Changfeng Energy Inc.

Management's Discussion and Analysis
For The Three - and Nine - Months
Ended September 30, 2014

Dated November 12, 2014

Advisory

The Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to assess material changes in financial condition and results of operations of Changfeng Energy Inc. ("Changfeng" or the "Company") for the three and nine months ended September 30, 2014. This information should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the three and nine months ended September 30, 2014 and the audited consolidated financial statements and related notes and the MD&A for the year ended December 31, 2013. "Changfeng" includes Changfeng Energy Inc. and its subsidiaries, unless otherwise indicated. Additional information related to Changfeng is available on SEDAR at www.sedar.com or on its website at www.changfengenergy.com.

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

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

Unless otherwise noted, the Company's contractual obligations, commitments, and business risks and uncertainties, as described in its MD&A for the year ended December 31, 2013, are substantially unchanged.

Amounts are stated in Canadian dollars unless otherwise indicated.

Caution Regarding Forward-Looking Information

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

Overview

Changfeng is a Canadian public company currently trading on the TSX Venture Exchange ("TSX-V") under the stock symbol "CFY". Changfeng is a natural gas distribution company (or natural gas utility) in the People's Republic of China ("the PRC or China") with operations throughout southern China.

Currently the Company has three projects in operation, two of them are city piped natural gas distribution projects, and one is a compressed natural gas ("CNG") vehicle refueling station. Changfeng has a 30 year concession right to operate the gas distribution business in Sanya City, Hainan Province, and a 50 year operating right for its gas distribution business in the Xiangdong District, Pingxiang City, Jiangxi Province. Its customer base and exclusive operation provide recurring revenue and operating cash flows to the Company and allow the Company to pursue future expansion of its operations.

Since 2008 Changfeng has been actively exploring emerging market opportunities in mainland China which resulted from the construction of PetroChina's Second West-East Pipeline ("WEP II"). Today, Changfeng has grown through the responsible development and reliable operation of natural gas distribution pipelines and associated facilities in China. Highlights include:

- **In Sanya City, Hainan Province, China**
  - 30-year exclusive concession rights (2007-2037) in Sanya City with wholly-owned gas distribution pipeline networks and associated facilities;
  - Secured gas supply through its annual gas quota of 24 million cubic meters (m^3) (848 million cubic feet (ft^3)) until 2015 at a favorable price;
  - Serving more than 128,757 residential and 761 commercial/industrial customers (primarily hotels and restaurants);
  - Serving 7 hotels in Haitang Bay area, Sanya City.

- **In Xiangdong District, Pingxiang City, Jiangxi Province, China (Xiangdong Project)**
  - 50-year exclusive operation rights (2010-2060) in the administrative region of Xiangdong District, including the Pingxiang Industrial Ceramic Production Park (the "Park");
  - Secured gas supply through approval of a two-year gas quota: 50 million m3 (1,765 million ft3) each for 2014 and 2015;
  - Commenced the sale of natural gas to five ceramics manufacturers in the Park;
  - Completed the installation of the main and service pipeline connecting to a gated community.

- **In Changsha City, Hunan Province, China**
  - Continuing to grow its customer base.

The Company's primary goal is to become one of the predominant natural gas service providers in Southern China. In pursuit of this goal, Changfeng continually strives to advance effective execution of its growth strategy by exploring strategic business development opportunities in mainland China along WEP II. The Company believes that its ongoing projects will add value, generate revenues and leverage its strength to create long-term sustainable value for its shareholders and clients.

