	872,930	828,860
Property and equipment (note 9)	65,526,160	57,310,958
Intangible assets (note 11)	1,424,933	2,333,403
Due from related parties (note 16)	—	351,400
Total non-current assets	68,847,632	62,499,938
Total assets	\$ 88,986,170	\$ 83,637,222
Liabilities and Equity		
Current liabilities:		
Bank indebtedness (note 12(b))	\$ 3,609,150	\$ 3,352,400
Trade and other payables	10,105,342	8,145,905
Deferred revenue	13,403,104	14,488,531
Interest payable (note 12(c))	—	886,502
Current portion of long-term debt (note 12(a))	3,364,200	2,284,100
Due to related parties (note 16)	1,369,270	1,445,321
Total current liabilities	31,851,066	30,602,759
Non-current liabilities:		
Long-term debt (note 12(a))	22,073,658	23,843,883
Due to related parties (note 16)	7,476,000	7,028,000
Government grants (note 10)	1,021,417	985,824
Deferred income tax liability (note 15)	1,250,114	636,818
Total non-current liabilities	31,821,189	32,494,525
Total liabilities	63,672,255	63,097,284
Equity:		
Share capital (note 13)	11,032,007	11,630,789
Contributed surplus (note 13)	2,696,380	2,424,592
Statutory surplus reserves (note 13)	3,554,010	1,526,693
Retained earnings	3,256,801	1,500,222
Accumulated other comprehensive income	3,971,706	2,358,789
Total shareholders' equity	24,510,904	19,441,085
Non-controlling interest	803,011	1,098,853
Total equity	25,313,915	20,539,938
Total liabilities and equity	\$ 88,986,170	\$ 83,637,222

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_____ Director

_____ Director

CHANGFENG ENERGY INC.

Consolidated Statements of Comprehensive Income
(Expressed in Canadian dollars)

Years ended December 31, 2014 and 2013

	2014	2013 (Recasted - note 23)
Revenue	\$ 53,128,192	\$ 42,049,041
Cost of sales	29,131,906	22,051,338
Gross margin	23,996,286	19,997,703
Expenses:		
General and administrative	10,618,986	9,268,319
Travel and business development	3,631,952	3,337,083
Stock-based compensation	271,788	381,702
	14,522,726	12,987,104
Income from operations	9,473,560	7,010,599
Interest expense on long-term debt	1,703,872	1,638,416
Interest income	(256,776)	(36,892)
Share of loss of investment in associate (note 8)	8,409	1,290
Income before income taxes	8,018,055	5,407,785
Income taxes (note 15)	3,975,552	2,593,664
Net income	4,042,503	2,814,121
Other comprehensive income:		
Exchange differences on translation of foreign operations	1,612,917	1,767,153
Total comprehensive income	\$ 5,655,420	\$ 4,581,274
Net income attributable to:		
Owners of the Company	\$ 3,783,896	\$ 2,482,981
Non-controlling interest	258,607	331,140
	\$ 4,042,503	\$ 2,814,121
Total comprehensive income attributable to:		
Owners of the Company	\$ 5,396,813	\$ 4,250,134
Non-controlling interest	258,607	331,140
	\$ 5,655,420	\$ 4,581,274
Earnings per share attributable to common shareholders (note 14):		
Basic	\$ 0.06	\$ 0.04
Diluted	0.06	0.04

See accompanying notes to consolidated financial statements.

CHANGFENG ENERGY INC.

Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

Years ended December 31, 2014 and 2013

	Share capital	Contributed surplus	Statutory surplus reserves	Retained earnings	Accumulated other comprehensive income	Non-controlling interest	Total
2014 (Recasted - note 23)							
Balance, January 1, 2014, as recasted	\$ 11,630,789	\$ 2,424,592	\$ 1,526,693	\$ 1,500,222	\$ 2,358,789	\$ 1,098,853	\$ 20,539,938
Share repurchase (note 13)	(598,782)	–	–	–	–	–	(598,782)
Net income	–	–	2,027,317	1,756,579	–	258,607	4,042,503
Dividend to minority shareholders	–	–	–	–	–	(554,449)	(554,449)
Stock-based compensation (note 13)	–	271,788	–	–	–	–	271,788
Currency translation adjustment	–	–	–	–	1,612,917	–	1,612,917
Balance, December 31, 2014	\$ 11,032,007	\$ 2,696,380	\$ 3,554,010	\$ 3,256,801	\$ 3,971,706	\$ 803,011	\$ 25,313,915
2013 (Recasted - note 23)							
Balance, January 1, 2013, as recasted	\$ 12,121,808	\$ 2,042,890	\$ 970,319	\$ (426,385)	\$ 591,636	\$ 767,713	\$ 16,067,981
Share repurchase (note 13)	(537,019)	–	–	–	–	–	(537,019)
Option exercised	46,000	–	–	–	–	–	46,000
Net income	–	–	556,374	1,926,607	–	331,140	2,814,121
Stock-based compensation (note 13)	–	381,702	–	–	–	–	381,702
Currency translation adjustment	–	–	–	–	1,767,153	–	1,767,153
Balance, December 31, 2013, as recasted	\$ 11,630,789	\$ 2,424,592	\$ 1,526,693	\$ 1,500,222	\$ 2,358,789	\$ 1,098,853	\$ 20,539,938

See accompanying notes to consolidated financial statements.

CHANGFENG ENERGY INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Net income	\$ 4,042,503	\$ 2,814,121
Items not involving cash:		
Deferred income taxes	613,296	298,608
Amortization	3,764,162	2,414,113
Prepaid rent expense	94,130	87,936
Share of loss of investment in associate	8,409	1,290
Current income taxes	3,362,257	2,295,056
Interest expense on long-term debt	1,703,872	1,638,416
Stock-based compensation	271,788	381,702
Impairment of deposit	-	(83,750)
Income taxes paid	(3,072,856)	(1,816,360)
Interest expense paid	(2,544,193)	(2,974,315)
Change in non-cash operating working capital	(2,684,344)	4,966,195
Net cash flows from operating activities	5,559,024	10,023,012
Cash flows from financing activities:		
Repurchase of shares	(598,782)	(537,019)
Net increase in exercised options	-	46,000
Net decrease in bank indebtedness	(1,785,000)	(5,025,000)
Net increase in bank indebtedness	1,785,000	3,270,400
Net decrease in long-term debt	(2,330,900)	(837,500)
Net increase in other long-term debt	-	3,022,000
Amount drawn on term loan	-	7,028,000
Government grants	17,034	88,915
Net cash flows from (used in) financing activities	(2,912,648)	7,055,796
Cash flows from investing activities:		
Acquisition of property and equipment	(5,720,822)	(8,429,306)
Acquisition of intangible assets	(8,812)	(822,581)
Long-term deposits and advances	(693,994)	(4,388)
Net cash flows used in investing activities	(6,423,628)	(9,256,275)
Increase (decrease) in cash	(3,777,252)	7,822,533
Effects of foreign exchange on cash balances	745,802	951,678
Cash, beginning of year	15,151,430	6,377,219
Cash, end of year	\$ 12,119,980	\$ 15,151,430

See accompanying notes to consolidated financial statements.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

1. Corporate information:

Changfeng Energy Inc. (the "Company" or "Changfeng") was incorporated under the Canada Business Corporations Act on May 4, 2006. Through its subsidiaries, the Company's core business activity is the distribution of natural gas for industrial, commercial and residential users in the People's Republic of China ("China" or "PRC"). The registered office of the Company is located at 650 Highway 7 East, Suite 306, Richmond Hill, Ontario, L4B 2N7, and the principal operations of its business are in China.

