

Interim Condensed Consolidated Financial Statements  
(Expressed in Canadian dollars)

## **CHANGFENG ENERGY INC.**

As at for the three-month and six-month periods ended  
June 30, 2016 and 2015  
(Unaudited)

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

# CHANGFENG ENERGY INC.

Interim Condensed Consolidated Statement of Profit or Loss  
and Other Comprehensive (Loss) Income  
(Expressed in Canadian dollars)  
(Unaudited)

	Three-month periods ended		Six-month periods ended	
	2016	2015	2016	2015
		June 30,		June 30,
Revenue (note 5)	\$ 15,488,199	\$ 13,717,248	\$ 31,685,962	\$ 30,418,018
Cost of sales	9,419,281	6,930,689	17,110,374	14,056,467
Gross margin	6,068,918	6,786,559	14,575,588	16,361,551
Expenses:				
General and administrative	2,769,651	1,897,206	5,775,045	5,008,301
Travel and business development	761,114	911,234	1,952,609	1,811,608
Stock-based compensation	-	48,534	-	77,654
Other gains and losses	489,722	508,936	489,722	508,936
	4,020,487	3,365,910	8,217,376	7,406,499
Income from operations	2,048,431	3,420,649	6,358,212	8,955,052
Finance costs	(310,764)	(486,858)	(826,129)	(1,002,450)
Interest income	24,840	29,889	41,526	63,288
Share of loss of an associate	(317)	(320)	(698)	(670)
Share of loss of a joint venture	(793,429)	-	(917,530)	-
Profit before income taxes (note 7)	968,761	2,963,360	4,655,381	8,015,220
Income taxes (note 6)	1,311,816	1,367,561	2,761,848	3,509,948
Profit (loss) for the period	(343,055)	1,595,799	1,893,533	4,505,272
Other comprehensive (loss) income				
<i>Items that may be reclassified</i>				
<i>subsequently to profit or loss:</i>				
Exchange differences on translation				
of foreign operations	(1,280,530)	(417,474)	(3,383,555)	2,316,662
Total comprehensive (loss) income	\$ (1,623,585)	\$ 1,178,325	\$ (1,490,022)	\$ 6,821,934
Profit for the period attributable to:				
Owners of the Company	\$ (388,469)	\$ 1,469,840	\$ 1,761,659	\$ 4,297,053
Non-controlling interests	45,414	125,959	131,874	208,219
	\$ (343,055)	\$ 1,595,799	\$ 1,893,533	\$ 4,505,272
Total comprehensive (loss) income				
attributable to:				
Owners of the Company	\$ (1,715,205)	\$ 837,163	\$ (1,482,195)	\$ 6,398,512
Non-controlling interests	91,620	341,162	(7,827)	423,422
	\$ (1,623,585)	\$ 1,178,325	\$ (1,490,022)	\$ 6,821,934
Earnings per share attributable to				
common shareholders: (note 9)				
Basic	\$ 0.00	\$ 0.03	\$ 0.03	\$ 0.07
Diluted	0.00	0.03	0.03	0.07

See accompanying notes to interim condensed consolidated financial statements.

# CHANGFENG ENERGY INC.

Interim Condensed Consolidated Balance Sheet  
(Expressed in Canadian dollars)  
(Unaudited)