Selected Quarterly Financial Information

The following table provides selected financial information for the three and nine months ended September 30, 2014 and 2013:

In thousands of Canadian dollars	Three month ended September 30,				Nine month ended September 30,			
except percentages and per share amounts	2014	2013	Change	%	2014	2013	Change	%
Revenue	12,094	10,240	1,854	18%	36,250	29,053	7,197	25%
Gross margin	**5,580**	**4,867**	713	15%	**18,108**	**14,768**	3,340	23%
% of revenue	**46.1%**	**47.5%**	-1.4%		**50.0%**	**50.8%**	-0.9%	
General and administrative	2,872	2,276	596	26%	8,021	6,533	1,488	23%
% of revenue	23.7%	22.2%	1.5%		22.1%	22.5%	-0.4%	
Travel and business development	735	745	(10)	-1%	2,622	2,423	199	8%
% of revenue	6.1%	7.3%	-1.2%		7.2%	8.3%	-1.1%	
Stock based compensation	87	294	(207)	-70%	262	294	(32)	-11%
% of revenue	0.7%	2.9%	-2.1%		0.7%	1.0%	-0.3%	
Total expenses	**3,695**	**3,315**	380	11%	**10,905**	**9,250**	1,655	18%
% of revenue	**30.5%**	**32.4%**	-1.8%		**30.1%**	**31.8%**	-1.8%	
Income before interest, equity loss and income taxes	**1,886**	**1,552**	334	21%	**7,204**	**5,517**	1,687	31%
% of revenue	**15.6%**	**15.2%**	0.4%		**19.9%**	**19.0%**	0.9%	
Interest on long term debt	458	443	15	3%	1,397	1,322	75	6%
% of revenue	3.8%	4.3%	-0.5%		3.9%	4.6%	-0.7%	
Interest (income) expense	(17)	(22)	5	-23%	(37)	(40)	3	-8%
% of revenue	-0.1%	-0.2%	0.1%		-0.1%	-0.1%	0.0%	
Share of loss of investment in associate	-	-	-		8	1	7	700%
Income before income taxes	**1,444**	**1,131**	313	28%	**5,835**	**4,235**	1,600	38%
% of revenue	**11.9%**	**11.0%**	0.9%		**16.1%**	**14.6%**	1.5%	
Income tax	748	560	188	34%	2,602	1,767	835	47%
% of revenue	6.2%	5.5%	0.7%		7.2%	6.1%	1.1%	
Net income	**696**	**571**	125	22%	**3,233**	**2,468**	765	31%
% of revenue	5.8%	5.6%	0.2%		8.9%	8.5%	0.4%	
EBITDA (1)	**2,877**	**2,450**	427	17%	**10,281**	**7,555**	2,726	36%
% of revenue	**23.8%**	**23.9%**	-0.1%		**28.4%**	**26.0%**	2.4%	
Non-controlling interest	(22)	(21)	(1)	5%	(82)	(73)	(9)	12%
Basic EPS	0.011	0.009	0.002	22%	0.052	0.039	0.013	33%
Diluted EPS	0.011	0.009	0.002	22%	0.051	0.039	0.012	31%
Weighted average number of common shares outstanding - Basic	63,099	65,216	(2,117)	-3%	63,618	65,338	(1,720)	-3%
Weighted average number of common shares outstanding - Diluted	63,954	65,832	(1,878)	-3%	64,603	65,944	(1,341)	-2%

Note: (1) EBITDA is identified and defined under the section "Non-IFRS Financial Measures".

Results of Operations

Revenue

Revenue for the three months ended September 30, 2014 was $ 12.1 million, representing an increase of $1.9 million, or 18%, from $10.2 million for the same period of 2013. Revenue for the nine months ended September 30, 2014 was $ 36.3 million, representing an increase of $7.2 million, or 25%, from $29.1 million for the same period of 2013. This increase is mainly attributable to more revenue recognized from the connection fees, appreciation of exchange rate between the Chinese RMB and the Canadian dollar, and continued gas volume growth.

The table below illustrates the customers connected during the three-month and nine months periods ended September 30, 2014 and 2013, and presents the volume of natural gas sold in the Sanya Region, in the Xiangdong operation, as well as the volume of gas sold from the CNG refueling retail station in Changsha City for these periods.

