

Interim Condensed Consolidated Financial Statements  
(Expressed in Canadian dollars)

## **CHANGFENG ENERGY INC.**

As at for the three-month and nine-month periods ended  
September 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 Income  
(Expressed in Canadian dollars)  
(Unaudited)

	Three-month periods ended		Nine-month periods ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue (note 5)	\$ 16,394,072	\$ 13,157,887	\$ 48,080,034	\$ 43,575,905
Cost of sales	9,527,108	6,960,587	26,637,482	20,799,122
Gross margin	6,866,964	6,197,300	21,442,552	22,776,783
Expenses:				
General and administrative	2,564,834	2,920,267	8,339,879	7,837,032
Travel and business development	675,199	746,221	2,627,808	2,557,829
Stock-based compensation	-	95,135	-	172,789
Other gains and losses	440,819	79,925	930,541	588,861
	3,680,852	3,841,548	11,898,228	11,156,511
Income from operations	3,186,112	2,355,752	9,544,324	11,620,272
Finance costs	(378,495)	(446,865)	(1,204,624)	(1,449,315)
Interest income	14,181	20,090	55,707	83,378
Share of loss of an associate	(319)	(6,391)	(1,017)	(7,061)
Investment loss of a joint venture	(412,511)	-	(1,330,041)	-
Profit before income taxes (note 7)	2,408,968	1,922,586	7,064,349	10,247,274
Income taxes (note 6)	875,025	926,178	3,636,873	4,436,126
Profit for the period	1,533,943	996,408	3,427,476	5,811,148
Other comprehensive income				
<i>Items that may be reclassified</i>				
<i>subsequently to profit or loss:</i>				
Exchange differences on translation				
of foreign operations	90,408	1,371,375	(3,293,146)	3,688,037
Total comprehensive income	\$ 1,624,351	\$ 2,367,783	\$ 134,330	\$ 9,499,185
Profit for the period attributable to:				
Owners of the Company	\$ 1,403,579	\$ 873,223	\$ 3,165,238	\$ 5,478,846
Non-controlling interests	130,364	123,185	262,238	332,302
	\$ 1,533,943	\$ 996,408	\$ 3,427,476	\$ 5,811,148
Total comprehensive income				
attributable to:				
Owners of the Company	\$ 1,493,987	\$ 2,075,116	\$ 11,793	\$ 8,955,988
Non-controlling interests	130,364	292,667	122,537	543,197
	\$ 1,624,351	\$ 2,367,783	\$ 134,330	\$ 9,499,185
Earnings per share attributable to				
common shareholders: (note 9)				
Basic	\$ 0.02	\$ 0.02	\$ 0.05	\$ 0.09
Diluted	0.02	0.02	0.05	0.09

See accompanying notes to interim condensed consolidated financial statements.

# CHANGFENG ENERGY INC.

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

	September 30, 2016	December 31, 2015
<b>Assets</b>		
Current assets:		
Bank balances and cash	\$ 20,844,715	\$ 14,183,444
Pledged bank deposits	251,250	2,132,652
Trade receivables (note 10)	6,444,363	8,581,260
Other receivables, prepaid expenses and deposits (note 12)	8,908,682	4,082,159
Current portion of prepaid lease prepayment	51,133	55,883
Inventories (note 11)	989,049	1,252,368
Total current assets	37,489,192	30,287,766
Non-current assets:		
Long-term deposits and advances (note 12)	1,439,867	2,282,491
Investment in an associate	916,401	993,885
Investment in a joint venture (note 13)	-	4,180,931
Property and equipment (note 14)	73,950,626	75,104,722
Prepaid lease payment	3,022,900	2,097,134
Intangible assets	706,429	413,769
Total non-current assets	80,036,223	85,072,932
Total assets	\$ 117,525,415	\$ 115,360,698
<b>Liabilities and Equity</b>		
Current liabilities:		
Short-term bank loans (note 17)	\$ 9,835,550	\$ 8,469,000
Trade and other payables (note 15)	9,840,949	12,202,494
Tax payable	2,558,499	1,919,609
Deferred revenue	20,567,274	18,665,994
Current portion of long-term debt (note 16)	4,573,275	4,048,900
Loan from a ultimate controlling shareholder (note 19)	7,868,000	8,524,000
Due to related parties (note 19)	837,834	1,343,444
Total current liabilities	56,081,381	55,173,441
Non-current liabilities:		
Long-term debt (note 16)	22,597,711	21,210,618
Deferred income - government grants	1,025,398	1,113,290
Deferred income tax liability	1,533,786	1,493,778
Total non-current liabilities	25,156,895	23,817,686
Total liabilities	81,238,276	78,991,127
Equity:		
Share capital (note 18)	10,423,485	10,640,247
Contributed surplus	2,373,474	2,614,974
Statutory surplus reserves	5,552,158	4,462,827
Retained earnings	10,877,131	8,559,724
Exchange translation reserve	5,256,627	8,410,072
Total shareholders' equity	34,482,875	34,687,844
Non-controlling interests	1,804,264	1,681,727
Total equity	36,287,139	36,369,571
Total liabilities and equity	\$ 117,525,415	\$ 115,360,698