	June 30, 2016	December 31, 2015
<b>Assets</b>		
Current assets:		
Bank balances and cash	\$ 13,451,295	\$ 14,183,444
Pledged bank deposits	196,324	2,132,652
Trade receivables (note 10)	5,751,263	8,581,260
Other receivables, prepaid expenses and deposits (note 12)	3,897,279	4,082,159
Current portion of prepaid lease prepayment	50,873	55,883
Inventories (note 11)	1,306,874	1,252,368
Due from related parties (note 19)	427,499	-
<b>Total current assets</b>	<b>25,081,407</b>	<b>30,287,766</b>
Non-current assets:		
Long-term deposits and advances (note 12)	2,957,592	2,282,491
Investment in an associate	912,062	993,885
Investment in a joint venture (note 13)	2,954,503	4,180,931
Property and equipment (note 14)	71,767,436	75,104,722
Prepaid lease payment	2,492,770	2,097,134
Intangible assets	386,412	413,769
<b>Total non-current assets</b>	<b>81,470,775</b>	<b>85,072,932</b>
<b>Total assets</b>	<b>\$ 106,552,182</b>	<b>\$ 115,360,698</b>
<b>Liabilities and Equity</b>		
Current liabilities:		
Short-term bank loans (note 17)	\$ 10,536,709	\$ 8,469,000
Trade and other payables (note 15)	9,510,439	12,202,494
Tax payable	2,398,669	1,919,609
Deferred revenue	16,701,941	18,665,994
Current portion of long-term debt (note 16)	4,501,100	4,048,900
Loan from a ultimate controlling shareholder (note 19)	7,828,000	8,524,000
Due to related parties (note 19)	889,262	1,343,444
<b>Total current liabilities</b>	<b>52,366,120</b>	<b>55,173,441</b>
Non-current liabilities:		
Long-term debt (note 16)	16,856,086	21,210,618
Deferred income - government grants	1,020,908	1,113,290
Deferred income tax liability	1,646,281	1,493,778
<b>Total non-current liabilities</b>	<b>19,523,275</b>	<b>23,817,686</b>
<b>Total liabilities</b>	<b>71,889,395</b>	<b>78,991,127</b>
Equity:		
Share capital (note 18)	10,423,485	10,640,247
Contributed surplus	2,614,974	2,614,974
Statutory surplus reserves	5,327,096	4,462,827
Retained earnings	9,457,114	8,559,724
Exchange translation reserve	5,166,218	8,410,072
<b>Total shareholders' equity</b>	<b>32,988,887</b>	<b>34,687,844</b>
Non-controlling interests	1,673,900	1,681,727
<b>Total equity</b>	<b>34,662,787</b>	<b>36,369,571</b>
<b>Total liabilities and equity</b>	<b>\$ 106,552,182</b>	<b>\$ 115,360,698</b>

See accompanying notes to interim condensed consolidated financial statements.

On behalf of the Board:

"Winfield Ding" \_\_\_\_\_ Director

"Wencheng Zhang" \_\_\_\_\_ Director

# CHANGFENG ENERGY INC.

Interim Condensed Consolidated Statement of Changes in Equity  
(Expressed in Canadian dollars)  
(Unaudited)

	Share capital	Contributed surplus	Statutory surplus reserves	Retained earnings	Exchange translation reserve	Total and Attributable to owners of the Company	Non-controlling interests	Total
2016								
Balance, January 1, 2016	\$ 10,640,247	\$ 2,614,974	\$ 4,462,827	\$ 8,559,724	\$ 8,410,072	\$ 34,687,844	\$ 1,681,727	\$ 36,369,571
Profit for the year	-	-	-	1,761,659	-	1,761,659	131,874	1,893,533
Exchange differences on translation of foreign operations	-	-	-	-	(3,243,854)	(3,243,854)	(139,701)	(3,383,555)
Total comprehensive loss for the year	-	-	-	1,761,659	(3,243,854)	(1,482,195)	(7,827)	(1,490,022)
Share repurchase	(216,762)	-	-	-	-	(216,762)	-	(216,762)
Transfer to statutory surplus reserve	-	-	864,269	(864,269)	-	-	-	-
Balance, June 30, 2016	\$ 10,423,485	\$ 2,614,974	\$ 5,327,096	\$ 9,457,114	\$ 5,166,218	\$ 32,988,887	\$ 1,673,900	\$ 34,662,787
2015								
Balance, January 1, 2015	\$ 11,032,007	\$ 2,696,380	\$ 3,554,010	\$ 3,256,801	\$ 3,971,706	\$ 24,510,904	\$ 803,011	\$ 25,313,915
Profit for the year	-	-	-	4,297,053	-	4,297,053	208,219	4,505,272
Exchange differences on translation of foreign operations	-	-	-	-	2,101,459	2,101,459	215,203	2,316,662
Total comprehensive income for the year	-	-	-	4,297,053	2,101,459	6,398,512	423,422	6,821,934
Stock-based compensation	-	77,654	-	-	-	77,654	-	77,654
Transfer to statutory surplus reserve	-	-	708,482	(708,482)	-	-	-	-
Balance, June 30, 2015	\$ 11,032,007	\$ 2,774,034	\$ 4,262,492	\$ 6,845,372	\$ 6,073,165	\$ 30,987,070	\$ 1,226,433	\$ 32,213,503

See accompanying notes to interim condensed consolidated financial statements.