	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Change	2014	2013	Change
1. Gas Distribution Utilities Segment						
1.1. Sanya Operation						
Residential customers						
Customers connected during the period	5,023	1,000	4,023	10,092	8,813	1,279
Total customers at the end of the period	128,757	107,982	20,775	128,757	107,982	20,775
Gas volume sold (m^3) during the period	1,350,000	1,120,000	230,000	5,430,000	5,280,000	150,000
Commercial customers						
Customers connected during the period	26	4	22	39	24	15
Total customers at the end of period	761	707	54	761	707	54
Gas volume sold (m^3) during the period	5,810,000	5,690,000	120,000	19,970,000	19,420,000	550,000
Sub-total gas volume sold (m^3) during the period	**7,160,000**	**6,810,000**	**350,000**	**25,400,000**	**24,700,000**	**700,000**
Sub-total sales revenue in RMB (connection fee included)	**54,268,366**	**46,839,719**	**7,428,647**	**164,661,557**	**138,192,706**	**26,468,852**
Sub-total sales revenue in C$ (connection fee included)	**9,588,478**	**7,939,829**	**1,648,649**	**29,227,426**	**22,939,989**	**6,287,437**
1.2. Xiangdong Operation						
Residential customers						
Customers connected during the period	293	5	288	455	5	450
Total customers at the end of the period	720	5	715	720	5	715
Gas volume sold (m^3) during the period	13,945	260	13,685	35,097	260	34,837
Industrial customers						
Industrial customers connected during the period	-	-	-	-	4	(4)
Industrial customers at the end of the period	5	4	1	5	4	1
Gas volume sold (m^3) during the period	207,011	481,200	(274,189)	704,436	621,400	83,036
Sub-total gas volume sold (m^3) during the period	**220,956**	**481,460**	**(260,504)**	**739,533**	**621,660**	**117,873**
Sub-total sales revenue in RMB (connection fee included)	**1,108,557**	**1,616,744**	**(508,187)**	**3,260,182**	**2,270,731**	**989,451**
Sub-total sales revenue in C$ (connection fee included)	**195,908**	**269,557**	**(73,649)**	**578,682**	**376,941**	**201,741**
Sub-total gas volume sold (m^3) during the period (Gas distribution utilities)	**7,380,956**	**7,291,460**	**89,496**	**26,139,533**	**25,321,660**	**817,873**
Sub-total gas sales revenue in RMB (Gas distribution utilities)	**55,376,923**	**48,456,463**	**6,920,460**	**167,921,740**	**140,463,437**	**27,458,303**
Sub-total gas sales revenue in C$ (Gas distribution utilities)	**9,784,386**	**8,209,385**	**1,575,001**	**29,806,109**	**23,316,930**	**6,489,179**
2. CNG Refueling Station Segment						
2.1. Changsha's CNG refueling retail station						
Sub-total CNG volume sold (m^3) during the period	**3,487,586**	**3,598,440**	**(110,854)**	**9,939,304**	**9,678,382**	**260,922**
Sub-total CNG sales revenue in RMB	**13,065,162**	**11,988,114**	**1,077,048**	**36,301,211**	**34,554,029**	**1,747,182**
Sub-total CNG sales revenue in C$	**2,309,772**	**2,030,646**	**279,126**	**6,443,465**	**5,735,969**	**707,496**
Total gas volume sold (m^3) during the period	**10,868,542**	**10,889,900**	**(21,358)**	**36,078,837**	**35,000,042**	**1,078,795**
Total sales revenue in RMB (connection fee included)	**68,442,085**	**60,444,577**	**7,997,508**	**204,222,951**	**175,017,466**	**29,205,485**
Total sales revenue in C$ (connection fee included)	**12,094,158**	**10,240,031**	**1,854,127**	**36,249,574**	**29,052,899**	**7,196,674**

