Consolidated Financial Statements
(Expressed in Canadian dollars)

CHANGFENG ENERGY INC.

Years ended December 31, 2013 and 2012

KPMG LLP
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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, 2013 and 2012, 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, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

April 24, 2014
Toronto, Canada

CHANGFENG ENERGY INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash (note 13(a)(ii))	$ 15,151,430	$ 6,377,219
Trade and other receivables (note 5)	4,296,974	3,230,906
Prepaid expenses and deposits (note 7)	997,091	626,499
Inventories (note 6)	691,789	730,506
Due from related parties (note 17)	–	341,338
Total current assets	21,137,284	11,306,468
Non-current assets:		
Long-term deposits and advances (note 7)	1,675,317	1,518,572
Investment in associate (note 9)	828,860	754,610
Property and equipment (note 10)	57,310,958	46,247,497
Intangible assets (note 12)	2,333,403	1,372,385
Due from related parties (note 17)	351,400	–
Total non-current assets	62,499,938	49,893,064
Total assets	$ 83,637,222	$ 61,199,532
Liabilities and Equity		
Current liabilities:		
Bank indebtedness (note 13(b))	$ 3,352,400	$ 4,791,000
Trade and other payables	8,145,905	5,650,929
Deferred revenue	14,488,531	8,911,201
Interest payable (note 13(c))	886,502	2,079,646
Current portion of long-term debt (note 13(a))	2,284,100	798,500
Due to related parties (note 17)	1,445,321	1,280,123
Total current liabilities	30,602,759	23,511,399
Non-current liabilities:		
Long-term debt (note 13(a))	23,843,883	14,106,431
Due to related parties (note 17)	7,028,000	6,388,000
Government grants (note 11)	985,824	811,276
Deferred income tax liability (note 16)	636,818	314,445
Total non-current liabilities	32,494,525	21,620,152
Total liabilities	63,097,284	45,131,551
Equity:		
Share capital (note 14)	11,630,789	12,121,808
Contributed surplus (note 14)	2,424,592	2,042,890
Statutory surplus reserves (note 14)	1,612,089	987,950
Retained earnings (deficit)	2,008,298	(304,256)
Accumulated other comprehensive income	2,358,789	591,636
Total shareholders' equity	20,034,557	15,440,028
Non-controlling interest	505,381	627,953
Total equity	20,539,938	16,067,981
Total liabilities and equity	$ 83,637,222	$ 61,199,532

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Graham Warren" Director

"Wencheng Zhang" Director

CHANGFENG ENERGY INC.

Consolidated Statements of Comprehensive Income
(Expressed in Canadian dollars)

Years ended December 31, 2013 and 2012

	2013	2012
Revenue	$ 42,049,041	$ 33,272,681
Cost of sales	22,051,338	17,518,084
Gross margin	19,997,703	15,754,597
Other operating income (note 11)	–	717,552
Expenses:		
General and administrative	9,268,319	7,464,241
Travel and business development	3,337,083	2,960,947
Stock-based compensation	381,702	179,516
	12,987,104	10,604,704
Income from operations	7,010,599	5,867,445
Interest on long-term debt	1,638,416	1,452,758
Interest expense (income)	(36,892)	26,316
Share of loss of investment in associate (note 9)	1,290	23,753
Income before income taxes	5,407,785	4,364,618
Income taxes (note 16)	2,593,664	1,886,208
Net income	2,814,121	2,478,410
Other comprehensive income (loss):		
Exchange differences on translation of foreign operations	1,767,153	(146,379)
Total comprehensive income	$ 4,581,274	$ 2,332,031
Net income attributable to:		
Owners of the Company	$ 2,936,693	$ 2,508,056
Non-controlling interest	(122,572)	(29,646)
	$ 2,814,121	$ 2,478,410
Total comprehensive income attributable to:		
Owners of the Company	$ 4,703,846	$ 2,361,677
Non-controlling interest	(122,572)	(29,646)
	$ 4,581,274	$ 2,332,031
Earnings per share attributable to common shareholders (note 15):		
Basic	$ 0.045	$ 0.038
Diluted	0.045	0.038

See accompanying notes to consolidated financial statements.

CHANGFENG ENERGY INC.