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)

2016	Share capital	Contributed surplus	Statutory surplus reserves	Retained earnings	Exchange translation reserve	Total and Attributable to owners of the Company	Non-controlling interests	Total
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	-	-	-	3,165,238	-	3,165,238	262,238	3,427,476
Exchange differences on translation of foreign operations	-	-	-	-	(3,153,445)	(3,153,445)	(139,701)	(3,293,146)
Total comprehensive loss for the year	-	-	-	3,165,238	(3,153,445)	11,793	122,537	134,330
Share repurchase	(216,762)	-	-	-	-	(216,762)	-	(216,762)
Options expired	-	(241,500)	-	241,500	-	-	-	-
Transfer to statutory surplus reserve	-	-	1,089,331	(1,089,331)	-	-	-	-
Balance, September 30, 2016	\$ 10,423,485	\$ 2,373,474	\$ 5,552,158	\$ 10,877,131	\$ 5,256,627	\$ 34,482,875	\$ 1,804,264	\$ 36,287,139

2015	Share capital	Contributed surplus	Statutory surplus reserves	Retained earnings	Exchange translation reserve	Total and Attributable to owners of the Company	Non-controlling interests	Total
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	-	-	-	5,478,846	-	5,478,846	332,302	5,811,148
Exchange differences on translation of foreign operations	-	-	-	-	3,477,142	3,477,142	210,895	3,688,037
Total comprehensive income for the year	-	-	-	5,478,846	3,477,142	8,955,988	543,197	9,499,185
Share repurchase	(91,840)	-	-	-	-	(91,840)	-	(91,840)
Options exercised	11,500	-	-	-	-	11,500	-	11,500
Stock-based compensation	-	172,789	-	-	-	172,789	-	172,789
Transfer to statutory surplus reserve	-	-	908,817	(908,817)	-	-	-	-
Balance, September 30, 2015	\$ 10,951,667	\$ 2,869,169	\$ 4,462,827	\$ 7,826,830	\$ 7,448,848	\$ 33,559,341	\$ 1,346,208	\$ 34,905,549

See accompanying notes to interim condensed consolidated financial statements.

# CHANGFENG ENERGY INC.

Interim Condensed Consolidated Statement of Cash Flows

(Expressed in Canadian dollars)

(Unaudited)

	Nine-month periods ended September 30,	
	2016	2015
Net cash flows from operating activities	9,813,228	10,876,166
FINANCING ACTIVITIES:		
Repurchase of shares	(216,762)	(91,840)
Increase in exercised options	-	11,500
Proceeds of bank indebtedness	6,030,000	6,007,680
Repayment of bank indebtedness	(4,020,000)	(4,032,000)
Proceeds of long-term debt	6,030,000	-
Repayment of long-term debt	(2,110,500)	(1,965,600)
Government grants	-	19,152
Net cash flows from financing activities	5,712,738	(51,108)
INVESTING ACTIVITIES:		
Acquisition of property and equipment	(7,704,916)	(3,645,384)
Acquisition of intangible assets	(342,036)	-
Deposit paid for acquisition of property and equipment	(934,919)	-
Receipt from government for pipeline relocation	343,387	-
Release of pledged bank deposits	1,881,402	-
Investment in a joint venture	-	(4,032,000)
Net cash flows used in investing activities	(6,757,082)	(7,677,384)
Increase in cash	8,768,884	3,147,674
Effects of foreign exchange on cash balances	(2,107,613)	1,347,163
Cash, beginning of period	14,183,444	12,119,980
Cash, end of period	20,844,715	16,614,817

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)

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

---

## 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 current core business activities are the distribution of natural gas for industrial, commercial and residential users in the People's Republic of China ("China" or "PRC"). The registered office of the Company is located at 650 Highway 7 East, Suite 306, Richmond Hill, Ontario, L4B 2N7, and the principal operations of its business are in China.