The ability to build and operate gas pipeline infrastructure and distribute piped gas in China is established by concession rights obtained from the applicable municipal and provincial governments. Natural gas distribution operations in China are subject to certain government regulations regarding the purchase and sale of natural gas, including pricing.

2. Basis of presentation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies set out below were consistently applied to all years presented.

The consolidated financial statements were approved and authorized by the Board of Directors on May 29, 2015.

(b) Historical cost basis and presentation and functional currencies:

The consolidated financial statements have been prepared on a historical cost basis for all its recognized assets and liabilities, except for certain financial instruments measured at fair value.

The consolidated financial statements are presented in Canadian dollars. The functional currencies of the Company's subsidiaries include the Canadian dollar and the Chinese Renminbi ("RMB").

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements comprise the financial statements of the Company and its two wholly owned subsidiaries, Hainan Energy Ltd. ("HEL") and Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd. ("CF China"), its 99.4% interest in Sanya Changfeng Offshore Natural Gas Engineering Construction Co. Ltd., its 99.99% interest in Sanya Changfeng New Energy Investment Co., Ltd., its 100% interest in Sanya Changfeng Offshore Natural Gas Design Co. Ltd., its 58% interest in Hunan Changfeng CNPC Energy Co., Ltd. ("Hunan CF CNPC"), its 60% interest in Hunan CNPC New Energy Investment Co., Ltd. ("Hunan CNPC NEI"), its 80% interest in Pingxiang Changfeng Natural Gas Co. Ltd. ("Pingxiang CF"), and its 51% interest in Xiangtan Changfeng Natural Gas Co., Ltd. ("Xiangtan CF").

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Non-controlling interest represents the portion of a subsidiary's net income and net assets that are attributable to shares of such subsidiary not held by the Company.

The financial statements of each subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances, transactions, and any unrealized income and expenses arising from intercompany transactions within the Company are eliminated in preparing the consolidated financial statements.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

(b) Investment in associate:

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity. The Company has determined that Xiangtan Shin-Ko Energy Co., Ltd. ("Shin-Ko Energy") is an associate over which the Company has significant influence (note 8). Investment in associate is accounted for using the equity method and is recognized initially at cost. The consolidated financial statements include the Company's share of the revenue and expenses and equity movements of equity-accounted investees from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Company has an obligation or has made payments on behalf of the equity-accounted investee.

(c) Foreign currency translation:

The Canadian dollar is the functional currency of the parent company and HEL, and the RMB is the functional currency of the Company's other subsidiaries and associate. Since the RMB is not a fully convertible currency, all foreign exchange transactions involving RMB must take place either through the People's Bank of China or other institutions authorized to buy and sell RMB.

Transaction amounts denominated in foreign currencies are translated into the Company's functional currency at exchange rates prevailing at the transaction dates. Carrying values of foreign currency monetary assets and liabilities are translated at exchange rates in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at fair value, in which case, they are translated at the exchange rates in effect on the consolidated balance sheet dates.

On consolidation, the results of foreign operations are translated into Canadian dollars at rates approximating those in effect when the transactions took place. All assets and liabilities of operations in China are translated at the rate in effect at the reporting date. Exchange differences arising on translation are recognized in accumulated other comprehensive income.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

(d) Property and equipment:

On initial recognition, property and equipment is recorded at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company. Property and equipment is measured at cost, net of accumulated amortization and accumulated impairment losses, if any.

Assets under construction are shown in a separate category of property and equipment as construction in progress and are also recognized at cost. For qualifying assets, which are those assets that necessarily takes a substantial period of time to get ready for its intended use or sale, cost includes interest capitalized during the construction period. On completion, the costs of construction are transferred to the appropriate category of property and equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (components) of property and equipment.

The Company holds long-term leasehold prepayments, also described as land use rights, in China, which enables it to utilize land for a fixed period of time.

Amortization of property and equipment is recorded on a straight-line basis over their estimated useful lives as follows:

Buildings	30 - 35 years
Pipelines	30 - 35 years
Motor vehicles	3 - 10 years
Furniture and equipment	3 - 20 years
Long-term leasehold prepayments	Term of agreement
Leasehold improvements	Term of agreement

Assets classified as construction in progress are not amortized until they are ready for their intended use, at which point, they are transferred to property and equipment.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

(e) Intangible assets:

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. The Company has intangible assets with definite lives, which consist of gas purchase contract and software. Purchase contract are recorded at cost and are amortized on a straight-line basis over their contractual useful lives commencing from the initial delivery of gas. Software is recorded at cost and is amortized on a straight-line basis over a period of 10 years.

(f) Impairment of long-lived assets:

The Company reviews and evaluates its long-lived assets or asset groups held and used for impairment, including property and equipment and intangible assets, when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Asset groups referred to as cash-generating units ("CGU") are reviewed at the lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. The recoverable amount is the greater of an asset's or CGU's fair value less costs to sell and value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense.

Value in use is based on estimates of discounted future cash flows expected to be recovered from an asset or CGU through the use of those assets. Management develops its cash flow projections based on past performance and its expectations of future market and business developments. Once calculated, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized in the consolidated statements of comprehensive income when the carrying amount of the asset or CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of their assets on a pro rata basis.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

Impairment losses related to long-lived assets recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is recovered if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no previous impairment loss had been recognized.

(g) Financial instruments:

The Company's financial assets and financial liabilities are classified as held-for-trading, loans and receivables or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in the consolidated statements of comprehensive income in the periods in which such changes arise. Loans and receivables and other financial liabilities are initially recorded at fair value and subsequently measured at amortized cost.

Assets and liabilities carried at fair value must be classified using a three-level hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements:

- Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - one or more significant inputs used in a valuation technique to determine fair value are unobservable.

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset, with impairment losses recognized in the consolidated statements of comprehensive income.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

The Company designates its cash as held-for-trading, which is measured at fair value. Trade and other receivables and due from related parties are classified as loans and receivables, which are measured at amortized cost. Bank indebtedness, trade and other payables, due to related parties, interest payable and long-term debt are classified as other financial liabilities, which are measured at amortized cost, using the effective interest rate method.

Transaction costs are included in the initial measurement of financial assets and liabilities, except for those classified as fair value through income.

The Company's financial assets and liabilities are classified into the following categories:

	Year ended December 31, 2014
Cash	Held for trading
Trade and other receivables	Loans and receivables
Due from related parties	Loans and receivables
Bank indebtedness	Other financial liabilities
Trade and other payables	Other financial liabilities
Due to related parties	Other financial liabilities
Interest payable	Other financial liabilities
Long-term debt	Other financial liabilities

(h) Inventories:

Inventories are stated at the lower of cost and net realizable value, with cost being determined using the weighted average cost basis. Reversal of previous write-downs is required when there is a subsequent increase in the value of inventories.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

(i) Revenue recognition and deferred revenue:

Revenue is derived from the supply of natural gas and from the installation and connection of natural gas pipelines for end users.

The Company recognizes revenue from the supply of natural gas when it has been delivered and is recorded on the basis of regular meter readings and estimates of usage since the last meter reading to the end of the reporting year. The majority of revenue is recorded using fixed prices approved by the provincial government. Prepayments received from customers are deferred and recognized as a liability until gas is actually consumed.