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

Years ended December 31, 2013 and 2012

2013	Share capital	Contributed surplus	Statutory surplus reserves	Retained earnings (deficit)	Accumulated other comprehensive income	Non-controlling interest	Total
Balance, January 1, 2013	$ 12,121,808	$ 2,042,890	$ 987,950	$ (304,256)	$ 591,636	$ 627,953	$ 16,067,981
Share repurchase	(537,019)	–	–	–	–	–	(537,019)
Option exercised	46,000	–	–	–	–	–	46,000
Net income (loss)	–	–	624,139	2,312,554	–	(122,572)	2,814,121
Stock-based compensation	–	381,702	–	–	–	–	381,702
Currency translation adjustment	–	–	–	–	1,767,153	–	1,767,153
Balance, December 31, 2013	$ 11,630,789	$ 2,424,592	$ 1,612,089	$ 2,008,298	$ 2,358,789	$ 505,381	$ 20,539,938

2012	Share capital	Contributed surplus	Statutory surplus reserves	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Non-controlling interest	Total
Balance, January 1, 2012	$ 12,121,808	$ 1,863,374	$ 338,921	$ (2,163,283)	$ 738,015	$ 657,599	$ 13,556,434
Net income (loss)	–	–	649,029	1,859,027	–	(29,646)	2,478,410
Stock-based compensation	–	179,516	–	–	–	–	179,516
Currency translation adjustment	–	–	–	–	(146,379)	–	(146,379)
Balance, December 31, 2012	$ 12,121,808	$ 2,042,890	$ 987,950	$ (304,256)	$ 591,636	$ 627,953	$ 16,067,981

See accompanying notes to consolidated financial statements.

CHANGFENG ENERGY INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Net income	$ 2,814,121	$ 2,478,410
Items not involving cash:		
Deferred income taxes	298,608	173,310
Amortization	2,414,113	1,958,588
Prepaid rent expense	87,936	79,836
Share of loss of investment in associate (note 9)	1,290	23,753
Current income taxes	2,295,056	1,712,898
Interest expense on long-term debt	1,638,416	1,452,758
Stock-based compensation	381,702	179,516
Impairment of deposit	(83,750)	79,200
Income taxes paid	(1,816,360)	(1,127,703)
Interest expense paid	(2,974,315)	(1,434,257)
Change in non-cash operating working capital	4,966,195	2,828,146
Net cash flows from operating activities	10,023,012	8,404,455
Cash flows from financing activities:		
Repurchase of shares	(537,019)	–
Net increase in exercised options	46,000	–
Net decrease in bank indebtedness	(5,025,000)	–
Net increase in bank indebtedness	3,270,400	–
Net decrease in long-term debt	(837,500)	(1,584,000)
Net increase in other long-term debt	3,022,000	–
Amount drawn on term loan (note 13(a)(ii))	7,028,000	–
Government grants (note 11(b))	88,915	811,276
Net cash flows from (used in) financing activities	7,055,796	(772,724)
Cash flows from investing activities:		
Acquisition of property and equipment	(8,429,306)	(5,310,400)
Acquisition of intangible assets	(822,581)	(964,719)
Long-term deposits and advances	(4,388)	17,979
Net cash flows used in investing activities	(9,256,275)	(6,257,140)
Increase in cash	7,822,533	1,374,591
Effects of foreign exchange on cash balances	951,678	(58,889)
Cash, beginning of year	6,377,219	5,061,517
Cash, end of year	$ 15,151,430	$ 6,377,219

See accompanying notes to consolidated financial statements.

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 25 Adelaide Street East, Suite 1612, Toronto, Ontario, M5C 3A1, 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 April 24, 2014.

(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").

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.

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 9). 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.

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 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
Land use rights	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.

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 supply rights and software. Purchase contract and supply rights 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.

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.

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, 2013
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. Cost includes the purchase price. Reversal of previous write-downs is required when there is a subsequent increase in the value of inventories.

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.

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.

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.

3. Significant accounting policies (continued):

(n) Recent accounting pronouncements:

(i) Financial assets and liabilities:

The Company adopted certain amendments to IFRS 7, Financial Instruments - Disclosures ("IFRS 7"), on a retrospective basis. These amendments contain new disclosure requirements for financial assets and liabilities that are offset in the balance sheet or subject to master netting arrangements or similar arrangements. As the Company is not offsetting financial instruments and does not have relevant offsetting arrangements, the retrospective adoption of these amendments to IFRS 7 had no impact on the disclosures of the Company.