The 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 November 14, 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 September 30, 2016, the Group's current liabilities exceeded its current assets by \$18,592,189 (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 \$7,868,000) 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)

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

---

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

Company's cash flow projection, including the term facility, unutilized bank facilities, 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 nine-month ended September 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)

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

## 4. Seasonality of operations:

Seasonality can impact the Company's natural gas distribution sales. The Company's revenue from natural gas distribution sales mainly derived from 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:

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Gas distribution utility		
- Gas sales	\$ 23,622,099	\$ 20,113,790
- Pipeline installation and connection	17,628,178	16,771,533
	\$ 41,250,277	\$ 36,885,323
CNG refuelling station	6,829,757	6,690,582
Total revenue	\$ 48,080,034	\$ 43,575,905

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:

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

# CHANGFENG ENERGY INC.

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

Nine-month periods ended September 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:

Nine-month period ended September 30, 2016	Gas distribution utility	CNG refuelling station	Consolidated
Segment revenue	\$ 41,250,277	\$ 6,829,757	\$ 48,080,034
Segment profit	8,239,694	1,256,500	9,496,194
Share of loss of an associate			(1,017)
Share of loss of a joint venture			(1,330,041)
Unallocated income			1,584
Unallocated expenses			(1,102,371)
Group's profit before income taxes			\$ 7,064,349

# CHANGFENG ENERGY INC.

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

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

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

Nine-month period ended September 30, 2015 (Recasted)	Gas distribution utility	CNG refuelling station	Consolidated
Segment revenue	\$ 36,885,323	\$ 6,690,582	\$ 43,575,905
Segment profit	10,570,096	973,964	11,544,060
Share of loss of an associate			(7,061)
Unallocated income			83,378
Unallocated expenses			(1,373,101)
Group's profit before income taxes			\$ 10,247,274

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)

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

## 6. Income taxes:

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

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Current income taxes	\$ 2,854,290	\$ 4,113,865
Withholding tax expense	648,747	-
Deferred income taxes:		
Origination and reversal of timing differences	133,836	322,261
	<u>\$ 3,636,873</u>	<u>\$ 4,436,126</u>

## 7. Profit before income taxes:

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

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Directors' remuneration	\$ 70,750	\$ 77,250
Other staff's retirement benefits scheme contributions	450,494	440,606
Other staff costs	3,872,984	2,967,215
Total remuneration	<u>\$4,394,228</u>	<u>\$ 3,485,071</u>
Release of prepaid lease payments	\$ 50,581	\$ 38,672
Depreciation for property, plant and equipment	2,270,577	2,095,778
Write-off of property, plant and equipment	7,406	1,866,938
Amortisation of intangible assets	41,635	754,456
Cost of inventories recognised as an expense	17,597,466	12,715,139
Allowances for accounts receivable	201,491	182,041

## 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)

Nine-month periods ended September 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:

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
<u>Earnings</u>		
Profit for the year attributable to owners of the Company for the purpose of earnings per share	\$ 3,165,238	\$ 5,478,846
<u>Number of shares</u>		
Weighted average number of shares for the purpose of basic earnings per share	61,365,415	62,937,368
Effect of dilutive potential shares:		
Share options issued by the Company	214,621	554,552
Weighted average number of shares for the purpose of diluted earnings per share	61,580,037	63,491,920

# CHANGFENG ENERGY INC.

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

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

---

## 10. Trade receivables:

	September 30, 2016	December 31, 2015
Trade receivables	\$ 6,953,924	\$ 8,889,330
Less: allowance for doubtful accounts	509,561	308,070
Net trade receivables	\$ 6,444,363	\$ 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)

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

## 11. Inventories:

	September 30, 2016	December 31, 2015
Construction materials	\$ 577,423	\$ 693,318
Gas appliances, meters and spare parts	144,837	161,121
Natural gas	266,789	397,929
	<u>\$ 989,049</u>	<u>\$ 1,252,368</u>

The amount of inventories recognized as an expense through cost of sales during the period was \$17,597,466 (2015 - \$12,715,139). No inventory was written down to lower of cost and net realizable value and no reversals of any write down were recorded as at September 30, 2016 and December 31, 2015.