Gas distribution utilities

Sales from the gas distribution utilities for the three months ended September 30, 2014 were $9.8 million, an increase of $1.6 million, or 19%, from $8.2 million for same period of 2013. Sales from the gas distribution utilities for the nine months ended September 30, 2014 were $29.8 million, an increase of $6.5 million, or 28%, from $23.3 million for same period of 2013. This increase was attributable to the following:

- the 6.9% appreciation of the Chinese RMB against the Canadian dollar;
- an increase in connection fees in the Sanya operation; and
- increased gas volume sold of 25.4 million m^3 in the Sanya operation in the first nine months of 2014 compared to 24.7 million m^3 sold in Sanya operation in the same period of 2013 (of which 7.2 million m^3 was sold in the third quarter of 2014, compared to 6.8 million m^3 sold in the third quarter of 2013).

The Company's non-residential customers include both commercial and industrial customers, mainly comprised of the hotels, resorts and restaurants in Sanya City. Currently, approximately 81% of the total annual volume of gas in Sanya City is sold to these non-residential customers. Sanya municipal government's approval of the sales price increase related to the implementation of the long-term Budget Process (the "Budget Process"), which was implemented as part of the solution to address the ongoing gas deficit issue in the Sanya region. The Budget Process is intended to provide (a) an annual subsidy for the loss, if any, on the gas sales to its residential customers; and (b) periodic sales price adjustments for its commercial customers enabling the sales prices to reflect the interaction between supply and demand; however, there is no guarantee that the Budget Process will be successfully implemented by the government in the future.

The Company commenced the sale of natural gas to five industrial customers in the Xiangdong region and completed the installation of the main and service pipeline connecting to a gated community and started to sell natural gas to residential customers in the gated community in the downtown area of Xiangdong region. The Company is expecting to eventually connect 2,000 new residential customers and to serve another 8,000 residential customers by upgrading their coke gas fueled facilities to natural gas fueled facilities in the downtown of Xiangdong region.

CNG vehicle refueling station

Total revenue from the CNG refueling retail station for the three months ended September 30, 2014 was $2.3 million, an increase of $0.3 million, from $2.0 million for same period of 2013. This increase was attributable to the appreciation of the Chinese RMB and offset by the decreased gas volume sold. Total revenue from the CNG refueling retail station for the nine months ended September 30, 2014 was $6.4 million, representing an increase of $0.7 million, or 12%, from $5.7 million for same period of 2013.

The increase was attributable to the combined effect of the increased gas volume sold (9.9 million m^3 in the first nine months of 2014 compared to 9.7 million m^3 sold in the same period of 2013) and the appreciation of the Chinese RMB against the Canadian dollar. The Company has upgraded its station's refueling facility to increase its capacity. Given both rising gasoline prices and continued government support for clean energy vehicles, it is expected that more existing gasoline-fueled vehicles in the city will be converted into dual-fuel vehicles (gasoline/CNG).

Foreign exchange rates

Changfeng reports its financial results in Canadian dollars but earns all of its revenues and incurs most of its expenses in Chinese Renminbi ("RMB"). Accordingly, any fluctuation in the exchange rate between these two currencies will affect the reported financial information. The impact of the changes in foreign exchange rates has predominantly been recognized as other comprehensive income, and not as net income.

One Chinese RMB to Canadian dollars	Nine months ended September 30		% change	Six months ended September 30		% change
	2014	2013		2014	2013	
Spot rate at the end of the quarter	0.1826	0.1680	8.7%	0.1721	0.1713	0.5%
Average rate for the period	0.1775	0.1660	6.9%	0.1779	0.1642	8.3%

Gross margin

Gross margin for the three months ended September 30, 2014 increased $0.7 million, or 15%, and increased 3.3 million or 23% for the nine months ended September 30, 2014 compared to the same periods in 2013. The gross margin percentage of 50.0% for the first nine months of 2014 is approximately the same as for the first nine months of 2013.