Revenue from gas connection contracts is recognized on the percentage-of-completion method, measured by reference to the value of work carried out during the periods. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense immediately. Sales of gas appliances are recognized when goods are delivered and title has passed.

Interest income is recorded on an accrual basis.

(j) Income taxes:

Income tax expense comprises current and deferred taxes. Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute current income tax assets and liabilities are measured at tax rates that have been enacted or substantively enacted at the reporting dates, and are adjusted for changes in estimates of tax expense recognized in the prior year.

Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

Current and deferred taxes are recognized in net income, except to the extent that these relate to items recognized in other comprehensive income or directly in equity. In this case, the taxes are also recognized in other comprehensive income or directly in equity.

The Company uses the asset and liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The tax rates and tax laws used to compute deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. In addition, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in both net income and comprehensive income in the period in which the enactment or substantive enactment takes place.

Deferred tax assets are only recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right and intent to offset, and when the future tax balances relate to the same taxation authority.

(k) Finance income and finance costs:

Finance income comprises interest income on cash. Interest income is recognized as it accrues on the consolidated statements of comprehensive income, using the effective interest method.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

Finance cost comprises interest expense, which is recognized as it accrues on the consolidated statements of comprehensive income, using the effective interest method, and impairment losses recognized on financial assets, if any. Interest incurred on borrowings directly attributable to fund the acquisition, construction or production of qualifying assets is capitalized as part of the cost of the respective asset.

Borrowing costs that are not attributable to a qualifying asset are expensed in the periods in which they are incurred and reported within interest expense in the consolidated statements of comprehensive income.

(l) Share-based payments:

The Company applies the fair value method of accounting for stock-based compensation. The fair value at grant date of stock options is estimated using the Black-Scholes option pricing model. Compensation cost is recognized on a straight-line basis over the expected vesting period of the stock-based compensation. The Company estimates forfeitures at the grant date and revises the estimate as necessary if subsequent information indicates that actual forfeitures differ significantly from the original estimate.

(m) Government grants:

Government grants are recognized where there is reasonable assurance that the grant will be received and that the Company will comply with all necessary conditions to earn the grant. Where the grant relates to an asset, it is recognized as deferred income and recognized in net income in equal amounts over the expected useful life of the related asset. Where the grant relates to expenses or losses already incurred, it is recognized in the consolidated statements of comprehensive income in the period in which it becomes receivable.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

(n) Recent accounting pronouncements:

- (i) International Accounting Standard ("IAS") 32, Financial Instruments - Presentation ("IAS 32"):

The Company adopted the amendments to IAS 32, on a retrospective basis. The amendments to IAS 32 clarify when an entity has a legally enforceable right to offset as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The adoption of the revised standard did not have a material impact on the Company's consolidated financial statements.

- (ii) International Financial Reporting Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21"):

The Company adopted IFRIC 21. This IFRIC is applicable to all levies other than outflows that are within the scope of other standards and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payments, as identified by the relevant legislation occurs. The adoption of the new standard did not have a material impact on the Company's consolidated financial statements.

- (iii) IAS 36, Impairment of Non-Financial Assets:

The Company adopted the amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets. The amendments clarify existing guidance that was intended to require disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Further, the amendments require additional information about these fair value measurements, including the fair value hierarchy level, and for measurements categorized within Levels 2 and 3 of the fair value hierarchy, a description of the valuation techniques and key assumptions used by management in its determination of fair value less costs of disposal. The adoption of the new standard did not have a material impact on the Company's consolidated financial statements.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

(o) Accounting standard issued but not yet effective:

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are not yet effective for the year ended December 31, 2014, and have not been applied in preparing these consolidated financial statements.

(i) Revenue recognition:

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). The new standard provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

(ii) Financial Instruments - Recognition and Measurement:

In July 2014, the IASB issued IFRS 9, Financial Instruments replacing IAS 39, Financial Instruments - Recognition and Measurement. The standard had three main phases: classification and measurement, impairment and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with the exception of the general hedging phase which is applied prospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

(iii) Presentation of Financial Statements:

In December 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements ("IAS 1 amendments"). The IAS 1 amendments provide guidance on the application of judgment in the preparation of financial statements and disclosures. The IAS 1 amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company is currently assessing the impact of the IAS 1 amendments on its consolidated financial statements.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

3. Significant accounting policies (continued):

(iv) Accounting for Acquisitions of Interests in Joint Operations:

In May 2014, the IASB issued Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11). The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

(v) Clarification of Acceptable Methods of Depreciation and Amortization:

In May 2014, the IASB issued amendments to IAS 16, Property, Plant and Equipment ("IAS 16") and IAS 38, Intangible Assets ("IAS 38"). The Company intends to adopt the amendments to IAS 16 and IAS 38 in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

4. Significant accounting estimates and judgments:

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and judgments that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, income and expenses. Actual results may differ from those estimates.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

4. Significant accounting estimates and judgments (continued):

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the periods in which the estimates are revised and in any future periods affected. Information about significant areas of estimation and critical judgments in applying accounting policies that have significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

(a) Revenue recognition:

Revenue from natural gas sales is recognized when the gas is delivered to the customer. The Company determines the quantity of natural gas delivered through its readings of customer gas consumption meters, and estimates the quantity delivered at each period end where the date of the meter reading is prior to the period-end date.

Revenue from gas connection contracts is recognized using the percentage-of-completion method, measured by reference to the value of work carried out during the periods. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense in the period in which the expected loss is identified. Revenue recognition is dependent upon estimating the stages of completion and the outcome of the contract.

(b) Long-lived assets:

The Company's long-lived assets are amortized over their estimated useful economic lives on a straight-line basis. Useful lives are based upon management's estimates of the length of time that the assets will generate revenue, which is reviewed at least annually for appropriateness. Changes to these estimates can result in variations in the amounts charged for amortization and in the assets' carrying amounts.

The Company also exercised judgment in determining the accounting treatment of its long-lived assets in connection with its service concession arrangements.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

4. Significant accounting estimates and judgments (continued):

(c) Income taxes:

Provisions for income taxes are based on domestic and international statutory income tax rates and tax planning opportunities available to the Company in the jurisdictions in which it operates. Significant judgment is required in determining income tax provisions and the recoverability of deferred tax assets. The calculation of current and deferred income tax balances requires management to make estimates regarding the carrying values of assets and liabilities that include estimates of future cash flows and income related to such assets and liabilities, the interpretation of income tax legislation in the jurisdictions in which the Company operates, and the timing of reversal of temporary differences. The Company establishes additional provisions for income taxes when, despite management's opinion that tax positions are fully supportable, there is sufficient complexity or uncertainty in the application of legislation that certain tax positions may be reassessed by tax authorities. The Company adjusts these additional accruals in light of changing facts and circumstances.

(d) Share-based payments:

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the dates at which they are granted. Determining fair value for share-based payment transactions requires the use of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The determination of fair value requires estimating the expected life of the share option, volatility and dividend yield. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 13.