(ii) Consolidated financial statements:

The Company adopted IFRS 10, Consolidated Financial Statements ("IFRS 10"), on a retrospective basis. IFRS 10 replaces portions of International Accounting Standard ("IAS") 27, Consolidated and Separate Financial Statements ("IAS 27"), that address consolidation, and supersedes Standing Interpretations Committee ("SIC") 12, Consolidation - Special Purpose Entities ("SPEs") ("SIC-12"), in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures specified in IFRS 10 are carried forward substantially unmodified from IAS 27. The adoption of IFRS 10 had no impact on the Company.

(iii) Joint arrangements:

The Company adopted IFRS 11, Joint Arrangements on a Retrospective Basis ("IFRS 11"). IFRS 11 supersedes IAS 31, Interest in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly. Investments in joint ventures are required to be accounted for using the equity method.

3. Significant accounting policies (continued):

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, Investments in Associates and Joint Ventures ("IAS 28"), has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11. The adoption resulted in no impact on net income or on equity for the years ended December 31, 2013 and 2012.

(iv) Disclosure of interests in other entities:

The Company adopted IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"). IFRS 12 contains annual disclosure requirements for companies that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of IFRS 12 had no impact on the Company.

IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are all effective for annual periods beginning on or after January 1, 2013. The Company adopted IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 in its consolidated financial statements for the annual period beginning on January 1, 2013. The Company has made relevant disclosures in its annual statements for the year ended December 31, 2013.

(v) Fair value measurement:

The Company adopted IFRS 13, Fair Value Measurement ("IFRS 13"), on a prospective basis. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The adoption of IFRS 13 had no impact on the fair value measurements carried out by the Company.

(vi) Presentation of items of other comprehensive income:

The Company adopted the amendment to IAS 1, Presentation of Financial Statements, on a retrospective basis. The amendment requires that a company present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The amendment had no impact on the financial results of the Company or on the presentation of its consolidated financial statements of comprehensive income.

3. Significant accounting policies (continued):

(o) Accounting standards 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, 2013, and have not been applied in preparing these consolidated financial statements.

(i) Financial instruments - recognition and measurement:

In October 2010, the IASB published amendments to IFRS 9, Financial Instruments ("IFRS 9 (2010)"), which provide added guidance on the classification and measurement of financial liabilities. IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, either IFRS 9 (2009) or IFRS 9 (2010) may be applied. The Company intends to adopt IFRS 9 (2010) in its consolidated financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

(ii) Financial assets and liabilities:

In December 2011, the IASB published amendments to IAS 32, Financial Instruments - Presentation ("IAS 32"). 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 effective date for the amendments to IAS 32 is annual periods beginning January 1, 2014. The Company intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning on January 1, 2014. The extent of the impact of adoption of the amendments to IAS 32 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.

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) Amortization expense:

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.

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 14.

(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.

(Expressed in Canadian dollars, unless otherwise indicated)

4. Significant accounting estimates and judgments (continued):

The Company assesses the carrying value of long-lived assets, which include property, plant 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:

	2013	2012
Trade receivables	$ 4,244,579	$ 3,226,399
Less allowance for doubtful accounts	20,360	13,966
Net trade receivables	4,224,219	3,212,433
Other receivables	72,755	18,473
	$ 4,296,974	$ 3,230,906

The aging of trade receivables is as follows:

	2013	2012
Current	$ 2,864,543	$ 2,466,246
Outstanding 31 - 60 days	106,146	154,720
Outstanding 61 - 90 days	3,708	2,039
Outstanding > 90 days	1,270,182	603,394
	$ 4,244,579	$ 3,226,399

The Company's exposure to credit and foreign exchange risks is disclosed in note 20.

(Expressed in Canadian dollars, unless otherwise indicated)

6. Inventories:

	2013	2012
Construction materials	$ 407,623	$ 425,718
Gas appliances, meters and spare parts	231,224	271,049
Natural gas	52,942	33,739
	$ 691,789	$ 730,506

The amount of inventories recognized as an expense through cost of sales during the year was $16,561,549 (2012 - $12,939,384). During the year, no inventory was impaired (2012 - nil) and no reversals of impairment were recorded (2012 - nil).