As a percentage of revenue, the gross margin of the gas distribution utilities of 56.3% for the first nine months of 2014 is approximately the same as for the first nine months of 2013. As a percentage of revenue, the gross margin of the CNG refueling station for the first nine months of 2014 was 20.8%, a decrease of 5.8% from 26.6% in the same period of 2013. This decrease was due to the increased purchase price of CNG.

Operating expenses

General and administrative expenses for the three months ended September 30, 2014 were $2.9 million, an increase of $0.6 million, or 26%, from $2.3 million in the same period of 2013. For the nine months ended September 30, 2014, general and administrative expenses were $8.0 million, an increase of $1.5 million, or 23%, from $6.5 million in the same period of 2013. The increase was attributable to higher employee salaries and benefits as a result of a higher inflation rate in China, additional employees, higher conference and professional fees and a stronger Chinese RMB. General and administrative expenses as a percentage of sales for the three and nine month periods ended September 30, 2014 were 23.7% and 22.1%, compared to 22.2% and 22.5% for the same periods of 2013, respectively.

Travel and business development expenses for the three months ended September 30, 2014 were $0.7 million, consistent with the same period of 2013. Travel and business development expenses for the nine months ended September 30, 2014 were $2.6 million, an increase of $0.2 million, or 8%, from $2.4 million in the same period of 2013. As a percentage of sales, travel and business development expenses for the three and nine month periods ended September 30, 2014 were 6.1% and 7.2% respectively, a decrease from 7.3% and 8.3% in the same periods of 2013. These expenses normally fluctuate with travel and business development activities in mainland China as the Company seeks to develop new projects in close proximity to the new national pipelines.

Interest on long term debt of $0.5 million for the three months ended September 30, 2014 is approximately the same as for the same period of 2013. Interest on long-term debt of $1.4 million for the nine months ended September 30, 2014 is slightly higher than $1.3 million in the same period of 2013.

EBITDA

EBITDA (non-IFRS measure as identified and defined under section "Non-IFRS Measures") for three months ended September 30, 2014 is $2.9 million, an increase of $0.4 million, or 17% from $2.5 million for the same period of 2013. EBITDA for the nine months ended September 30, 2014 was $10.3 million, an increase of $2.7 million, or 36%, from $7.6 million for the same period of 2013. The increase was driven primarily by higher sales. EBITDA as a percentage of revenue for the three months ended September 30, 2014 was 23.8%, compared to 23.9% in the same period in 2013. EBITDA as a percentage of revenue for the nine months ended September 30, 2014 was 28.4%, compared to 26.0% in the same period of 2013, representing an increase of 2.4% due to the sales increases but was partially offset by higher operating expenses.

Net income

Net income for the three months ended September 30, 2014 was $0.7 million, or $0.011 per share (basic and diluted) compared to $0.6 million or $0.009 per share (basic and diluted) for the same period in 2013. Net income for the nine months ended September 30, 2014 was $3.2 million, or $0.052 per share-basic and $0.051 per share-diluted compared to $2.5 million or $0.039 per share (basic and diluted) for the same period in 2013. These increases are primarily driven by an increase in sales.

Selected Quarterly Results

The following sets out the Company's consolidated quarterly results for the most -recently completed quarters:

Quarterly data ($000's)	2014			2013				2012
except per share amounts	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Foreign exchange rate one Chinese RMB to Canadian dollars	0.1767	0.1750	0.1808	0.1675	0.1660	0.1642	0.1621	0.1584
Revenue	12,094	10,775	13,381	12,996	10,240	9,190	9,623	10,857
Gross profit	5,580	4,738	7,790	5,230	4,867	4,326	5,574	5,112
Interest	458	449	490	316	443	437	442	313
Net income (loss)	696	607	1,930	345	571	625	1,273	771
Net income (loss) per share								
- basic	0.011	0.010	0.030	0.005	0.009	0.010	0.020	0.011
- diluted	0.011	0.010	0.030	0.005	0.009	0.010	0.020	0.011