(e) Impairment:

The Company assesses intangible assets with indefinite lives for impairment annually or when an event or change in circumstances may indicate impairment. This assessment includes a comparison of the carrying value of the indefinite life intangible asset to its estimated fair value to ensure that the fair value is greater than the carrying value. The Company calculates the estimated fair value using valuation methods, such as discounted cash flow analysis. These valuation methods employ a variety of assumptions, including future revenue growth, expected earnings and earnings multiples. Estimating the fair value of an indefinite life intangible asset is a subjective process and requires the use of its best estimates. If its estimates or assumptions change from those used in its current valuation, Changfeng may be required to recognize impairment losses in future periods.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

4. Significant accounting estimates and judgments (continued):

The Company assesses the carrying value of long-lived assets, which include property and equipment and intangible assets subject to amortization, for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated future cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

5. Trade and other receivables:

Components of trade and other receivables are as follows:

	2014	2013
Trade receivables	\$ 5,426,026	\$ 4,244,579
Less allowance for doubtful accounts	82,530	20,360
Net trade receivables	5,343,496	4,224,219
Other receivables	717,304	72,755
	\$ 6,060,800	\$ 4,296,974

The aging of trade receivables is as follows:

	2014	2013
Current	\$ 3,722,348	\$ 2,864,543
Outstanding 31 - 60 days	214,691	106,146
Outstanding 61 - 90 days	33,254	3,708
Outstanding > 90 days	1,455,733	1,270,182
	\$ 5,426,026	\$ 4,244,579

The Company's exposure to credit and foreign exchange risks is disclosed in note 19.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

6. Inventories:

	2014	2013
Construction materials	\$ 350,797	\$ 407,623
Gas appliances, meters and spare parts	560,689	231,224
Natural gas	97,460	52,942
	<u>\$ 1,008,946</u>	<u>\$ 691,789</u>

The amount of inventories recognized as an expense through cost of sales during the year was \$20,106,612 (2013 - \$16,561,549). During the year, no inventory was written down to lower of cost and net realizable value (2013 - nil) and no reversals of any write down were recorded (2013 - nil).

7. Deposits and advances:

Deposits in connection with potential acquisitions and other long-term prepaid expenses and deposits are summarized below:

(a) Commitments for the transfer of land use rights:

- (i) In 2012, the Company completed construction of an administrative office in Sanya City. An advance of \$1,481,912 (RMB 7,928,901) (2013 - \$1,397,711 (RMB 7,955,101)) has been paid related to land use rights for 4,183 square metres of land.

In 2014, the Company made an additional payment of \$669,159 (RMB 3,580,306) and obtained the land use rights. This payment and the advance payment for a total amount of \$2,151,071 (RMB 11,509,207) has been recorded as an addition to long-term leasehold prepayments (note 9).

- (ii) On September 28, 2010, the Company signed a land lease agreement for the construction of its second CNG refuelling station in Changsha City, Hunan Province. The lease term is from the commencement of the construction to September 27, 2035. Upon signing the agreement, the Company paid a deposit of \$18,690 (RMB 100,000) (2013 - \$17,570 (RMB 100,000)), which is expected to be refunded when the agreement expires. The first year's rent of \$62,798 (RMB 336,000) is required to be paid upon commencement of construction. As at December 31, 2014, construction of the refuelling station had not commenced.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

7. Deposits and advances (continued):

(b) Deposits toward to the purchase of natural gas:

- (i) On April 14, 2011, the Company entered into a new four-year CNG supply agreement with its existing CNG gas supplier, which replaced its previous four-year CNG agreement into which it entered on April 7, 2010. As part of this new agreement, the Company agreed to purchase CNG for its operations in Sanya City up to a maximum of 5,000,000 cubic metres until 2015, with an annual volume of CNG to be adjusted based on the Company's annual demand forecast. As at December 31, 2014, \$224,280 (RMB 1,200,000) (2013 - \$210,840 (RMB 1,200,000)) was paid as a deposit that is expected to be repaid when the agreement expires.
- (ii) In 2006, the Company entered into a 10-year long-term natural gas supply agreement with CNOOC (Hainan) Limited ("CNOOC") related to its distribution operations in Sanya City, Hainan Province. Pursuant to the agreement, CNOOC is committed to supply up to 24,000,000 cubic metres of natural gas annually until 2015 with a fixed contractual price. Upon signing the agreement, the Company paid a deposit of \$52,332 (RMB 280,000) that is expected to be refunded when the agreement expires.

(c) Deposits toward the construction of pipelines:

In 2014, the Company paid deposits of \$728,307 (RMB 3,896,773) (2013 - nil) to contractors for the construction of pipelines under various projects in both Sanya City and Xiangdong district, Pingxiang City. These deposits will be reclassified to construction in progress once the related pipeline assets are constructed.

8. Investment in associate:

In October 2011, the Company, together with Xiangtan Economic and Zhuhai Hailian Investment Co., Ltd., a private investment company, established Shin-Ko Energy with a total registered capital of \$1,869,000 (RMB 10,000,000), of which the Company owns 50%. The objective of Shin-Ko Energy is to develop and invest in urban natural gas utilization, including building and operating an LNG storage facility in Xiangtan City, Hunan Province, China. As at December 31, 2011, the Company contributed its share of registered capital of \$373,800 (RMB 2,000,000), and the remaining balance of \$560,700 (RMB 3,000,000) is required to be contributed and has been recognized in current due to related parties.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

8. Investment in associate (continued):

The Company has determined that it has significant influence and has accounted for its investment in Shin-Ko Energy using the equity method. Shin-Ko Energy has net assets of \$1,745,860 (RMB 9,341,146) as at December 31, 2014, which comprises amounts owing from its joint venture partners, including \$794,147 (RMB 4,249,050) due from the Company (note 16(a)(ii)). Shin-Ko Energy losses for the year were \$16,818 (RMB 93,797) (2013 - \$2,580 (RMB 15,400)), of which the Company's share was \$8,409 (RMB 46,899) (2013 - \$1,290 (RMB 7,700)).

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

9. Property and equipment:

Cost	Buildings	Pipelines	Long-term leasehold prepayments	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress	Total
Balance, December 31, 2012	\$ 2,653,039	\$ 42,312,774	\$ 1,490,576	\$ 1,672,474	\$ 5,293,494	\$ 629,377	\$ 3,723,003	\$ 57,774,737
Additions	165,491	4,473,483	81,715	389,370	798,834	5,552	2,996,318	8,910,763
Foreign currency translation	265,802	4,251,289	148,635	167,562	530,344	63,056	373,703	5,800,391
Balance, December 31, 2013	3,084,332	51,037,546	1,720,926	2,229,406	6,622,672	697,985	7,093,024	72,485,891
Additions	1,548,029	2,443,102	2,151,071	397,221	1,068,233	–	(175,809)	7,431,847
Foreign currency translation	196,611	3,274,148	109,700	142,113	414,142	44,493	452,783	4,633,990
Balance, December 31, 2014	\$ 4,828,972	\$ 56,754,796	\$ 3,981,697	\$ 2,768,740	\$ 8,105,047	\$ 742,478	\$ 7,369,998	\$ 84,551,728

Accumulated amortization	Buildings	Pipelines	Long-term leasehold prepayments	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress	Total
Balance, December 31, 2012	\$ 87,863	\$ 8,935,229	\$ 358,346	\$ 734,781	\$ 1,349,273	\$ 61,748	\$ –	\$ 11,527,240
Amortization	122,714	1,389,066	56,144	224,182	637,286	50,414	–	2,479,806
Foreign currency translation	8,784	911,117	35,114	73,616	134,032	5,224	–	1,167,887
Balance, December 31, 2013	219,361	11,235,412	449,604	1,032,579	2,120,591	117,386	–	15,174,933
Amortization	107,568	1,735,337	44,738	310,737	651,911	54,139	–	2,904,430
Foreign currency translation	13,861	706,183	27,056	65,822	126,413	6,870	–	946,205
Balance, December 31, 2014	\$ 340,790	\$ 13,676,932	\$ 521,398	\$ 1,409,138	\$ 2,898,915	\$ 178,395	\$ –	\$ 19,025,568

Net book value	Buildings	Pipelines	Long-term leasehold prepayments	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress	Total
December 31, 2013	\$ 2,864,971	\$ 39,802,134	\$ 1,271,322	\$ 1,196,827	\$ 4,502,081	\$ 580,599	\$ 7,093,024	\$ 57,310,958
December 31, 2014	4,488,182	43,077,864	3,460,299	1,359,602	5,206,132	564,083	7,369,998	65,526,160

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

9. Property and equipment (continued):

Included in additions to property and equipment is capitalized interest of \$445,673 (RMB 2,384,554) (2013 - \$357,485 (RMB 2,034,632)) at a capitalized rate of approximately 7% (2013 - 7%).