7. Deposits and advances:

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

(a) Advances on potential acquisitions:

In 2010, the Company paid a deposit of $175,700 (RMB 1,000,000) (2012 - $159,700 (RMB 1,000,000)) to the existing shareholder of Hunan CNPC, Guangda Gas Co., Ltd. ("Guangda Gas"), a company that Changfeng has been considering for acquisition. Guangda Gas owns a compressed natural gas ("CNG") primary filling station in Changsha City. In 2012, the Company determined it would not proceed with the acquisition. Pursuant to an agreement dated October 24, 2012, the deposit will be repaid to the Company by way of partially offsetting gas purchases to be made from Guangda Gas over a 10-month period starting in November 2012. As at December 31, 2013, all of this deposit has been repaid.

7. Deposits and advances (continued):

(b) 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 $1,397,711 (RMB 7,955,101) (2012 - $1,266,245 (RMB 7,928,901)) has been paid related to land use rights for 4,183 square metres of land, part of which was used to construct the administrative office, and the remainder of which will be used for the future construction of a monitoring and control centre. The land use right had not been received as at December 31, 2013.

(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 for 21 years, ending September 27, 2035. Upon signing the agreement, the Company paid a deposit of $17,570 (RMB 100,000) (2012 - $15,970 (RMB 100,000)), which is expected to be refunded when the agreement expires. The first year's rent of $59,035 (RMB 336,000) is required to be paid upon commencement of construction. As at December 31, 2013, construction of the refuelling station had not commenced.

(c) 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, 2013, $210,840 (RMB 1,200,000) (2012 - $191,640 (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 $49,196 (RMB 280,000) that is expected to be refunded when the agreement expires.

8. Investment:

Xiangtan CF:

In July 2011, the Company, together with Xiangtan Economic Construction and Development Investment Co., Ltd. ("Xiangtan Economic"), a company owned by the local municipality, and Xiangtan Changjiang New Energy Investment Co., Ltd., a local investment company, established a Chinese subsidiary, Xiangtan CF. This subsidiary has registered capital of $1,757,000 (RMB 10,000,000), of which Changfeng owns 51%. The Company contributed $351,400 (RMB 2,000,000) during 2011. The objective of Xiangtan CF is to (a) develop a natural gas pipeline network to serve industrial, commercial and residential customers; and (b) develop CNG and liquid natural gas ("LNG") refuelling stations. This subsidiary has been consolidated from the date of its incorporation.

9. 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 $1,757,000 (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 of December 31, 2011, the Company contributed its share of registered capital of $351,400 (RMB 2,000,000), and the remaining balance of $527,100 (RMB 3,000,000) is required to be contributed and has been recognized in current due to related parties.

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 $1,657,720 (RMB 9,434,942) as at December 31, 2013, which comprises amounts owing from its joint venture partners, including $527,100 (RMB 3,000,000) due from the Company (note 17(a)(ii)). Shin-Ko Energy losses for the year were $2,580 (RMB 15,400); (2012 - $47,506) (RMB 299,913)), of which the Company's share was $1,290 (RMB 7,700) (2012 - $23,753 (RMB 149,957)).

(Expressed in Canadian dollars, unless otherwise indicated)

10. Property and equipment:

Cost	Buildings	Pipelines	Land use rights (a)	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress (c)	Total
Balance, December 31, 2011	$ 2,684,603	$ 42,131,980	$ 1,197,779	$ 1,449,961	$ 4,826,240	$ 423,551	$ 361,499	$ 53,075,613
Additions (b)	–	678,397	306,880	239,561	523,999	210,805	3,365,754	5,325,396
Foreign currency translation	(31,564)	(497,603)	(14,083)	(17,048)	(56,745)	(4,979)	(4,250)	(626,272)
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 (b)	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

Accumulated amortization	Buildings	Pipelines	Land use rights (a)	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress	Total
Balance, December 31, 2011	$ 37,962	$ 7,616,225	$ 338,747	$ 564,893	$ 1,114,190	$ 39,203	$ –	$ 9,711,220
Amortization	50,347	1,405,866	23,582	176,530	248,183	23,006	–	1,927,514
Foreign currency translation	(446)	(86,862)	(3,983)	(6,642)	(13,100)	(461)	–	(111,494)
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

Net book value	Buildings	Pipelines	Land use rights (a)	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress	Total
December 31, 2012	$ 2,565,176	$ 33,377,545	$ 1,132,230	$ 937,693	$ 3,944,221	$ 567,629	$ 3,723,003	$ 46,247,497
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

10. Property and equipment (continued):

(a) In July 2010, Pingxiang CF entered into an agreement with Pingxiang Ceramic Industry Park Management Committee (the "Committee") to purchase the land use rights for 20 mu (approximately 1.33 hectares) of land. This land is being used for the construction of one gas gate station to link the Xiangdong District with a high-pressure pipeline. Upon signing of the agreement, the Company paid a deposit of $35,140 (RMB 200,000) (2012 - $31,940 (RMB 200,000)). During 2012, the Company made additional payments to the Committee totalling $337,625 (RMB 1,921,600) related to this land use right. On November 13, 2012, the land use rights were transferred to the Company. As at December 31, 2013, construction of the gas gate had completed.