# CHANGFENG ENERGY INC.

Interim Condensed Consolidated Statement of Cash Flows

(Expressed in Canadian dollars)

(Unaudited)

	Six-month periods ended June 30,	
	2016	2015
Net cash flows from operating activities	3,474,819	5,195,434
FINANCING ACTIVITIES:		
Repurchase of shares	(216,762)	-
Proceeds of bank indebtedness	4,821,579	5,926,280
Repayment of bank indebtedness	(1,996,260)	(3,980,000)
Repayment of long-term debt	(1,935,150)	(1,787,400)
Net cash flows from financing activities	673,407	158,880
INVESTING ACTIVITIES:		
Acquisition of property and equipment	(4,771,855)	(2,999,712)
Acquisition of intangible assets	(7,833)	-
Deposit paid for acquisition of property and equipment	(232,475)	-
Receipt from government for pipeline relocation	348,000	-
Release of pledged bank deposits	1,936,328	-
Net cash flows used in investing activities	(2,727,835)	(2,999,712)
Increase in cash	1,420,391	2,354,602
Effects of foreign exchange on cash balances	(2,152,540)	1,021,116
Cash, beginning of period	14,183,444	12,119,980
Cash, end of period	13,451,295	15,495,698

See accompanying notes to interim condensed consolidated financial statements.

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

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## 1. Corporate information:

Changfeng Energy Inc. (the "Company" or "Changfeng") and its subsidiaries (collectively referred to as the "Group") was incorporated under the Canada Business Corporations Act on May 4, 2006. Its ultimate controlling party is Mr. Huajun Lin ("Mr. Lin"), who is also an officer and director of the Company. Through its subsidiaries, the Company's core business activities are the distribution of natural gas for industrial, commercial and residential users and energy comprehensive utilization in the People's Republic of China ("China" or "PRC"). The registered office of the Company is located at 650 Highway 7 East, Suite 306, Richmond Hill, Ontario, L4B 2N7, and the principal operations of its business are in China.

The interim condensed 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"). The interim condensed consolidated financial statements were approved and authorized by the Board of Directors on August 23, 2016.

## 2. Basis of preparation of interim condensed consolidated financial statements:

The unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, they do not include all of the information required for full annual financial statements required by IAS 1 *Presentation of Financial Statements* as issued by the IASB. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2015, which include information necessary to understand the Company's business and financial statement presentation.

### Continuation of Business

At June 30, 2016, the Group's current liabilities exceeded its current assets by \$27,284,713 (December 31, 2015 - \$24,885,675). In view of these circumstances, the management of the Group (the "Management") has given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. The Management is satisfied that the Group will have sufficient financial resources to meet its financial obligations including the capital commitments and other commitments as they fall due in the foreseeable future and on April 27, 2016, Mr. Lin has extended the due date for repayment of the RMB40,000,000 (equivalent to \$7,828,000) loan to the Company for another year, to April 27, 2017. Taking into account the

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

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## 2. Basis of preparation of interim condensed consolidated financial statements (continued):

Company's cash flow projection, including the term facility, unutilized bank facilities approximately \$3,200,000, the Group's ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, the management considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the interim condensed consolidated financial statements have been prepared on a going concern basis.

## 3. Significant accounting policies:

The interim condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the interim condensed consolidated financial statements for the six-month ended June 30, 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2015.

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRSs	Annual improvements to IFRSs 2012-2014 Cycle

Except for changing the ordering of certain notes giving prominence to the areas of the Group's activities which are considered more relevant, to the understanding of the Group's operating activities, the application of these amendments to IFRSs and new IFRS in the current period has had no material effect on amounts reported in these interim condensed consolidated financial statements and/or disclosures set out in these interim condensed consolidated financial statements.



# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

## 4. 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.

## 5. Revenue and segmented reporting:

Breakdown of the revenue is shown in the following tables:

	Six-month period ended June 30, 2016	Six-month period ended June 30, 2015
Gas distribution utility		
- Gas sales	\$ 16,841,324	\$ 14,519,404
- Pipeline installation and connection	11,111,345	11,500,579
	\$ 27,952,669	\$ 26,019,983
CNG refuelling station	3,733,293	4,398,035
Total revenue	\$ 31,685,962	\$ 30,418,018

Information reported to the Company's Chief Executive Officer, being the chief operating decision maker ("CODM"), for the purposes of allocating resources to segments and assessing their performance are organized on the basis of the revenue streams.