10. Government grants:

In 2014, the Company received government grants of \$17,034 (RMB 95,000) (2013 - \$93,268 (RMB 530,834)) (2012 - \$811,276 (RMB 5,080,000)) to fund the construction of certain items of property and equipment for the Company's operation in Sanya City. These government grants were recognized as a long-term liability and will be recognized in net income over the expected useful lives of the related assets when the related assets are ready for use.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

11. Intangible assets:

	Gas purchase contract	Software	Total
Cost			
Balance, December 31, 2012	\$ 1,317,972	\$ 104,604	\$ 1,422,576
Additions	862,849	–	862,849
Foreign currency translation	124,306	10,480	134,786
Balance, December 31, 2013	2,305,127	115,084	2,420,211
Additions	–	37,220	37,220
Disposals	(28,035)	–	(28,035)
Foreign currency translation	146,942	7,336	154,278
Balance, December 31, 2014	\$ 2,424,034	\$ 159,640	\$ 2,583,674
Accumulated amortization			
Balance, December 31, 2012	\$ 50,191	\$ –	\$ 50,191
Amortization	20,080	11,508	31,588
Foreign currency translation	5,029	–	5,029
Balance, December 31, 2013	75,300	11,508	86,808
Amortization	1,046,809	19,590	1,066,399
Foreign currency translation	4,800	734	5,534
Balance, December 31, 2014	\$ 1,126,909	\$ 31,832	\$ 1,158,741
Net book value			
December 31, 2013	\$ 2,229,827	\$ 103,576	\$ 2,333,403
December 31, 2014	1,297,125	127,808	1,424,933

Gas and Electricity Exchange Program (the "Program"):

On February 22, 2012, the Company entered into the Program with the Local Power Bureau and China National Offshore Oil Yacheng Operation Co., Ltd., which will secure an additional annual supply of natural gas totalling approximately 5 million cubic meters until 2015. In exchange for this gas supply, the Company funded the building of infrastructure to link certain of the supplier's operations to the provincial power grid, although it does not own the constructed assets.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

11. Intangible assets (continued):

In connection with the Program, as at December 31, 2014, construction of approximately \$2,050,234 (RMB 10,969,682) (2013 - \$1,953,728 (RMB 11,119,683)) was completed by a local contractor. This amount had been recorded as an intangible asset on the consolidated balance sheets, on which amortization had begun in 2014 when the construction on the Program was completed and the exchanged gas was available to the Company.

12. Long-term debt and bank indebtedness:

(a) Long-term debt:

	2014	2013
Term loan facility - Bank of China (i)	\$ 14,952,000	\$ 15,813,000
Term loan facility - Bank of China (ii)	7,476,000	7,028,000
Term loan facility - Bank of China (iii)	3,177,300	3,514,000
	25,605,300	26,355,000
Less unamortized transaction costs	167,442	227,017
	25,437,858	26,127,983
Less current portion	3,364,200	2,284,100
	\$ 22,073,658	\$ 23,843,883

- (i) On January 5, 2010, the Company entered into a term loan with the Bank of China, Sanya Branch ("BOC, Sanya") for \$18,690,000 (RMB 100,000,000) (2013 - \$17,570,000 (RMB 100,000,000)), maturing in January 2019 and bearing interest at the prescribed lending rate of the People's Bank of China, which is reset every six months. It is secured by 60% of the interest in CF China held by HEL, and certain gas connection rights. During the year, the Company made payments in the amount of \$1,869,000 (RMB 10,000,000) (2013 - \$878,500 (RMB 5,000,000)) in accordance with the semi-annual repayment provisions of the term loan agreement. At December 31, 2014, \$14,952,000 (RMB 80,000,000) of the term loan is outstanding.

At December 31, 2014, the Company had unamortized transaction costs of \$167,442 (RMB 895,891) (2013 - \$227,017 (RMB 1,292,072)), which has been offset against term loan. The effective interest rate on the loan was 7.0% (2013 - 7.0%).

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

12. Long-term debt and bank indebtedness (continued):

- (ii) On January 15, 2013, the Company entered into an agreement with the BOC, Sanya to secure a bank loan facility in the amount of \$9,345,000 (RMB 50,000,000) (the "Term Loan"). The bank loan facility provides that the proceeds of the Term Loan will be used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City. It has a 10-year term from the date of the first initial withdrawal, and bears interest of 110% of the prime rate set by the People's Bank of China (the central bank of China). As at December 31, 2014, the Company has withdrawn \$7,476,000 (RMB 40,000,000) (2013 - \$7,028,000 (RMB 40,000,000)), which remains fully outstanding.
- (iii) On December 21, 2012, the Company entered into a term loan with the Bank of China, Pingxiang Branch for \$3,738,000 (RMB 20,000,000), maturing six years from the date of the first withdrawal, and bearing both fixed and variable interest at 120% of the prime rate of the People's Bank of China. The variable component of interest will be calculated initially on the date of withdrawal and will be reset every three months. This term loan is secured by the property and equipment of Pingxiang CF and guaranteed by CF China. The proceeds from this term loan will be used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang City, Jiangxi province. During the year, the Company made payments in the amount of \$560,700 (RMB 3,000,000) (2013 - nil). At December 31, 2014, \$3,177,300 (RMB 17,000,000) of the term loan is outstanding.

Long-term loan principal payments are as follows:

	RMB	Cdn. \$
2015	18,000,000	3,364,200
2016	19,000,000	3,551,100
2017	27,000,000	5,046,300
2018	27,000,000	5,046,300
2019	22,000,000	4,111,800
Thereafter	24,000,000	4,485,600
	<u>137,000,000</u>	<u>25,605,300</u>

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

12. Long-term debt and bank indebtedness (continued):

(b) Bank indebtedness:

Included in current liabilities is \$1,869,000 (RMB 10,000,000) (December 31, 2013 - \$1,757,000 (RMB 10,000,000)) relating to the Company's line of credit (the "Credit Line") with BOC, Sanya.

Also included in current liabilities is \$1,740,150 (RMB 9,310,594 (2013 - \$1,595,400 (RMB 9,080,250))) relating to a U.S. \$1,500,000 Term Loan from the Bank of China (Canada) pursuant to a Credit Facility Letter Agreement effective September 22, 2014. The Term Loan is secured by a Standby Letter of Credit provided by the Company and issued by the Bank of China Hainan Branch for the amount of RMB 10,000,000. The Term Loan has a one-year term from the date of the withdrawal and bears annual interest of 6-month LIBOR rate plus 250bps.

As at December 31, 2014, the Company was in compliance with all of its debt covenants.

