

# **CHANGFENG ENERGY INC.**

## **Management's Discussion and Analysis For the three months ended March 31, 2017**

Dated May 29, 2017

## **Advisory**

This Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to understand the financial position and operations of Changfeng Energy Inc. ("Changfeng" or the "Company") as at and for the three months ended March 31, 2017. This information should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the three months ended March 31, 2017 and the audited consolidated financial statements and related notes and the MD&A for the year ended December 31, 2016. "Changfeng" includes Changfeng Energy Inc. and its subsidiaries, unless otherwise indicated. Additional information related to Changfeng is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on its website at [www.changfengenergy.com](http://www.changfengenergy.com).

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

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

Amounts are stated in Chinese Renminbi (RMB) and Canadian dollars unless otherwise indicated.

## **Caution Regarding Forward-Looking Information**

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

## **Overview**

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

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

Changfeng has been actively exploring market opportunities brought by the PetroChina's Second West-East Pipeline ("WEP II"). Changfeng has grown with responsible development and reliable operation of natural gas distribution pipelines and associated facilities in China. Projects currently in operation include:

❖ **In Sanya City, Hainan Province, China**

- 30-year exclusive concession rights (2007-2037) in Sanya City with wholly-owned gas distribution pipeline networks and associated facilities;
- Serving more than 201,126 residential and 908 commercial customers (primarily hotels and restaurants);
- Serving 21 hotels in Haitang Bay area, Sanya City;
- Operating a new CNG/LNG refueling retail station in Sanya City.

❖ **In Xiangdong District, Pingxiang City, Jiangxi Province, China (Xiangdong Project)**

- 50-year operation rights (2010-2060) in the administrative region of Xiangdong District, including the Pingxiang Industrial Ceramic Production Park (the "Park");
- Serving more than 2,955 residential and 62 commercial customers;

❖ **In Changsha City, Hunan Province, China**

- Operating a CNG/LNG refueling retail station in Changsha City;
- Managing to maintain its customer base.

In addition to the operations above, Changfeng will continue to implement its long-term growth strategies for the pipelined gas project in the Western Guangdong Area of the Guangdong Province and for the integrated energy system program and energy comprehensive utilization with EDF Group in Sanya City. The Company believes that its ongoing projects will add value, generate revenues and leverage its strength to create long-term sustainable value for its shareholders and clients.

## **2017 Accomplishments**

On January 17, 2017, Changfeng announced that its Board of Directors has approved the adoption of a dividend policy under which dividends will be paid to each holder of Changfeng's common shares (the "Common Shares"). A total of approximately RMB6.0 million, which is approximately CAD1.1 million based on the prevailing exchange rate between CAD and RMB, has been contemplated for payment annually under Changfeng's dividend policy, which will be paid in equal semi-annual instalments. The first semi-annual dividend is contemplated to be payable in July 2017. The specifics of the initial dividend will be announced after it is declared closer to the expected payment date. This is the first dividend to be paid to shareholders in Changfeng's history.

On January 23, 2017, Changfeng announced that the special resolution to approve the continuation of the Company into British Columbia (the "Resolution") was approved unanimously at a meeting of shareholders of the Company held today (the "Meeting"). The Meeting was called to approve a proposed continuation of the Company into the provincial jurisdiction of British Columbia in order to facilitate the application of the Company for listing on The Stock Exchange of Hong Kong Limited that the Company intends to pursue, and to provide the Company with greater flexibility in corporate governance and administrative matters and corporate structure generally afforded by the Business Corporations Act (British Columbia).

On April 11, 2017, Changfeng announced that the Company has received Hainan provincial regulatory approval ("the approval") to increase natural gas sale price to its residential users, and non-residential users in Sanya City, Hainan Province, China. With the approval, the maximum selling price to residential users increased, on average, 21%, while the maximum selling price to non-residential customers has increased approximately 8.9%. The Company is entitled to adjust its selling price based on its gas purchase cost and the market environment under the maximum selling price. This selling price increase is subject to the Sanya City Price Bureau's final approval before implementation. The approval of increase in natural gas selling price could increase the sales of the Company's operation in Sanya Region.