The Group's reportable and operating segments for financial reporting purposes are as follows:

- Gas distribution utility (the "utility") which includes gas sales and pipeline installation and connection; and
- CNG vehicle refueling.

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

## 5. Revenue and segmented reporting (continued):

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 Group's other segment is a CNG refuelling retail station, which is primarily to supply gas for taxicabs and public transportation vehicles. For segment reporting, no individual operating segments have been aggregated to derive a single reportable segment.

During the period, the Group changes its internal reporting structure and subsequent to this change, corporate expense and income are no longer allocated to the segments. Comparative segment information was represented accordingly. Additionally, segment information about assets and liabilities were no longer regularly provided to the CODM since April 2016. Accordingly, the Group has not included information about assets and liabilities as part of segment information as set out in this note.

There were no significant intragroup transactions between segments. No single customer accounted for more than 10% of the Group's sales or trade and other receivables in 2016 and 2015.

Summarized financial information concerning the reportable segments is shown in the following tables:

Six-month period ended June 30, 2016	Gas distribution utility	CNG refuelling station	Consolidated
Segment revenue	\$ 27,952,669	\$ 3,733,293	\$ 31,685,962
Segment profit	6,378,583	722,712	7,101,295
Share of loss of an associate			(698)
Share of loss of a joint venture			(917,530)
Unallocated income			7,928
Unallocated expenses			(1,535,614)
Group's profit before income taxes			\$ 4,655,381

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

## 5. Revenue and segmented reporting (continued):

Six-month period ended June 30, 2015 (Recasted)	Gas distribution utility	CNG refuelling station	Consolidated
Segment revenue	\$ 26,019,983	\$ 4,398,035	\$ 30,418,018
Segment profit	9,073,757	725,724	9,799,481
Share of loss of an associate			(670)
Unallocated income			24,612
Unallocated expenses			(1,808,203)
Group's profit before income taxes			\$ 8,015,220

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of corporate expenses, share of loss of an associate and a joint venture and interest income of the investment or inactive entities. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

Geographic information:

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

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

## 6. Income taxes:

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

	Six-month period ended June 30, 2016	Six-month period ended June 30, 2015
Current income taxes	\$ 2,087,612	\$ 3,225,962
Withholding tax expense	431,130	-
Deferred income taxes:		
Origination and reversal of timing differences	243,106	283,986
	<u>\$ 2,761,848</u>	<u>\$ 3,509,948</u>

## 7. Profit before income taxes:

Profit before taxation has been arrived at after charging (crediting):

	Six-month period ended June 30, 2016	Six-month period ended June 30, 2015
Directors' remuneration	\$ 44,500	\$ 51,500
Other staff's retirement benefits scheme contributions	330,329	293,737
Other staff costs	2,581,989	1,978,143
Total remuneration	<u>\$2,956,818</u>	<u>\$ 2,323,380</u>
Release of prepaid lease payments	\$ 31,905	\$ 23,940
Depreciation for property, plant and equipment	1,627,723	1,788,226
Write-off of property, plant and equipment	5,580	1,244,625
Amortisation of intangible assets	21,222	578,405
Cost of inventories recognised as an expense	10,681,680	8,502,063
Allowances for accounts receivable	162,672	159,850

## 8. Dividends:

No dividend was paid or proposed for ordinary shareholders of the Company during the interim period, nor has any dividend been proposed since the end of the reporting period.

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

## 9. Earnings per share ("EPS"):

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

The following tables set forth the calculation of basic and diluted EPS:

	Six-month period ended June 30, 2016	Six-month period ended June 30, 2015
<u>Earnings</u>		
Profit for the year attributable to owners of the Company for the purpose of earnings per share	\$ 1,761,659	\$ 4,297,053
<u>Number of shares</u>		
Weighted average number of shares for the purpose of basic earnings per share	61,379,425	63,099,200
Effect of dilutive potential shares: Share options issued by the Company	435,500	971,608
Weighted average number of shares for the purpose of diluted earnings per share	61,814,925	64,070,808

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

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## 10. Trade receivables:

	June 30, 2016	December 31, 2015
Trade receivables	\$ 6,222,005	\$ 8,889,330
Less: allowance for doubtful accounts	470,742	308,070
Net trade receivables	\$ 5,751,263	\$ 8,581,260

Credit period granted by the Group to customers for supply of natural gas is usually 10 days from the date of the demand note.