(c) Interest payable:

Included in interest payable is nil (December 31, 2013 - \$882,401 (RMB 5,022,204)) in connection with the bank loans previously settled. The accrued interest was originally paid by Sanya State Assets Management Corporation to the bank on behalf of the Company. In the first six months of 2014, the Company has fully paid the balance.

13. Share capital:

(a) Authorized:

Unlimited common shares

(b) Issued common shares:

	Number of shares	Amount
Balance, December 31, 2013	64,639,200	\$ 11,630,789
Repurchased and cancelled	(1,540,000)	(598,782)
Balance, December 31, 2014	63,099,200	\$ 11,032,007

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Years ended December 31, 2014 and 2013

13. Share capital (continued):

Normal-course issuer bid:

On November 22, 2012, the Company received approval from the TSX-V to make a normal-course issuer bid (the "Bid") to periodically purchase, for cancellation, up to 3,000,000 common shares. The Bid commenced on November 27, 2012 and concluded on November 26, 2013. On November 21, 2013, the Company renewed the Bid and received approval from the TSX-V. Pursuant to the Bid, the Company proposed to purchase through the facilities of the Exchange, up to an aggregate of 3,000,000 common shares. The Bid commenced on November 26, 2013 and concluded on November 26, 2014.

The Bid was not renewed subsequent to November 26, 2014.

During 2014, the Company purchased 1,540,000 shares pursuant to the Bid for cash proceeds of \$598,782, inclusive of transaction costs.

(c) Contributed surplus and stock-based compensation:

(i) Contributed surplus:

Balance, January 1, 2013	\$ 2,042,890
Stock-based compensation	381,702
<hr/>	
Balance December 31, 2013	2,424,592
Stock-based compensation	271,788
<hr/>	
Balance, December 31, 2014	\$ 2,696,380

(ii) Stock-based compensation:

Under the Company's stock option plan (the "Plan"), the Company may grant stock options to directors, senior officers, employees and advisors, and is authorized to issue options equal to 10% of the issued and outstanding shares of the Company. The Board of Directors, or such other persons designated by the board, administers the Plan and determines the vesting and terms of each award.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

13. Share capital (continued):

A summary of the Company's options granted and exercised is presented below:

	Options outstanding	Weighted average exercise price
Balance, January 1, 2013	6,250,000	\$ 0.47
Granted	3,400,000	0.35
Expired	(3,000,000)	0.60
Forfeited	(150,000)	0.60
Exercised	(200,000)	0.23
Balance, December 31, 2013	6,300,000	0.34
Granted	—	—
Expired	—	—
Forfeited	—	—
Exercised	—	—
Balance, December 31, 2014	6,300,000	0.34

The following table summarizes information about the options outstanding and exercisable at December 31, 2014:

Number outstanding and exercisable	Remaining contractual life (in years)	Exercise price	Expiry date
800,000	0.40	\$ 0.60	2015
900,000	1.69	0.23	2016
1,200,000	2.53	0.24	2017
3,400,000	3.65	0.35	2018
6,300,000	2.07		

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Notes to Consolidated Financial Statements (continued)
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13. Share capital (continued):

On August 26, 2013, the Company granted 3,400,000 options at an exercise price of \$0.35 per share for a period of five years to officers, directors and employees of the Company. The fair value of these options at the grant date was \$0.21. Assumptions used to determine the value of the options using the Black-Scholes model were: dividend yield 0%; risk-free interest rate 1.45%; expected volatility 75%; and expected life of five years. The Company's share price at the grant date was \$0.35. 1,233,333 options were vested immediately while the remaining options will vest equally on the next two anniversaries of the date of grant provided certain Company performance milestones are achieved.

For the year ended December 31, 2014, \$271,788 (2013 - \$381,702) of stock-based compensation expense was recorded.

On May 27, 2015, 800,000 options expired.

(d) Statutory surplus reserves:

Statutory surplus reserves represent the statutory reserve fund set up by the subsidiaries in 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 reserve fund, and the statutory reserve fund may be used for making up losses, if any, and increasing capital.

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Notes to Consolidated Financial Statements (continued)
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14. Earnings per share ("EPS"):

Basic EPS amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of shares outstanding during the year. Diluted EPS amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of shares issued during the year, adjusted for the effect of potentially dilutive stock options.

The following table sets forth the calculation of basic and diluted EPS:

	2014			2013		
	Net income attributable to common shareholders	Weighted average number of shares	EPS	Net income attributable to common shareholders	Weighted average number of shares	EPS
						(Recasted - note 23)
Basic	\$ 3,783,896	63,454,989	0.06	\$ 2,482,981	65,196,489	0.04
Diluted	3,783,896	64,363,343	0.06	2,482,981	65,815,336	0.04

15. Income taxes:

The provision for income taxes differs from the amount that would have resulted by applying the combined Canadian federal and Ontario statutory income tax rate of approximately 26.5% (2013 - 26.5%) as follows:

	2014	2013
Income before income taxes	\$ 8,018,055	\$ 5,407,785
Expected income tax provision based on statutory rate	\$ 2,124,785	\$ 1,433,063
Non-deductible expenditures and other permanent differences	742,135	667,149
Foreign tax rate differential	(154,807)	(108,254)
Change in tax benefits not recognized	979,645	551,443
Withholding tax	229,300	—
Other	54,494	50,263
	\$ 3,975,552	\$ 2,593,664

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

15. Income taxes (continued):

Components of income taxes:

The details of the Company's income taxes are as follows:

	2014	2013
Current income taxes	\$ 3,362,257	\$ 2,295,056
Deferred income taxes:		
Origination and reversal of timing differences	613,295	298,608
	<u>\$ 3,975,552</u>	<u>\$ 2,593,664</u>

Recognized deferred tax assets and liabilities:

The following table summarizes the components of deferred tax assets and liabilities:

	2014	2013
Property and equipment	\$ (1,178,729)	\$ (679,861)
Trade and other receivables	(205,642)	(160,626)
Trade and other payables	184,257	203,669
Accrued withholding tax	(50,000)	–
	<u>\$ (1,250,114)</u>	<u>\$ (636,818)</u>

Unrecognized deferred tax assets and liabilities:

The aggregate amount of taxable temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognized as at December 31, 2014, is \$22.883 million (2013 - \$16.559 million).

Deferred tax assets have not been recognized in respect of the following items:

	2014	2013
Loss carryforwards	\$ 3,489,047	\$ 2,462,520
Deductible temporary differences	77,907	124,789

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Notes to Consolidated Financial Statements (continued)
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15. Income taxes (continued):

The tax losses not recognized expire as per the amount and years noted below.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

Income tax attributes not recognized:

As at December 31, 2014, the Company had the following approximate income tax attributes to carry forward:

	Amount	Expiry date
Non-capital losses, Canada	\$ 8,173,000	2015 - 2034
Non-capital losses, China	5,167,000	2015 - 2019
Capital losses, Canada	119,000	Indefinite

16. Related party disclosures:

(a) Related party transactions:

(i) As at December 31, 2014, the Company had outstanding loan of nil (2013 - \$351,400 (RMB 2,000,000)) due from the minority shareholder of Hunan CF CNPC, which used the funds to contribute the capital it owed to that subsidiary. As at December 31, 2014, the loan has been fully repaid by the minority shareholder.