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

	September 30, 2016	December 31, 2015
Demolition compensation payment on behalf of a local government (Note 1)	\$ 1,559,615	\$ 1,689,649
Pipeline relocation receivables (Note 2)	1,872,532	2,489,250
Deposits paid for acquisition of property and equipment, Construction in progress and land use right	1,995,031	1,088,299
Prepayment for gas purchase	610,549	203,922
Prepaid rental	19,670	114,539
Prepayment and deposits	1,731,041	778,991
Other receivable (Note 3)	2,560,111	-
	<u>\$ 10,348,549</u>	<u>\$ 6,364,650</u>
Analysed for reporting purpose as:		
Current	\$ 8,908,682	\$ 4,082,159
Non-current	1,439,867	2,282,491
	<u>\$10,348,549</u>	<u>\$ 6,364,650</u>

# CHANGFENG ENERGY INC.

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

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

---

## 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 \$1,559,615 (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 September 30, 2016, the Group has incurred \$1,872,532 (RMB9,519,736) (2015 – \$2,489,250) on construction of new pipelines as a result of the relocation notice. The Group expected \$752,877 (RMB3,827,540) (2015 – \$1,211,423) would be refunded by the local government within twelve months and the remaining balance of \$1,179,486 (RMB5,996,368) (2015 – \$1,277,827) to be refunded beyond twelve months after September 30, 2016.

Note 3: The Group sold its indirect interest in Evergrowth to China Overseas Smart City Co., Ltd. ("COMC"), pursuant to an agreement dated September 29, 2016. The purchase price for Evergrowth was satisfied through a cash payment of approximately RMB \$13.0 million (CAD\$2,560,111) by COMC to the Group, with the purchase price having been based on the assessment of the net asset value of Evergrowth as at August 31, 2016 by an independent valuer appointed by COMC.



# CHANGFENG ENERGY INC.

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

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

## 13. Investment in a joint venture:

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

	September 30, 2016	December 31, 2015
Cost of investments in a joint venture	\$ 4,262,000	\$ 4,262,000
Investment loss	(1,330,041)	(81,069)
Exchange realignment	(371,848)	-
Receivable from COMC	2,560,111	-
	\$ -	\$ 4,180,931

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) and contribution of RMB 40 million of the registered capital is required to be made within 30 days of establishment and contribution of the remaining RMB 160 million registered capital is required to be made within 10 years of establishment. Under the joint venture agreement, Evergrowth would operate and manage an energy resource exchange in Northern China.

The Group sold its indirect interest in Evergrowth to China Overseas Smart City Co., Ltd. ("COMC"), pursuant to an agreement dated September 29, 2016. The purchase price for Evergrowth was satisfied through a cash payment of approximately RMB \$13.0 million (CAD\$2,560,111) by COMC to the Group. The Group recognized an investment loss of \$1,330,041.

## 14. Movements in property and equipment

During the nine-month period ended September 30, 2016, the Group has acquired new property and equipment of \$7,704,917 (2015 – \$3,645,384) and written-off certain of its motor vehicles and furniture and equipment of \$7,406 (2015 - \$1,866,938). The amount of depreciation for the nine-month period is \$2,270,577.

# CHANGFENG ENERGY INC.

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

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

## 15. Trade and other payables

	September 30, 2016	December 31, 2015
Trade payables	\$ 6,748,010	\$ 8,541,550
Receipt in advance	1,294,555	937,214
Accrued wages	141,326	1,604,536
Accrued safety reserve	780,246	200,640
Other tax payable	122,589	628,827
Others	754,223	289,727
	<u>\$ 9,840,949</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:

	September 30, 2016	December 31, 2015
Term loan facility - Bank of China (i)	12,785,500	14,917,000
Term loan facility - Bank of China (ii)	6,392,750	7,458,500
Term loan facility - Bank of China (iii)	2,163,700	2,983,400
Term loan facility - Bank of China (iv)	5,901,000	-
	<u>27,242,950</u>	<u>25,358,900</u>
Less unamortized transaction costs (i)	71,964	99,382
	<u>27,170,986</u>	<u>25,259,518</u>
Less current portion	4,573,275	4,048,900
	<u>\$ 22,597,711</u>	<u>\$ 21,210,618</u>

# CHANGFENG ENERGY INC.

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

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

---

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

- (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 \$5,901,000 (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 nine-month period ended September 30, 2016, CF China made payments in the amount of \$1,475,250 (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 September 30, 2016, CF China had \$71,964 (RMB 365,857) 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 nine - month period ended September 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

# CHANGFENG ENERGY INC.

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

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

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

payments in the amount of \$590,100 (RMB 3,000,000) (2015 - \$301,800 (RMB 1,500,000)).