(b) Included in additions to property and equipment is capitalized interest of $357,485 (RMB 2,034,632) (2012 - $44,686 (RMB 282,106)) at a capitalized rate of 18% (2012 - 3%).

(c) Pipeline construction and equipment:

The Company has signed contracts with several equipment suppliers and construction supervisors for a total amount of $8,503,880 (RMB 48,400,000), of which $5,516,980 (RMB 31,400,000) has been paid as at December 31, 2013 and was classified as construction in progress.

11. Government grants:

(a) On June 27, 2012, the Company received $717,552 (RMB 4,530,000) as a government grant from the municipal government of Sanya City, Hainan Province, China ("Sanya City") to partially compensate the Company for certain gas purchases made at unfavourable prices in 2011 to satisfy customer demand in the Sanya City region. These government grants were recognized as other operating income in the 2012 consolidated statements of comprehensive income.

(Expressed in Canadian dollars, unless otherwise indicated)

11. Government grants (continued):

(b) In 2013, the Company also received government grants of $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.

12. Intangible assets:

	Gas purchase contract and supply rights	Software	Total
Cost			
Balance, December 31, 2011	$ 331,501	$ –	$ 331,501
Additions	991,538	104,604	1,096,142
Foreign currency translation	(5,067)	–	(5,067)
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
Accumulated amortization			
Balance, December 31, 2011	$ 32,320	$ –	$ 32,320
Amortization	18,251	–	18,251
Foreign currency translation	(380)	–	(380)
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
Net book value			
December 31, 2012	$ 1,267,781	$ 104,604	$ 1,372,385
December 31, 2013	2,229,827	103,576	2,333,403

12. Intangible assets (continued):

(a) 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 will fund the building of infrastructure to link certain of the supplier's operations to the provincial power grid, although it will not own the constructed assets.

In connection with the Program, as at December 31, 2013, construction of approximately $1,953,728 (RMB 11,119,683) (2012 - $991,538 (RMB 6,208,754)) was completed by a local contractor. This amount has been recorded as an intangible asset on the consolidated balance sheets, on which amortization will begin once the construction on the Program is completed and the exchanged gas is available to the Company. As at December 31, 2013, the construction was completed but the exchanged gas was not available to the Company yet.

(b) Software:

In 2012, the Company implemented a new software system related to its natural gas distribution operations. In connection with this implementation, the Company capitalized $115,084 (RMB 655,000) of costs that have been recognized as an intangible asset as at December 31, 2013.

(Expressed in Canadian dollars, unless otherwise indicated)

13. Long-term debt and bank indebtedness:

(a) Long-term debt:

	2013	2012
Term loan facility - Bank of China (i)	15,813,000	15,171,500
Term loan facility - Bank of China (ii)	7,028,000	–
Term loan facility - Bank of China (iii)	3,514,000	–
	26,355,000	15,171,500
Less unamortized transaction costs	227,017	266,569
	26,127,983	14,904,931
Less current portion	2,284,100	798,500
	$ 23,843,883	$ 14,106,431

(i) On January 5, 2010, the Company entered into a term loan with the Bank of China, Sanya Branch ("BOC, Sanya") for $17,570,000 (RMB 100,000,000) (2012 - $15,970,000 (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 $878,500 (RMB 5,000,000) (2012 - $798,500 (RMB 5,000,000)) in accordance with the semi-annual repayment provisions of the term loan agreement.

At December 31, 2013, the Company had unamortized transaction costs of $227,017 (RMB 1,292,072) (2012 - $266,569 (RMB 1,819,139)), which has been offset against term loan. The effective interest rate on the loan was 7.0% (2012 - 6.9%).

13. 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 $8,785,000 (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, 2013, the Company has withdrawn $7,028,000 (RMB 40,000,000).

Included in the Company's cash balance is the $7,028,000 (RMB 40,000,000) drawn on this loan. The loan agreement specifies that these monies are required to be spent on this project and, accordingly, would be restricted from being used for any other purpose.