(ii) Shin-Ko Energy:

Included in current due to related parties as at December 31, 2014, as described in note 8, is a required capital contribution of \$560,700 (RMB 3,000,000 (2013 - \$527,100 (RMB 3,000,000))) to be made to Shin-Ko Energy. Also included in current due to related parties, as at December 31, 2014, was \$233,447 (RMB 1,249,050) (2013 - \$224,378 (RMB 1,277,050)) relating to a loan made to the Company by Shin-Ko Energy. The loan is interest-free and is not secured. It is payable on demand.

CHANGFENG ENERGY INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

16. Related party disclosures (continued):

(b) Significant minority shareholders:

Name	Country of incorporation and relationship
Xiangtan Changjiang New Energy Investment Co., Ltd.	China, minority shareholder of Xiangtan CF
Xiangtan Economic Construction and Development Investment Co., Ltd.	China, minority shareholder of Xiangtan CF and Shin-Ko Energy
Zhuhai Hailian Investment Co., Ltd.	China, minority shareholder of Shin-Ko Energy
Cui JianXin	China, minority shareholder of Hunan CNPC NEI
Zhou Du	China, minority shareholder of Hunan CF CNPC

(c) Transactions with key management personnel:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and/or its subsidiaries, directly or indirectly, including any external director of the Company and/or its subsidiaries. Key management personnel include: the Chief Executive Officer, the Chief Financial Officer, the Vice President and the Company's directors.

Remuneration of key management of the Company comprised the following expenses:

	2014	2013
Short-term employee benefits	\$ 476,084	\$ 418,366
Share-based benefits	167,869	185,238
Termination benefits	–	20,000
Total remuneration	\$ 643,953	\$ 623,604

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Notes to Consolidated Financial Statements (continued)
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16. Related party disclosures (continued):

- (i) In 2007, a significant shareholder, who is also an officer and director of the Company, advanced loans in the aggregate amount of \$7,476,000 (RMB 40,000,000) (December 31, 2013 - \$7,028,000 (RMB 40,000,000)) to the Company, through wholly owned corporations, in accordance with a Subordination and Forbearance Agreement dated April 27, 2007, Consignment Loan Agreements dated May 23, 2007 and June 26, 2007, and other ancillary documentation. These loans are unsecured, non-interest bearing, are subordinated to the claims of all other creditors, including unsecured creditors of the Company and were due on demand only after April 27, 2010. Pursuant to the Subordination and Forbearance Agreement, the lenders agreed to take no steps to demand or recover payment under the loans for a period of three years, and to enter into an agreement with the Company with the same terms and conditions as the Subordination and Forbearance Agreement every three years in perpetuity.

On April 27, 2010, these loans were renewed for another three years with the same terms and conditions. On April 27, 2013, these loans were renewed for another two years with the same terms and conditions. On April 27, 2015, these loans were renewed for another year with the same terms and conditions.

- (ii) As at December 31, 2014, the Company owed an officer and director of the Company \$449,483 (2013 - \$621,171) for unpaid salary.
- (iii) As at December 31, 2014, the Company owed certain directors \$71,009 (2013 - \$72,673) for unpaid director's fees.
- (iv) As at December 31, 2014, the Company owed a minority shareholder of the Company \$54,631 (RMB 292,301 (2013 - nil)) for unpaid dividend.

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

17. Commitments and contingencies:

- (a) The Company has operating lease commitments and contractual obligations as follows, except for those reported in note 7:

	RMB	Cdn. \$
2015	829,500	155,034
2016	833,613	155,802
2017	854,175	159,645
2018	854,175	159,645
2019	854,175	159,645
Thereafter	12,517,123	2,339,450
	16,742,761	3,129,221

- (b) The Company has capital commitments for the purchase of property and equipment contracted for but not provided in the consolidated financial statements amounting to \$3,083,850 (RMB 16,500,000) (2013 - \$4,466,910 (RMB 23,900,000)).

18. Capital management:

The Company considers its capital structure to consist of share capital, contributed surplus, retained earnings and long-term debt. The Company's objectives are to maintain an effective structure that supports its ability to explore strategic business development opportunities on mainland China along the PetroChina's Second West-East Pipeline and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk level. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company. The Board of Directors 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 Company's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and through the Credit Line. Gas supply revenue, gas connection revenue, available cash balances, draws on the Credit Line and long-term bank loans are the Company's principal sources of capital used to pay for operating expenses and capital expenditures in its business.

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

18. Capital management (continued):

The Company reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of its operations, is reasonable. The Company monitors its compliance with all of its capital requirements, including certain non-financial covenants relating to the Credit Line. As at December 31, 2014, the Company was in compliance with all of its covenants.

There were no changes in the Company's approach to capital management during the years ended December 31, 2014 and 2013. The Company has not paid dividends to date.

19. Financial instruments and risk management:

(a) Fair values:

These estimates are subjective in nature and involve uncertainties in significant matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

As at December 31, 2014, the fair value of trade and other receivables, bank indebtedness, trade and other payables and interest payable on the consolidated balance sheets approximate carrying value because of the limited term of these instruments.

As at December 31, 2014, the fair value of long-term debt was \$25,605,300 (RMB 137,000,000), as compared to its carrying value of \$25,437,858 (RMB 136,104,109) on the consolidated balance sheets.

The carrying values of the Company's due to and due from related parties balances approximate fair values. The Company's financial instruments that are carried at fair value, consisting of cash, have been classified as Level 1 within the fair value hierarchy.

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

19. Financial instruments and risk management (continued):

(b) Financial risk factors:

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(i) Foreign exchange risk:

Foreign exchange risk is the risk that fluctuations in foreign exchange rates will affect the Company's income or value of or cash flow related to its financial instruments. The Company is exposed to currency risk as substantially all of the assets, liabilities and operations are denominated in RMB. The appreciation or devaluation of RMB against the Canadian dollar may have a positive or negative impact on the results of operations of the Company. At December 31, 2014, substantially all of the Company's cash and all of its debt, as described in note 12, were denominated in a foreign currency.

The Company and its subsidiaries do not use derivative instruments to reduce their exposure to foreign currency risk.

As at December 31, 2014, with other variables unchanged, a +/-1% change in the U.S. dollar to Canadian dollar exchange rate would have an insignificant impact to net income for the year, and a +/-1% change in the exchange rate of RMB would increase/decrease the cumulative translation adjustment by approximately \$240,000.

(ii) Commodity price risk:

The Company is exposed to price risk related to natural gas, which is a commodity. The Company uses fixed-price contracts with suppliers to manage its exposure to price fluctuations, where possible; however, to meet its obligations to customers, the Company may be required to purchase natural gas at spot prices, which may result in unfavourable variances recorded through the consolidated statements of comprehensive income.

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Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Years ended December 31, 2014 and 2013

19. Financial instruments and risk management (continued):

(iii) Interest rate risk:

Interest rate risk is the risk that changes in interest rates will affect the Company's income or value of or cash flows related to its financial instruments. The Company is exposed to interest rate risk arising from its long-term debt and bank indebtedness.

The Company's interest rate on its debt and indebtedness is based upon the prescribed rate of the People's Bank of China (6.55% at December 31, 2014 and 6.55% at December 31, 2013), which is subject to fluctuation, and may result in an increase or decrease in interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

A 1% increase or decrease in the average interest rate charged on the Bank of China term loan described in note 12 for the year ended December 31, 2014 would have had the following impact on the Company's net income:

	Impact on net income
Interest rate +1%	\$ (256,053)
Interest rate -1%	256,053

(iv) Credit risk:

Credit risk arises from exposure to customers, including outstanding trade receivables. Historically, the Company has not had collection issues associated with its receivables and the aging of receivables is reviewed on a regular basis to ensure the timely collection of amounts owing to the Company. As a result, the Company's allowance for doubtful accounts, which represents its estimate of uncollectible amounts, is minimal. The Company reviews accounts for specific risks to ensure the balance is reasonable. As at December 31, 2014, the Company had recorded an allowance for doubtful accounts of \$82,530 (2013 - \$20,360).