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
($000's)	30-Sep-14	31-Dec-13
Cash	14,837	15,151
Working capital (deficit)	(10,607)	(9,465)
Adjusted working capital (deficit) (note1)	7,825	8,375
Plant and equipment	62,676	57,311
Total assets	89,034	83,637
Long term liabilities	32,208	32,495
Shareholders' equity	24,023	20,540

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

Cash decreased by $0.3 million to $14.8 million at September 30, 2014 from $15.1 million at December 31, 2013, primarily resulting from cash provided by operating activities of $6.0 million and cash from bank indebtedness of $1.8 million, reinforced by the effects of foreign exchange on cash balances of $0.6 million, but offset by $1.8 million of repayment of bank indebtedness, $1.3 million repayment of long-term debt, $0.6 million for share buyback and cash used for capital expenditures of $5.0 million.

Adjusted Working Capital

The adjusted working capital (see "Non-IFRS Financial Measures") was $7.8 million at September 30, 2014. Adjusted working capital excludes $14.9 million of deferred revenue in connection with gas connection fees and $3.5 million of line of credit.

Liquidity and Capital Resources

Overview

The Company's principal sources of short-term funding are its existing cash balances, operating cash flows and borrowing under its line of credit. Its principal source of long-term funding is its bank term loans into which it entered in January 2010, December 2012 and January 2013, respectively.

The Company's principal sources of liquidity are cash provided by operations, including advance payments from residential and commercial and industrial customers related to construction contracts for gas connection, and access to credit facilities and capital resources. The Company's primary short-term cash requirement is to fund working capital, and repay the remainder of its outstanding withdrawal on its line of credit.

The Company's medium and long-term cash goals are to fund construction of its pipeline networks and gas distribution facilities, to acquire capital and intangible assets for its growth initiatives in mainland China and to repay its long-term loans from the BOC and BOC, Pingxiang.

In the short term, management does not expect to face any liquidity problems considering its ability to generate sustainable cash flow from operations in the short and long term. The Company has not experienced any difficulties in collecting its outstanding receivables from its customers and expects no such difficulties in the foreseeable future.

Long-term bank loans

On January 5, 2010, the Company entered into a term loan with the Bank of China, Sanya Branch ("BOC, Sanya") for $18.3 million (RMB 100.0 million) 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, and certain gas connection rights. During the nine-month period ended September 30, 2014, the Company made payments in the amount of $0.9 million (RMB 5 million) in accordance with the semi-annual repayment provisions of the term loan agreement. As of the date of this MD&A, $15.5 million (RMB 85.0 million) of the term loan is outstanding.

On December 21, 2012, the Company entered into a term loan with the Bank of China, Pingxiang Branch ("BOC, Pingxiang") for $3.7 million (RMB 20.0 million), maturing six years from the date of the first withdrawal, and bearing interest at 120% of the prime rate of the People's Bank of China. This term loan is secured by the property and equipment of Pingxiang CF and guaranteed by CF China. The proceeds from this term loan were used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang City, Jiangxi Province. As of the date of this MD&A, the Company withdrew $3.7 million (RMB 20.0 million) and repaid $0.4 million (RMB 2.25 million).

On January, 15, 2013 the Company entered an agreement with BOC, Sanya Branch to secure a bank loan facility in the amount of $9.1 million (RMB 50.0 million) (the "Term Loan"). The Term Loan agreement requires that the proceeds be used to fund continued construction of pipeline and associated facilities for the Haitang Bay project in Sanya City, Hainan Province, China. It has a ten-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. Upon execution of the agreement, the Company made a withdrawal of $7.3 million (RMB 40.0 million).

The Company believes that its ability to obtain funding from these long-term debt bank loans and solid operating cash flows will continue to provide the cash flows necessary to satisfy our working capital and capital expenditure requirements, as well as meet its debt repayments and other financial commitments.