- (iv) On September 9, 2016, CF China entered into a RMB 80,000,000 term loan with the Bank of China, Sanya Branch ("BOC, Sanya"). It has a 10-year term from the date of the first initial withdrawal, and bears interest of the benchmark lending rate set by the People's Bank of China. The interest rate will be reset in 12 months from the date of the first initial withdrawal. As of September 30, 2016, the Group had withdrawn \$5,901,000 (RMB 30,000,000).

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

Balance, December 31, 2015	\$ 25,259,518
Proceeds of long-term debt	5,901,000
Repayment	(2,065,350)
Less: unamortized transaction costs	(71,964)
Foreign exchange realignment	(1,852,218)
<b>Balance, September 30, 2016</b>	<b>\$ 27,170,986</b>

## 17. Short-term bank loans:

	September 30, 2016	December 31, 2015
Bank of China, Sanya (i)	1,967,000	2,131,000
Minsheng Bank, Sanya (ii)	-	4,262,000
Guangda Bank, Sanya (iii)	5,901,000	-
Bank of China (Canada) (iv)	1,967,550	2,076,000
	<b>9,835,550</b>	<b>8,469,000</b>

- (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 \$1,967,000 (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 4.35% (2015 - 4.35%) 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.

# CHANGFENG ENERGY INC.

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

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

---

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

- (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 \$3,934,000 (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 \$3,934,000 (RMB 20,000,000) (2015 - nil). At September 30, 2016, the balance of the loan is nil.
- (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 \$5,901,000 (RMB30,000,000) (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 \$1,967,550 (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:

---

Balance, December 31, 2015	\$ 8,469,000
Addition	5,901,000
Repayment	(3,934,000)
Foreign exchange realignment	(600,450)
<hr/> Balance, September 30, 2016	<hr/> \$ 9,835,550

As at September 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)

Nine-month periods ended September 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 September 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, September 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 (Nine-month period ended September 30, 2015 – \$91,840). As of September 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)

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

---

## 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
Xiangtan Changfeng Cryogenic Energy Co., Ltd. ("Shin-Ko Energy")	Associate of the Company

---

- (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)

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

## 19. Related party disclosures (continued):

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

	September 30, 2016	December 31, 2015
<b>Name of the related parties</b>		
<i>Due from related parties</i>		
Qinglong (note i)	\$ -	\$ -
	\$ -	\$ -
<i>Loan from a ultimate controlling shareholder</i>		
Mr. Huajun Lin (note ii)	\$ 7,868,000	\$ 8,524,000
	\$ 7,868,000	\$ 8,524,000
<i>Due to related parties</i>		
Shin-Ko Energy (note iii)	\$ 837,834	\$ 905,473
Mr. Huajun Lin (note iv)	-	366,962
Others (note v)	-	71,009
	\$ 837,834	\$ 1,343,444

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

- (i) The Group had previously loaned \$402,000 (RMB 2,000,000) to Qinglong and recognized an impairment loss of \$402,000 (RMB 2,000,000) with respect to this loan.



# CHANGFENG ENERGY INC.

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

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

---

## 19. Related party disclosures (continued):

- (ii) In 2007, Mr. Lin, advanced loans in the aggregate amount of \$7,868,000 (RMB40,000,000) (December 31, 2015 - \$8,524,000 (RMB40,000,000)) to the Company, through corporations controlled by Mr. Lin, 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. Pursuant to the Subordination and Forbearance Agreement, the lenders agreed to take no steps to demand or recover payment under the loans for a period of three years, and to enter into an agreement with the Group with the same terms and conditions as the Subordination and Forbearance Agreement every three years in perpetuity.

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

- (iii) Included in current due to related parties as at September 30, 2016 amounted to \$590,100 (RMB3,000,000) (December 31, 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 September 30, 2016, was \$247,734 (RMB1,259,451) (December 31, 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.
- (iv) As at September 30, 2016, the Company owed Mr. Lin nil (December 31, 2015 - \$366,962) for unpaid salary.
- (v) During the nine-month period ended September 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)

Nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

---

## 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:

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2015
Short-term employee benefits	\$ 338,500	\$ 272,250
Share-based benefits	-	172,789
<b>Total remuneration</b>	<b>\$ 338,500</b>	<b>\$ 445,039</b>

## 20. 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.