(iii) On December 21, 2012, the Company entered into a term loan with the Bank of China, Pingxiang Branch ("BOC, Pingxiang") for $3,514,000 (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. As of December 31, 2013, the Company had withdrawn $3,514,000 (RMB 20,000,000) (2012 - nil).

(b) Bank indebtedness:

Included in current liabilities is $1,757,000 (RMB 10,000,000) (2012 - $4,791,000 (RMB 30,000,000)) relating to the Company's Line of Credit (the "Credit Line") with BOC, Sanya. This loan contains a financial covenant, which requires the Company's subsidiary, CF China's debt-to-total-assets ratio to be maintained below 80%. In 2013, the Company had fully repaid its $5,271,000 (RMB 30,000,000) Credit Line with BOC. In the third quarter of 2013, the Company renewed its Credit Line BOC for $1,757,000 (RMB 10,000,000). As of December 31, 2013, the Company had withdrawn $1,757,000 (RMB 10,000,000) (2012 - $4,791,000 (RMB 30,000,000)).

(Expressed in Canadian dollars, unless otherwise indicated)

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

Also included in current liabilities is $1,595,400 (RMB 9,080,250) (2012 - nil) relating to a U.S. $1,500,000 Term Loan from the Bank of China (Canada) pursuant to a Credit Facility Letter Agreement effective October 30, 2013. 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.

The proceeds of the Term Loan will be used for the general working capital purposes of the Company.

As at December 31, 2013, the Company was in compliance with all of its debt covenants.

(c) Interest payable:

As at December 31, 2013, the Company had accrued interest of $882,401 (RMB 5,022,204) (2012 - $2,079,646 (RMB 13,022,204)) in connection with the bank loans as described in (a) for the years prior to 2007. The accrued interest was originally paid by Sanya State Assets Management Corporation to the bank on behalf of the Company. In 2013, the Company has paid $1,405,600 (RMB 8,000,000) to Sanya State Assets Management Corporation. Subsequent to the year, the Company has fully paid the balance.

Long-term loan principal payments are as follows:

	RMB	Cdn. $
2014	13,000,000	2,284,100
2015	18,000,000	3,162,600
2016	19,000,000	3,338,300
2017	27,000,000	4,743,900
2018	27,000,000	4,743,900
Thereafter	46,000,000	8,082,200
	150,000,000	26,355,000

(Expressed in Canadian dollars, unless otherwise indicated)

14. Share capital:

(a) Authorized:

Unlimited common shares

(b) Issued common shares:

	Number of shares	Amount
Balance, December 31, 2012	66,025,000	$ 12,121,808
Repurchased and cancelled	(1,585,800)	(537,019)
Options exercised, July 25, 2013	200,000	46,000
Balance, December 31, 2013	64,639,200	$ 11,630,789

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, to conclude on or about the earlier of 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 proposes to purchase through the facilities of the Exchange, from time to time over the next 12 months, if considered advisable, up to an aggregate of 3,000,000 common shares. The Bid commenced on November 26, 2013 and will conclude on the earlier of the date on which purchases under the bid have been completed and November 26, 2014.

During 2013, the Company purchased 1,585,800 shares pursuant to the Bid for cash proceeds of $537,019, inclusive of transaction costs.

Subsequent to December 31, 2013, the Company purchased 1,080,000 shares pursuant to the Bid for cash proceeds of $421,779, inclusive of transaction costs.

(Expressed in Canadian dollars, unless otherwise indicated)

14. Share capital (continued):

(c) Contributed surplus and stock-based compensation:

(i) Contributed surplus:

Balance, January 1, 2012	$ 1,863,374
Stock-based compensation	179,516
Balance December 31, 2012	2,042,890
Stock-based compensation	381,702
Balance, December 31, 2013	$ 2,424,592

(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.

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

	Options outstanding	Weighted average exercise price
Balance, January 1, 2012	5,300,000	$ 0.51
Granted	1,200,000	0.24
Expired	(250,000)	0.23
Balance, December 31, 2012	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

(Expressed in Canadian dollars, unless otherwise indicated)

14. Share capital (continued):

The following table summarizes information about the options outstanding and exercisable at December 31, 2013:

Number outstanding and exercisable	Remaining contractual life (in years)	Exercise price	Expiry date
800,000	1.40	$ 0.60	2015
900,000	2.69	0.23	2016
1,200,000	3.53	0.24	2017
3,400,000	4.65	0.35	2018
6,300,000	3.07		

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.