Cash flow from operations

Net cash provided by operations was $1.3 million for the three months ended September 30, 2014 compared to $4.4 million for the same period of 2013. Net cash provided by operations was $6.0 million for the nine months ended September 30, 2014 compared to $7.0 million for the same period of 2013.

Cash Flow from Financing Activities

Cash spent on financing activities for the three months ended September 30, 2014 was $1.9 million mainly for bank indebtedness repayment. Cash from financing activities for the nine months ended September 30, 2014 was an outflow of $1.9 million, and included a cash inflow of $1.8 million from an increase in bank indebtedness, offset by a 1.8 million principle payment of bank indebtedness, a long term debt principle repayment of $1.3 million and $0.6 million paid for the share buyback.

Investing Activities

Capital expenditures were $1.5 million for the three months ended September 30, 2014 compared to $2.5 million in the same period of 2013. Capital expenditures were $5.0 million for the nine months ended September 30, 2014 compared to $6.8 million in the same period of 2013. The expenditures were mainly related to the purchase of equipment for the Xiangdong project and the on-going construction of pipeline networks to connect new customers in the Sanya region.

Changfeng will finance the majority of the upcoming construction of projects under development in mainland China through its long-term bank loans with BOC Sanya and BOC Pingxiang, as well as operating cash flow from its existing operations.

Contractual Obligations and Commitments

As of September 30, 2014, there have been no significant changes to contractual obligations and commitments since December 31, 2013.

Off-Balance Sheet Arrangements

As a policy, Changfeng does not enter into off-balance sheet arrangements with special purpose entities, nor does it have any unconsolidated affiliates that have not been accounted for in these financial statements.

Share Capital

As at the date of this MD&A, the Company has 63,099,200 common shares outstanding, 6,300,000 stock options outstanding and exercisable at a weighted average exercise price of $0.34 per share. The Company has no warrants outstanding.

During the first nine months of 2014, the Company purchased for cancellation 1,540,000 of its common shares under its normal-course issuer bid (the "Bid") for cash of $598,782. These shares were cancelled automatically after the Company purchased them. Subsequent to September 30, 2014, the Company did not purchase back any shares pursuant to the Bid.

Seasonality of Operations

Seasonality can impact the Company's pipeline natural gas sales. The Company's current operations are mainly located in the Sanya Region, a tourist area in the PRC's only tropical province that attracts more tourists in winter than the rest of the year. As a large portion of the Company's natural gas sales are made to hotels and restaurants, the Company's sales are affected by tourism.

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.

Non-IFRS Financial Measures

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

EBITDA

EBITDA is defined herein as income before income tax expense, interest income and interest on borrowing, amortization, share of loss of investment in associate, as well as non-cash stock-based compensation expense. EBITDA does not have any standardized meaning prescribed by IFRS and therefore may not conform to the definition used by other companies.

A reconciliation of net income to EBITDA for each of the periods presented in this MD&A follows:

In thousands	Three months ended September 30,				Nine months ended September 30,			
(except for % figures)	2014	2013	Change	%	2014	2013	Change	%
Net Income	696	571	125	22%	3,233	2,468	765	31%
Add (less):								
Income tax	748	560	188	34%	2,602	1,767	835	47%
Interest (income) expense	(17)	(22)	5	-24%	(37)	(40)	3	-8%
Share of loss of investment in associate	-	-	-	-	8	1	7	700%
Stock-based compensation	87	294	(207)	-70%	262	294	(32)	-11%
Amortization	904	604	300	50%	2,815	1,743	1,072	62%
Interest on borrowing	458	443	15	3%	1,397	1,322	75	6%
EBITDA	2,877	2,450	427	17%	10,281	7,555	2,726	36%

Adjusted working capital

Adjusted working capital is calculated as current assets less adjusted current liabilities. Adjusted current liabilities is calculated as current liabilities, excluding deferred revenue in connection with gas connection fees, which are deferred when Changfeng receives payments from customers in advance of work having commenced and are recognized on the percentage of completion method, as well as the credit line. As is the practice with lines of credit in China, typically, they are renewed when due.