## Selected Quarterly Financial Information

<i>except percentages and per share amounts</i>	<i>RMB'000</i>				<i>For information Only CAD'000</i>			
	<i>Q1 2017</i>	<i>Q1 2016</i>	<i>Change</i>	<i>%</i>	<i>Q1 2017</i>	<i>Q1 2016</i>	<i>Change</i>	<i>%</i>
<b>Revenue</b>	<b>96,746</b>	<b>77,095</b>	<b>19,651</b>	<b>25%</b>	<b>18,585</b>	<b>16,198</b>	<b>2,387</b>	<b>15%</b>
<b>Gross profit</b>	<b>45,841</b>	<b>40,488</b>	<b>5,353</b>	<b>13%</b>	<b>8,806</b>	<b>8,506</b>	<b>300</b>	<b>4%</b>
% of revenue	47%	53%	-6%		47%	53%	-6%	
General and administrative	18,377	14,305	4,072	28%	3,530	3,005	525	17%
% of revenue	19%	19%	0%		19%	19%	0%	
Selling and marketing	5,845	5,671	174	3%	1,123	1,191	(68)	-6%
% of revenue	6%	7%	-1%		6%	7%	-1%	
<b>Total expenses</b>	<b>24,222</b>	<b>19,976</b>	<b>4,246</b>	<b>21%</b>	<b>4,653</b>	<b>4,196</b>	<b>457</b>	<b>11%</b>
% of revenue	25%	26%	-1%		25%	26%	-1%	
<b>Income from operations</b>	<b>21,619</b>	<b>20,512</b>	<b>1,107</b>	<b>5%</b>	<b>4,153</b>	<b>4,310</b>	<b>(157)</b>	<b>-4%</b>
% of revenue	22%	27%	-5%		22%	27%	-5%	
Finance costs	1,755	2,453	(698)	-28%	337	515	(178)	-35%
Interest income	(185)	(79)	(106)	133%	(36)	(16)	(20)	125%
Other gains and losses	1,576	651	925	142%	303	137	166	121%
Share of loss of an associate	1	2	(1)		0.2	0.4	(0.2)	
Share of loss of a joint venture	-	590	(590)		-	124	(124)	
<b>Profit before income taxes</b>	<b>18,472</b>	<b>16,895</b>	<b>1,577</b>	<b>9%</b>	<b>3,549</b>	<b>3,550</b>	<b>(1)</b>	<b>0%</b>
% of revenue	19%	22%	-3%		19%	22%	-3%	
Income taxes	7,344	6,902	442	6%	1,411	1,450	(39)	-3%
% of revenue	8%	9%	-1%		8%	9%	-1%	
<b>Profit for the period</b>	<b>11,128</b>	<b>9,993</b>	<b>1,135</b>	<b>11%</b>	<b>2,138</b>	<b>2,100</b>	<b>38</b>	<b>2%</b>
% of revenue	12%	13%	-1%		12%	13%	-1%	
<b>EBITDA (1)</b>	<b>24,177</b>	<b>23,802</b>	<b>375</b>	<b>2%</b>	<b>4,644</b>	<b>5,138</b>	<b>(494)</b>	<b>-10%</b>
% of revenue	25%	31%	-6%		25%	32%	-7%	
Non-controlling interest	213	412	(199)	-48%	41	86	(45)	-52%
<b>Basic EPS</b>	<b>0.18</b>	<b>0.16</b>	<b>0.02</b>	<b>13%</b>	<b>0.03</b>	<b>0.03</b>	<b>-</b>	<b>0%</b>
<b>Diluted EPS</b>	<b>0.17</b>	<b>0.16</b>	<b>0.01</b>	<b>6%</b>	<b>0.03</b>	<b>0.03</b>	<b>-</b>	<b>0%</b>

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

## **Results of Operations**

### **Total Revenue**

<b>Total Revenue in RMB'000</b>	<b>Q1 2017</b>	<b>Q1 2016</b>	<b>Change</b>	<b>%</b>
Gas distribution utility				
- Gas Sales	60,220	47,133	13,087	28%
- Pipeline Installation and Connection	22,992	22,278	714	3%
CNG vehicle refueling	13,534	7,684	5,850	76%
<b>Total Revenue in RMB'000</b>	<b>96,746</b>	<b>77,095</b>	<b>19,651</b>	<b>25%</b>
<b>Total Revenue in CAD'000</b>	<b>18,585</b>	<b>16,198</b>	<b>2,387</b>	<b>15%</b>

Revenue for the three months ended March 31, 2017 was RMB96.7 million, an increase of RMB19.7 million, or 25%, from RMB77.1 million for the same period of 2016. This increase was mainly due to increases in gas sales and pipeline installation and connection, as well as the sales from the newly added CNG vehicle refueling station in Sanya City since May 2016.

Further analysis is presented below for the Company's two business segments: Natural Gas Distribution Utility and CNG Vehicle Refueling Stations.