On January 22, 2013, 3,000,000 options were expired. On July 25, 2013, 150,000 options were forfeited and 200,000 options were exercised.

On July 13, 2012, the Company granted 1,200,000 options, exercisable at a price of $0.24 for five years on or before July 12, 2017, to its newly elected director and certain members of management who are employed by the subsidiaries in China. The fair value of these options at the grant date was $0.15. Assumptions used to determine the value of the options using the Black-Scholes option pricing model were: dividend yield 0%; risk-free interest rate 1.45%; expected volatility 77%; and expected life of five years. The Company's share price at the grant date was $0.24. The options vested immediately.

For the year ended December 31, 2013, $381,702 (2012 - $179,516) of stock-based compensation expense was recorded.

(Expressed in Canadian dollars, unless otherwise indicated)

14. Share capital (continued):

(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.

15. 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 tables set forth the calculation of basic and diluted EPS:

	2013			2012		
	Net income attributable to common shareholders	Weighted average number of shares	EPS	Net income attributable to common shareholders	Weighted average number of shares	EPS
Basic	$ 2,936,693	65,196,489	0.045	$ 2,508,056	66,025,000	$ 0.038
Diluted	2,936,693	65,815,336	0.045	2,508,056	66,025,000	0.038

(Expressed in Canadian dollars, unless otherwise indicated)

16. 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% (2012 - 26.5%) as follows:

	2013	2012
Income before income taxes	$ 5,407,785	$ 4,364,618
Expected income tax provision based on statutory rate	$ 1,433,063	$ 1,157,000
Non-deductible expenditures and other permanent differences	667,149	431,000
Foreign tax rate differential	(108,254)	(82,000)
Change in tax benefits not recognized	551,443	356,000
Other	50,263	24,208
	$ 2,593,664	$ 1,886,208

Components of income taxes:

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

	2013	2012
Current income taxes	$ 2,295,056	$ 1,712,898
Deferred income taxes:		
Origination and reversal of timing differences	298,608	173,310
	$ 2,593,664	$ 1,886,208

(Expressed in Canadian dollars, unless otherwise indicated)

16. Income taxes (continued):

Recognized deferred tax assets and liabilities:

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

	2013	2012
Property and equipment	$ (679,861)	$ (375,998)
Trade and other receivables	(160,626)	(141,435)
Trade and other payables	203,669	202,988
	$ (636,818)	$ (314,445)

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, 2013, is $16.559 million (2012 - $9.338 million).

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

	2013	2012
Loss carryforwards	$ 2,462,520	$ 1,894,900
Deductible temporary differences	124,789	141,000

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.

(Expressed in Canadian dollars, unless otherwise indicated)

16. Income taxes (continued):

Income tax attributes not recognized:

As at December 31, 2013, the Company had the following approximate income tax attributes to carry forward:

	Amount	Expiry date
Non-capital losses, Canada	$ 6,198,000	2014 - 2033
Non-capital losses, China	3,154,000	2014 - 2018
Capital losses, Canada	119,000	Indefinite

17. Related party disclosures:

(a) Related party transactions:

(i) As at December 31, 2013, the Company had an outstanding loan of $351,400 (RMB 2,000,000) (2012 - $319,400 (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. 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. On May 4, 2012, the Company entered into supplementary agreements with this minority shareholder. Pursuant to the supplementary agreements, the loan will be due on June 8, 2015, secured by this minority shareholder's 40% equity interest in Hunan CF CNPC and bearing interest at 120% five-year term loan prescribed by the People's Bank of China.

(ii) Shin-Ko Energy:

Included in current due to related parties as at December 31, 2013, as described in note 9, is a required capital contribution of $527,100 (RMB 3,000,000) (2012 - $479,100 (RMB 3,000,000)) to be made to Shin-Ko Energy. Also included in current due to related parties, as at December 31, 2013, was $224,378 (RMB 1,277,050) (2012 - $208,736 (RMB 1,307,050)) 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.

17. 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.