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

19. Financial instruments and risk management (continued):

The Company manages its credit risk by entering into purchase and connection agreements with creditworthy parties and through regular review of trade receivables. Management believes concentrations of credit risk with respect to trade and other receivables is limited given the large number of customers; no one customer comprised greater than 10% of total trade receivables balances at December 31, 2014. Payments are usually required in advance for gas purchases and connection services.

(v) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk by managing its capital requirements through forecasting cash flows and monitoring covenant levels. The Company has also maintained continuous efforts to access intermediate or long-term bank financing on competitive terms.

As at December 31, 2014, the Company had a working capital deficiency of \$11,712,528 (2013 - \$9,465,475). The Company had a cash balance of \$12,119,980 (2013 - \$15,151,430) to settle current liabilities of \$31,851,066 (2013 - \$30,602,759). The Company believes that this deficiency can be funded through projected operating cash flows from operations and through securing additional financing from third-party financial institutions. There are certain assumptions made by management in determining projected operating cash flow, such as temporary natural gas contracts from the Government of China and continued growth in its operations.

As at December 31, 2014, the Company held foreign currency cash of RMB 64,442,266 (2013 - RMB 78,020,620) and U.S. \$16,697 (2013 - \$1,256,367).

While management believes that the assumptions included in its operating forecast are reasonable, there is no guarantee that they will materialize as planned. The Company may not be successful in obtaining additional financing on acceptable terms, on a timely basis, or at all, and projected operating cash flows may not materialize as planned.

As at December 31, 2014, the carrying amounts for cash, trade and other receivables, trade and other payables and interest payable on the consolidated balance sheets approximate fair values because of the limited term to maturity of these financial instruments.

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

19. Financial instruments and risk management (continued):

The contractual maturities of the Company's long-term financial liabilities are described in note 12 and the remaining financial liabilities, consisting of trade and other payables, interest payable and deferred revenue, are expected to be realized within one year.

20. Economic dependence:

One gas field supplies the majority of the Company's natural gas in Sanya City. Interruption of this supply could materially affect the Company's ability to operate. Currently, the Company has a contract to purchase up to 24,000,000 cubic metres of gas per year until December 31, 2015. This represents less than 1% of the field's total capacity from this supplier.

21. Seasonality of operations:

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

22. Segmented reporting:

The Company has two reportable segments: gas distribution utilities (the "utility") and CNG refuelling station. The utility provides gas pipeline connection services and delivers natural gas to commercial, industrial and residential customers through its pipeline networks and associated facilities. The Company's other segment is a CNG refuelling retail station, which is used primarily to supply gas for taxicabs and public transportation vehicles. The performance of each segment is measured by income from operations.

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Years ended December 31, 2014 and 2013

22. Segmented reporting (continued):

There were no significant intercompany transactions between segments. No single customer accounted for more than 10% of the Company's sales or trade and other receivables in 2014 and 2013. Summarized financial information concerning the reportable segments is shown in the following tables:

2014	Gas distribution utility	CNG refuelling station	Consolidated
Revenue	\$ 44,299,263	\$ 8,828,929	\$ 53,128,192
Cost of sales	22,116,234	7,015,672	29,131,906
	22,183,029	1,813,257	23,996,286
Expenses:			
General and administrative	9,673,230	945,756	10,618,986
Travel and business development	3,559,089	72,863	3,631,952
Stock-based compensation	226,622	45,166	271,788
	13,458,941	1,063,785	14,522,726
Income from operations	\$ 8,724,088	\$ 749,472	\$ 9,473,560
Acquisition of property and equipment	\$ (5,684,447)	\$ (36,375)	\$ (5,720,822)
Acquisition of intangible assets	(8,812)	–	(8,812)
Investment in associate	872,930	–	872,930
Total assets, December 31, 2014	\$ 84,284,662	\$ 4,701,508	\$ 88,986,170

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

22. Segmented reporting (continued):

2013	Gas distribution utility	CNG refuelling station	Consolidated
Revenue	\$ 34,187,285	\$ 7,861,756	\$ 42,049,041
Cost of sales	16,138,232	5,913,106	22,051,338
	18,049,053	1,948,650	19,997,703
Expenses:			
General and administrative	8,513,497	754,822	9,268,319
Travel and business development	3,261,596	75,487	3,337,083
Stock-based compensation	310,336	71,366	381,702
	12,085,429	901,675	12,987,104
Income from operations	\$ 5,963,624	\$ 1,046,975	\$ 7,010,599
Acquisition of property and equipment	\$ (8,341,481)	\$ (87,825)	\$ (8,429,306)
Acquisition of intangible assets	(822,581)	-	(822,581)
Investment in associate	828,860	-	828,860
Total assets, December 31, 2013	\$ 79,942,756	\$ 3,694,466	\$ 83,637,222

Geographic information:

The Company's revenue is wholly generated from China and the majority of its assets are located in China. For the years ended December 31, 2014 and 2013, there is no significant individual customer from which sales amounted to more than 10% of the Company's revenue.

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23. Recast of comparative financial information:

Management determined through a review of an agreement in place with one of its minority shareholders that certain income should be attributable to non-controlling interest. The comparative financial information has been recasted to correct an error identified by management on the 2013 net income attributable to non-controlling interest.

- (a) The financial statement impact of the change in accounting as at January 1, 2013, which has been derived from the consolidated financial statements as at and for the year ended December 31, 2012, is as follows:

Consolidated balance sheet as at January 1, 2013:

	As previously reported	Adjustments	As recasted
Statutory surplus reserve	\$ 987,950	\$ (17,631)	\$ 970,319
Deficit	(304,256)	(122,129)	(426,385)
Non-controlling interest	627,953	139,760	767,713

Consolidated statement of comprehensive income for year ended December 31, 2013:

	As previously reported	Adjustments	As recasted
Net income (loss) attributable to:			
Owners of the Company	\$ 2,936,693	\$ (453,712)	\$ 2,482,981
Non-controlling interest	(122,572)	453,712	331,140
	\$ 2,814,121	\$ –	\$ 2,814,121
Total comprehensive income (loss) attributable to:			
Owners of the Company	\$ 4,703,846	\$ (453,712)	\$ 4,250,134
Non-controlling interest	(122,572)	453,712	331,140
	\$ 4,581,274	\$ –	\$ 4,581,274

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2014 and 2013

23. Recast of comparative financial information (continued):

Consolidated balance sheet and statement of changes in equity as at December 31, 2013:

	As previously reported	Adjustments	As recasted
Statutory surplus reserve	\$ 1,612,089	\$ (85,396)	\$ 1,526,693
Retained earnings (deficit)	2,008,298	(508,076)	1,500,222
Non-controlling interest	505,381	593,472	1,098,853

- (b) In addition, basic and diluted earnings per share attributable to common shareholders decreased by \$0.007 (from \$0.045 to \$0.038) for the year ended December 31, 2013. The impact based on the current year presentation of showing earnings per share to the nearest cent is a decrease from \$0.05 to \$0.04 per share.