Considerations in respect of pipeline installation and connection are received in accordance with the terms of the related contracts, certain portion are received before the date of the completion of the pipeline installation and connection which is recorded as deferred revenue and the remaining balance are normally settled within 30–60 days from date of completion of the pipeline installation and connection under the contracts.

Before accepting any new customer, the Group assesses the potential customer's credit quality. In addition, the Group will review the repayment history of receivables by each customers for installation and connection with reference to the payment terms stated in the contracts. Management considers the customers that are neither past due nor impaired are of good credit quality based on repayment history of respective customers.

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

## 11. Inventories:

	June 30, 2016	December 31, 2015
Construction materials	\$ 1,166,039	\$ 693,318
Gas appliances, meters and spare parts	86,230	161,121
Natural gas	54,605	397,929
	<u>\$ 1,306,874</u>	<u>\$ 1,252,368</u>

The amount of inventories recognized as an expense through cost of sales during the period was \$10,681,680 (2015 - \$8,502,063). No inventory was written down to lower of cost and net realizable value and no reversals of any write down were recorded as at June 30, 2016 and December 31, 2015.

## 12. Other receivables, prepaid expenses and deposits:

	June 30, 2016	December 31, 2015
Demolition compensation payment on behalf of a local government (Note 1)	\$ 1,551,686	\$ 1,689,649
Pipeline relocation receivables (Note 2)	1,862,708	2,489,250
Deposits paid for acquisition of property and equipment, Construction in progress and land use right	1,060,855	1,088,299
Prepayment for gas purchase	279,056	203,922
Prepaid rental (Note 3)	1,178,980	114,539
Prepayment and deposits	921,586	778,991
	<u>\$ 6,854,871</u>	<u>\$ 6,364,650</u>
Analysed for reporting purpose as:		
Current	\$ 3,897,279	\$ 4,082,159
Non-current	2,957,592	2,282,491
	<u>\$ 6,854,871</u>	<u>\$ 6,364,650</u>

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

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## 12. Other receivables, prepaid expenses and deposits (continued):

Note 1: In 2012, for the purpose of construction of certain gas distribution facilities, the Group paid demolition compensation to local inhabitants of \$1,551,686 (RMB7,928,901) (2015 – \$1,689,649). The payment amounts were capitalized as part of the cost of the gas pipeline facilities in plant and equipment as there was no agreed time-table and mechanism for reimbursements of such payments. During 2015, the Group submitted detailed applications after negotiation with the local government authority and in March 2016 the local government formally approved the application reimbursement and confirmed to the Group about its acceptance of the amount payable. Accordingly, the Group adjusted the carrying amount of the gas pipeline assets and recognized the amount as other receivables.

Note 2: Due to the change in city planning, local government notified the Group to relocate its gas pipelines for complying with the revised city plan and agreed that it would compensate part of the costs incurred by the Group as a result of the notified relocation. At June 30, 2016, the Group has incurred \$1,862,708 (RMB9,823,908) (2015 – \$2,489,250) on construction of new pipelines as a result of the relocation notice. The Group expected \$749,050 (RMB3,827,540) (2015 – \$1,211,423) would be refunded by the local government with twelve months and the remaining balance of \$1,113,658 (RMB5,996,368) (2015 – \$1,277,827) to be refunded beyond twelve months after June 30, 2016.

Note 3: Amount included \$1,046,883 prepaid land rent in respect of a 5-year land rental agreement for a new CNG refueling station in Sanya City, Hainan Province. The Group prepaid the 5-year rent in full in April 2016.



# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

## 13. Investment in a joint venture:

Details of the Group's investment in a joint venture is as follows:

	June 30, 2016	December 31, 2015
Cost of investments in a joint venture	\$ 4,262,000	\$ 4,262,000
Share of post-acquisition losses	(998,599)	(81,069)
Exchange realignment	(308,898)	-
	<u>\$ 2,954,503</u>	<u>\$ 4,180,931</u>

On July 21, 2015, the Group entered into a joint venture agreement with Tangshan Caofeidian Development Investment Group Co., Ltd. ("CFD Group") to establish Caofeidian Evergrowth Energy Co., Ltd. ("Evergrowth") to jointly operate liquefied natural gas ("LNG") trading, natural gas distribution, transportation, and related infrastructure construction. Evergrowth is based in Tangshan City, Hebei province. The registered capital of the Evergrowth is RMB 200 million (approximately CAD \$41 million) which the Group and CFD Group respectively own 50% each in Evergrowth. RMB 40 million of funding for the registered capital is required within 30 days of incorporation; the remaining RMB 160 million is required within 10 years of establishment. Under the joint venture agreement, Evergrowth would operate and manage an energy resource exchange in Northern China.