(Expressed in Canadian dollars, unless otherwise indicated)

17. Related party disclosures (continued):

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

	2013	2012
Salaries, bonuses and fees	$ 418,366	$ 447,329
Total short-term employee benefits	$ 418,366	$ 447,329
Share-based benefits	185,238	29,919
Termination benefits	20,000	–
Total remuneration	$ 623,604	$ 477,248

(i) In 2007, a significant shareholder, who is also an officer and director of the Company, advanced loans in the aggregate amount of $7,028,000 (RMB 40,000,000) (2012 - $6,388,000 (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. The Company has not made any repayments in 2013, which are due on April 27, 2015.

(ii) As at December 31, 2013, the Company owed an officer and director of the Company $621,171 (2012 - $543,982) for unpaid salary and director's fees.

(iii) As at December 31, 2013 and 2012, the Company owed certain directors $72,673 (2012 - $48,305) for unpaid director's fees.

(iv) During 2013, one of the predecessor officers exercised 200,000 share options granted under the Company's stock option plan at the exercise price of $0.23.

(Expressed in Canadian dollars, unless otherwise indicated)

18. Commitments and contingencies:

The Company has operating lease commitments and contractual obligations as follows, except for those reported in notes 7 and 10(c):

	RMB	Cdn. $
2014	493,500	86,708
2015	829,500	145,743
2016	833,613	146,466
2017	854,175	150,079
2018	854,175	150,079
Thereafter	13,112,054	2,303,788
	16,977,017	2,982,863

19. Capital management:

The Company considers its capital structure to consist of share capital, contributed surplus 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.

19. 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, 2013, 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, 2013 and 2012. The Company has not paid dividends to date.

20. 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, 2013, 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, 2013, the fair value of long-term debt was $26,355,000 (RMB 150,000,000), as compared to its carrying value of $26,127,983 (RMB 148,707,928) 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.

20. 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, 2013, substantially all of the Company's cash and all of its debt, as described in note 13, 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, 2013, the Company held foreign currency cash of RMB 78,020,620 (2012 - RMB 39,713,726) and U.S. $1,256,367 (2012 - U.S. $14,359).

As at December 31, 2013, with other variables unchanged, a +/-1% change in the U.S. dollar to Canadian dollar exchange rate would increase/decrease net income for the year by $13,363 (U.S. $12,564), and a +/-1% change in the exchange rate of RMB would increase/decrease the cumulative translation adjustment by $28,528 (RMB 162,370).

(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.

(Expressed in Canadian dollars, unless otherwise indicated)

20. 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, 2013, and 6.55% at December 31, 2012), 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 13 for the year ended December 31, 2013 would have had the following impact on the Company's net income:

	Impact on net income
Interest rate +1%	$ (263,550)
Interest rate -1%	263,550

(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, 2013, the Company had recorded an allowance for doubtful accounts of $20,360 (2012 - $13,966).

20. 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, 2013. 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 though 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, 2013, the Company had a working capital deficiency of $9,465,475 (2012 - $12,204,931). The Company had a cash balance of $15,151,430 (2012 - $6,377,219) to settle current liabilities of $30,602,759 (2012 - $23,511,399). 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.

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, 2013, 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.

The contractual maturities of the Company's long-term financial liabilities are described in note 13 and the remaining financial liabilities, consisting of trade and other payables, interest payable and deferred revenue, are expected to be realized within one year.

21. 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.

22. 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.

23. 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.

(Expressed in Canadian dollars, unless otherwise indicated)

23. 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 2013 and 2012. Summarized financial information concerning the reportable segments is shown in the following tables:

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

(Expressed in Canadian dollars, unless otherwise indicated)

23. Segmented reporting (continued):

2012	Gas distribution utility	CNG refuelling station	Consolidated
Revenue	$ 27,669,600	$ 5,603,081	$ 33,272,681
Cost of sales	13,160,631	4,357,453	17,518,084
	14,508,969	1,245,628	15,754,597
Other operating income	717,552	–	717,552
Expenses:			
General and administrative	6,882,962	581,279	7,464,241
Travel and business development	2,890,615	70,332	2,960,947
Stock-based compensation	149,286	30,230	179,516
	9,922,863	681,841	10,604,704
Income from operations	$ 5,303,658	$ 563,787	$ 5,867,445
Acquisition of property and equipment	$ (4,973,871)	$ (336,529)	$ (5,310,400)
Acquisition of intangible assets	(964,719)	–	(964,719)
Investment in associate	754,610	–	754,610
Total assets, December 31, 2012	$ 58,509,028	$ 2,690,504	$ 61,199,532

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, 2013 and 2012, there is no significant individual customer from which sales amounted to more than 10% of the Company's revenue.