Changfeng believes that adjusted working capital is a useful supplemental measure as it provides an indication of its ability to settle its debt obligations as they come due.

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

In $ thousands		
As at	**30-Sep-14**	**31-Dec-13**
Current assets	21,773	21,137
Less: Current liabilities	32,380	30,603
Working capital (deficit)	(10,607)	(9,466)
Add: Deferred revenue	14,925	14,489
Line of credit	3,507	3,352
Adjusted working capital	**7,825**	**8,375**

Financial Instruments

The Company does not have complex financial instruments, and the various risks related to these financial instruments, including foreign currency risk, commodity price risk, interest rate risk, concentration of credit risk and liquidity risk have been disclosed in our audited Consolidated Financial Statements and MD&A for the year ended December 31, 2013 and the notes thereto that are available at www.sedar.com.

Transactions With Related Parties

I. As at September 30, 2014, the Company had an outstanding loan of $0.4 million (RMB 2 million) due from the minority shareholder of Hunan Changfeng CNPC Energy Co., Ltd. ("Hunan CF CNPC"), which used the funds to contribute the capital it owed to that subsidiary. The minority shareholder has waived its right to any future profit that it would otherwise be allocated until the loan is repaid. The Company will begin recording this shareholder's profit allocation prospectively at the time the loan has been repaid.

II. Included in current due to related parties as at September 30, 2014, was a required capital contribution of $0.5 million (RMB 3 million) (December 31, 2013 - $0.5 million (RMB 3 million in long-term)) to be made to Shin-Ko Energy. Also, included in current due to related parties as at September 30, 2014, was $0.2 million (RMB 1.3 million) (December 31, 2013 - $0.2 million (RMB 1.3 million)) 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.

III. In 2007, a significant shareholder, who is also an officer and director of the Company, advanced loans in the aggregate amount of $7.3 million (RMB 40 million) (December 31, 2013 - $7.0 million (RMB 40 million)) 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 are due on demand. However, these corporations and the Company have entered into Loan Renewal Agreements whereby the parties have agreed to enter into further loan renewal agreements upon the same terms and conditions as the Consignment Loan Agreements, in perpetuity.

IV. As at September 30, 2014, the Company owed an officer and director of the Company $0.7 million (December 31, 2013 - $0.6 million) for unpaid salary.

V. As at September 30, 2014, the Company owed certain directors $0 (December 31, 2013 - $0.07 million) for unpaid director's fees.

Risk Factors

The Company manages a number of risks to achieve an acceptable level of risk without appreciably hindering its ability to maximize returns. Management has procedures in place to identify and manage significant operational and financial risks. A discussion of the Company's risks is included in the Company's MD&A for the year ended December 31, 2013.

Significant Accounting Policies

Accounting standards adopted during the quarter

During the nine months ended September 30, 2014, the Company adopted several new accounting standards and amendments; however, they impact neither the Company's annual consolidated financial statements nor its condensed consolidated interim financial statements, beyond certain additional disclosure requirements expected for the 2013 annual consolidated financial statements.

Future Accounting Changes

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are not yet effective for the quarter ended September 30, 2014, and have not been applied in preparing the Company's condensed consolidated financial statements. A discussion of the future accounting changes is included in the Company's MD&A for the year ended December 31, 2013.

Outlook

The outlook for 2014 and the first half of 2015 continues to be positive. The Company expects to continue to add residential, commercial and industrial customers to its existing pipeline networks in the Sanya Region and to add residential customers in the Xiangdong District. The Company also expects a modest increase in the volume of gas sold in the CNG retailing station.

Changfeng will also continue to implement its long-term growth strategy through its proposed joint venture for the pipelined gas project in the Western Guangdong Area of the Guangdong province, China.