The Group has accounted for its investment in Evergrowth using the equity method.

## 14. Movements in property and equipment

During the six-month period ended June 30, 2016, the Group has acquired new property and equipment of \$4,771,855 (2015 – \$2,999,712) and written-off certain of its motor vehicles and furniture and equipment of \$5,580 (2015 - \$1,244,625). The amount of depreciation for the six-month period is \$1,627,723. Net exchange realignments for the six-month period ended June 30, 2016 is \$6,475,838 (year ended December 31, 2015 - \$9,552,637).

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

## 15. Trade and other payables

	June 30, 2016	December 31, 2015
Trade payables	\$ 6,547,036	\$ 8,541,550
Receipt in advance	869,887	937,214
Accrued wages	589,461	1,604,536
Accrued safety reserve	678,401	200,640
Other tax payable	346,334	628,827
Others	479,320	289,727
	<u>\$ 9,510,439</u>	<u>\$ 12,202,494</u>

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

## 16. Long-term debt:

	June 30, 2016	December 31, 2015
Term loan facility - Bank of China (i)	12,231,250	14,917,000
Term loan facility - Bank of China (ii)	6,849,500	7,458,500
Term loan facility - Bank of China (iii)	2,348,400	2,983,400
	<u>21,429,150</u>	<u>25,358,900</u>
Less unamortized transaction costs (i)	71,964	99,382
	<u>21,357,186</u>	<u>25,259,518</u>
Less current portion	4,501,100	4,048,900
	<u>\$ 16,856,086</u>	<u>\$ 21,210,618</u>

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

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## 16. Long-term debt (continuous):

- (i) On January 5, 2010, the PRC subsidiary of the Company, Sanya Changfeng Offshore Natural Gas Distribution Co. Ltd ("CF China"), entered into a RMB100,000,000 term loan with the Bank of China, Sanya Branch ("BOC, Sanya"), maturing in January 2019 and bearing interest at the benchmark lending rate of the People's Bank of China, which is reset every six months (the "Term Loan 2010"). It is secured by 60% of the equity interest in CF China held by the Company's wholly owned subsidiaries, Hainan Energy Ltd., certain gas connection and gas supply rights, and a maximum of \$6,033,000 (RMB30,000,000) guarantee from and trade receivables during 2012 to 2022 owned by Sanya Changfeng Offshore Natural Gas Engineering Construction Co., Ltd. During the six-month period ended June 30, 2016, CF China made payments in the amount of \$1,527,750 (RMB 7,500,000 (2015 – \$1,509,000 (RMB 7,500,000))) in accordance with the semi-annual repayment provisions of the term loan agreement.

At June 30, 2016, CF China had \$71,964 (RMB 367,726) unamortized transaction cost (December 31, 2015 - \$ 99,382 (RMB 466,363)), which has been offset against the term loan.

- (ii) On January 15, 2013, CF China entered into an agreement with the BOC, Sanya to secure a bank loan facility in the amount of RMB 50 million (the "Term Loan 2013"). The bank loan facility provides that the proceeds of the Term Loan 2013 would 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 benchmark lending rate set by the People's Bank of China. The Term Loan 2013 is secured and guaranteed by the same securities of the Term Loan 2010. During the six - month period ended June 30, 2016, CF China made no payments (2015 – nil) in accordance to the repayment terms stated in the agreement.
- (iii) On December 21, 2012, the PRC subsidiary, Pingxiang Changfeng Natural Gas Co., Ltd ("CF Pingxiang"), entered into a term loan with the Bank of China, Pingxiang Branch ("BOC, Pingxiang") for RMB 20 million, maturing six years from the date of the first withdrawal, and bearing both fixed and variable interest at 120% of the benchmark lending 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 guaranteed by CF China. The proceeds from this term loan will be used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang City, Jiangxi province. During the period, CF Pingxiang made payments in the amount of \$407,400 (RMB 2,000,000) (2015 - \$301,800 (RMB 1,500,000)).

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

## 16. Long-term debt (continuous):

The following tables set forth the movement of the long-term debt:

Balance, December 31, 2015	\$ 25,259,518
Repayment	(1,935,150)
Less: unamortized transaction costs	(71,964)
Foreign exchange realignment	(1,895,218)
Balance, June 30, 2016	\$ 21,357,186

## 17. Short-term bank loans:

	June 30, 2016	December 31, 2015
Bank of China, Sanya (i)	1,957,000	2,131,000
Minsheng Bank, Sanya (ii)	1,996,140	4,262,000
Guangda Bank, Sanya (iii)	4,632,219	-
Bank of China (Canada) (iv)	1,951,350	2,076,000
	10,536,709	8,469,000

- (i) On November 10, 2015, CF China entered into an agreement with the BOC, Sanya to secure a one-year loan in the amount of \$1,957,000 (RMB10,000,000) (December 31, 2015 - \$2,131,000 (RMB10,000,000)) relating to CF China's line of credit with BOC, Sanya. The loan has fixed interest rate at 4.4% (2015 - 4.4%) per annum. This line of credit contains a financial covenant, which requires CF China's debt-to-total-assets ratio to be maintained below 80%, respectively.
- (ii) On December 8, 2015, CF China entered into an agreement with the Minsheng Bank, Sanya to secure a one-year loan in the amount of \$4,262,000 (RMB20,000,000) relating to the CF China's credit line with Minsheng Bank, Sanya. This credit line bears fixed interest rate of 5.4% per annum and is guaranteed by a personal guarantee provided by Mr. Lin. During the period, CF China made payments in the amount of \$1,996,260 (RMB 9,800,000) (2015 - nil). At June 30, 2016, the balance of the loan is \$1,996,140 (RMB10,200,000).

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

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## 17. Short-term bank loans (continuous):

- (iii) On January 26, 2016 and June 28, 2016, CF China entered into two agreements with Guangda Bank, Sanya to secure one-year loans in the total amount of \$4,821,579 (RMB23,669,998) (December 31, 2015 - nil) relating to CF China's credit line with Guangda Bank, Sanya granted during the period. This credit line bears fixed interest rate of 4.35% per annum.
- (iv) On September 22, 2015, the Company entered into an agreement with the Bank of China (Canada) to secure a one-year loan in the total amount of \$1,951,350 (December 31, 2015 - \$2,076,000) relating to a US\$1,500,000 term loan from the Bank of China (Canada) granted to the Company pursuant to a credit facility letter agreement effective on October 6, 2015 (the "US Term Loan"). The US Term Loan is secured by a Standby Letter of Credit provided by the Company. The US Term Loan has a one-year term from the date of the withdrawal and bears annual interest of six-month LIBOR rate plus 250 basis points. The effective interest rate of the loan was 3.1%.

The following tables set forth the movement of the bank indebtedness:

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Balance, December 31, 2015	\$ 8,469,000
Addition	4,821,579
Repayment	(1,996,260)
Foreign exchange realignment	(757,610)
<hr/> Balance, June 30, 2016	<hr/> \$ 10,536,709

As at June 30, 2016, the Company was in compliance with all of its debt covenants.

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

## 18. Share capital:

(a) Authorized:

Unlimited common shares

(b) Issued common shares:

	Number of shares	Amount
Balance, December 31, 2014 and June 30, 2015	63,099,200	11,032,007
Repurchased	(1,197,500)	(407,152)
Exercised options	50,000	15,392
Balance, December 31, 2015	61,951,700	\$ 10,640,247
Repurchased	(614,000)	(216,762)
Balance, June 30, 2016	61,337,700	\$ 10,423,485

### Normal-course issuer bid:

On November 21, 2013, June 22, 2015 and June 28, 2016, the Company received approval from the TSX-V to make normal-course issuer bids (the "Bid") to periodically purchase, for cancellation, up to 3,000,000 common shares for the period from November 26, 2013 to November 26, 2014, from June 24, 2015 to June 23, 2016 and from July 4, 2016 to July 3, 2017, respectively. During the period, the Company purchased 614,000 shares pursuant for cash considerations of \$216,762 (six-month period ended June 30, 2015 – nil). As of June 30, 2016, the outstanding shares of the Company is 61,337,700.

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

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## 19. Related party disclosures:

- (a) The name of related companies of the Group and their relationships with the Group are as follows:

Name	Relationship
Qinglong Manchu Autonomous Country Hengtai Industrial Co. Ltd. ("Qinglong")	Subsidiary of Evergrowth
Mr. Huajun Lin	Ultimate Controlling Shareholder, CEO and director of the Company
Ms. Siqin Lin	Daughter of Mr. Huajun Lin
Xiangtan Changfeng Cryogenic Energy Co., Ltd. ("Shin-Ko Energy")	Associate of the Company

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- (b) Transactions with related parties:

Except as disclosed elsewhere in the interim condensed consolidated financial statements, the Group did not have material transactions with its related parties during the reporting period.

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

## 19. Related party disclosures (continued):

(c) Balances with related parties at end of reporting period:

	June 30, 2016	December 31, 2015
<b>Name of the related parties</b>		
<i>Due from related parties</i>		
Ms. Siqin Lin (note i)	\$ 37,862	\$ -
Qinglong (note ii)	\$ 389,637	\$ -
	\$ 427,499	\$ -
<i>Loan from a ultimate controlling shareholder</i>		
Mr. Huajun Lin (note iii)	\$ 7,828,000	\$ 8,524,000
	\$ 7,828,000	\$ 8,524,000
<i>Due to related parties</i>		
Shin-Ko Energy (note v)	\$ 831,461	\$ 905,473
Mr. Huajun Lin (note iv)	57,801	366,962
Others (note vi)	-	71,009
	\$ 889,262	\$ 1,343,444

Amounts are non-trade nature, unsecured and repayable on demand.

- (i) As at June 30, 2016, Qinglong owed the Company \$389,637 (RMB 2,000,000) (December 31, 2015 - nil).



# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

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## 19. Related party disclosures (continued):

- (ii) In 2007, Mr. Lin, advanced loans in the aggregate amount of \$7,828,000 (RMB40,000,000) (December 31, 2015 - \$8,524,000 (RMB40,000,000)) to the Company, through wholly owned corporations, pursuant to a Subordination and Forbearance Agreement dated April 27, 2007, Consignment Loan Agreements dated May 23, 2007 and June 26, 2007, and other ancillary documentation. These loans are unsecured, non-interest bearing, are subordinated to the claims of all other creditors, including unsecured creditors of the Company and were due on demand only after April 27, 2010.

On April 27, 2010, these loans were renewed for another three years with the same terms and conditions. On April 27, 2013, these loans were renewed for another two years with the same terms and conditions. On April 27, 2015, these loans were renewed for another year with the same terms and conditions. On April 27, 2016, these loans were renewed for another year with the same terms and conditions.

- (iii) As at June 30, 2016, the Company owed Mr. Lin \$57,801 (December 31, 2015 - \$366,962) for unpaid salary.
- (iv) Included in current due to related parties as at June 30, 2016 amounted to \$587,100 (RMB3,000,000) (2015 - \$639,300 (RMB3,000,000)) was relating to an advance made by Shin-Ko Energy. Also included in current due to related parties, as at June 30, 2016, was \$244,361 (RMB1,248,650) (2015 - \$266,173 (RMB 1,249,050)) relating to a loan made to the Company by Shin-Ko Energy. The loans are interest-free unsecured and payable on demand.
- (v) During the six-month period ended June 30, 2016, the Company has settled the unpaid director's fees to certain directors \$71,009 as at December 31, 2015.

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

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## 19. Related party disclosures (continued):

(d) 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 all directors, Chief Executive Officer, the Chief Financial Officer and the Vice President.

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

	Six-month period ended June 30, 2016	Six-month period ended June 30, 2015
Short-term employee benefits	\$ 207,000	\$ 181,500
Share-based benefits	-	86,395
<b>Total remuneration</b>	<b>\$ 207,000</b>	<b>\$ 267,895</b>

## 20. Commitments and contingencies:

At June 30, 2016, the Group has capital commitments for the purchase of property and equipment and the construction of pipelines under development contracted for but not provided for the interim condensed consolidated financial statements amounting to \$1,612,184 (RMB 8,238,036) (2015 - \$4,502,278 (RMB 21,127,538)).

At June 30, 2016 and December 31, 2015, the Group is committed to further inject RMB80million funding to Evergrowth within 10 years of establishment of Evergrowth by and agreement.

# CHANGFENG ENERGY INC.

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

Six-month periods ended June 30, 2016 and 2015  
(Unaudited)

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## 21. Financial instruments and risk management:

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

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

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the interim condensed consolidated financial statements approximate their fair values.