### ***Natural Gas Distribution Utility***

Natural Gas Distribution Utility segment consists of two components: Gas Sales and Pipeline Installation and Connection. With the stable growth in customers newly connected and in gas volume consumed, revenue from gas sales has been growing steadily in recent years; and revenue from pipeline installation and connection was also in its growth.

#### **Gas Sales**

Gas Volume Sold – Sanya Region

<b>Sanya Region</b>				
<b>Gas volume sold (m<sup>3</sup>)</b>	<b>Q1 2017</b>	<b>Q1 2016</b>	<b>Change</b>	<b>%</b>
Residential customers	4,736,556	3,770,000	966,556	26%
Commercial customers	10,237,316	8,860,000	1,377,316	16%
<b>Subtotal (Sanya Region)</b>	<b>14,973,872</b>	<b>12,630,000</b>	<b>2,343,872</b>	<b>19%</b>

Gas sales volume for Sanya Region during the three months ended March 31, 2017 was 14.9 million m<sup>3</sup>, an increase of 2.3 million m<sup>3</sup> or 19%, with compared to 12.6 million m<sup>3</sup> for the same period of 2016, of which 4.7 million m<sup>3</sup> for residential customers at a growth rate of 26% and 10.2 million m<sup>3</sup> for commercial customers at a growth rate of 16%.

The Company's non-residential customers include commercial and industrial customers, mainly comprised of hotels, resorts and restaurants in Sanya City. Currently, approximately 68% of the total annual volume of gas in Sanya City is sold to these non-residential customers. Sanya municipal government's approval of the sales price increase related to the implementation of the long-term Budget Process (the "Budget Process"), which was implemented as part of the solution to address the ongoing gas deficit issue in the Sanya region. The Budget Process is intended to provide (a) potential subsidy for the loss, if any, on the gas sales to its residential customers; and (b) periodic sales price adjustments for its commercial customers enabling the sales prices to reflect the interaction between supply and demand; however, there is no guarantee that the Budget Process will be successfully implemented by the government in the future.

Gas Sales

Gas Volume Sold – Xiangdong Region

<b>Xiangdong Region</b>				
Gas volume sold (m <sup>3</sup> )	Q1 2017	Q1 2016	Change	%
Residential customers	165,000	91,756	73,244	80%
Commercial customers	3,666,900	876,368	2,790,532	318%
<b>Subtotal (Xiangdong District)</b>	<b>3,831,900</b>	<b>968,124</b>	<b>2,863,776</b>	<b>296%</b>

Gas sales volume for Xiangdong district during the three months ended March 31, 2017 was 3.8 million m<sup>3</sup>, a significant increase of 2.8 million m<sup>3</sup> or 296% with compared to 1.0 million m<sup>3</sup> for the same period of 2016, of which 0.2 million m<sup>3</sup> for residential customers at a growth rate of 80% and 3.6 million m<sup>3</sup> for commercial customers at a growth rate of 318%.

Gas Sales

Gas Sales Revenue

Gas sales revenue in RMB'000	Q1 2017	Q1 2016	Change	%
Sanya	50,533	44,329	6,204	14%
Xiangdong	9,687	2,804	6,883	245%
<b>Total</b>	<b>60,220</b>	<b>47,133</b>	<b>13,087</b>	<b>28%</b>

Gas sales revenue for the three months ended March 31, 2017 was RMB60.2 million, an increase of RMB13.1 million or 28%, from RMB47.1 million for the same period of 2016. The increase was mainly attributable to:

- the gas sales volume increased by 19% for Sanya region;
- the gas sales volume growth of 296% in Xiangdong district;

Pipeline Installation and Connection

<b>Sanya Region</b>				
	Q1 2017	Q1 2016	Change	%
<b>Customers newly connected</b>				
Residential customers	1,292	5,107	(3,815)	-75%
Commercial customers	11	16	(5)	-31%
<b>Total customers connected</b>				
Residential customers	201,126	174,383	26,743	15%
Commercial customers	908	849	59	7%

<b>Xiangdong Region</b>				
	Q1 2017	Q1 2016	Change	%
<b>Customers newly connected</b>				
Residential customers	406	147	259	176%
Commercial customers	7	3	4	133%
<b>Total customers connected</b>				
Residential customers	2,955	1,582	1,373	87%
Commercial customers	62	13	49	377%

<b>Pipeline connection revenue in RMB'000</b>				
	Q1 2017	Q1 2016	Change	%
Sanya	22,841	22,246	595	3%
Xiangdong	151	32	119	371%
<b>Total</b>	<b>22,992</b>	<b>22,278</b>	<b>714</b>	<b>3%</b>

Pipeline installation and connection revenue for the three months ended March 31, 2017 was RMB23.0 million, an increase of RMB0.7 million or 3%, from RMB22.3 million for the same period of 2016. The increase was mainly attributable to:

- comparatively higher number of new commercial customers connected in Xiangdong Region during the first three months ended March 31, 2017, which was in a total of 7, an increase of 4 or 133%, from 3 for the same period of 2016;

- significant higher number of new residential customers connected in Xiangdong Region during the first three months ended March 31, 2017, which was in a total of 406, an increase of 259 or 176%, from 147 for the same period of 2016
- offset by a big drop in both residential and commercial customers connected during the first three months ended March 31, 2017 in Sanya Region, 1,292 newly connected residential customers, dropped from 5,107 or 75%, and 11 newly connected commercial customers, dropped from 16 or 31%, for the same period of 2016, resulting in only slight increase in revenue of RMB0.6 million or 3% in Sanya Region.

### **CNG vehicle refueling station**

<b>CNG Sales Volume (m<sup>3</sup>)</b>	<b>Q1 2017</b>	<b>Q1 2016</b>	<b>Change</b>	<b>%</b>
Changsha CNG	1,639,006	2,047,075	(408,069)	-20%
Sanya CNG/LNG	1,398,104	-	1,398,104	100%
<b>Total Sales Volume (m<sup>3</sup>)</b>	<b>3,037,110</b>	<b>2,047,075</b>	<b>990,035</b>	<b>48%</b>

<b>CNG sales revenue in RMB'000</b>	<b>Q1 2017</b>	<b>Q1 2016</b>	<b>Change</b>	<b>%</b>
Revenue in RMB				
Changsha CNG	6,121	7,684	(1,563)	-20%
Sanya CNG/LNG	7,413	-	7,413	100%
<b>Total</b>	<b>13,534</b>	<b>7,684</b>	<b>5,850</b>	<b>76%</b>

Total revenue from CNG refueling retail stations for the three months ended March 31, 2017 was RMB13.5 million, an increase of RMB5.8 million, or 76%, from RMB7.7 million for the same period of 2016. Sales revenue for Changsha CNG station dropped to RMB6.1 million, a decrease of RMB1.6million or 20%, from RMB7.7 million for the same period of 2016. The drop was mainly due to local market competition thus a dropped sales volume of 1.6 million m<sup>3</sup>, a decrease of 0.4 million m<sup>3</sup> or 20%, from 2.0 million m<sup>3</sup> for the same period of 2016. Sales revenue from new Sanya CNG/LNG refueling retail station, which commenced its operation in May 2016, was RMB7.4 million for the three months ended March 31, 2017, and the sales volume was 1.4 million m<sup>3</sup>.

### **Foreign exchange rates**

Changfeng reports its financial results in RMB and earns all of its revenues and incurs most of its expenses in Chinese RMB. As the Company is listed in TSXV Canada, for financial information or comparative analysis presented in Canadian dollars, fluctuation in exchange rate should also be considered.

The exchange rate between Chinese RMB and Canadian dollar is summarized below.

<b>One Chinese RMB to Canadian dollars</b>	<b>Q1 2017</b>	<b>Q1 2016</b>	<b>% change</b>
Spot rate at the end of the period	0.1934	0.2011	-3.8%
Average rate for the period	0.1921	0.2101	-8.6%

### **Gross margin**

Gross margin for the three months ended March 31, 2017 was RMB45.8 million, an increase of RMB5.3 million, or 13%, from RMB40.5 million for the same period of 2016. The gross margin percentage of 47% for the three months ended March 31, 2017 was decreased from that of 53% for the same period of 2016.

### **Operating expenses**

**General and administrative expenses** for the three months ended March 31, 2017 were RMB18.4million, an increase of RMB4.1 million, or 28%, from RMB14.3 million for the same period of 2016. And as a percentage of sales, it is 19% for the three months ended March 31, 2017 and 19% for the same period of 2016.

**Selling and marketing expenses** for the three months ended March 31, 2017 were RMB5.8 million, an increase of RMB0.1 million, or 3%, from RMB5.7 million for the same period of 2016. And there is a decrease as a percentage of sales to 6% for the three months ended March 31, 2017 from 7% for the same period of 2016. These expenses normally fluctuate with travel and business development activities in mainland China as the Company seeks to develop new projects in close proximity to the new national pipelines.



**Finance costs** for the three months ended March 31, 2017 was RMB1.8 million and RMB2.5 million for the same period of 2016, respectively.

#### **EBITDA**

EBITDA (non-IFRS measure as identified and defined under section "Non-IFRS Measures") for the three months ended March 31, 2017 was RMB24.2 million, an increase of RMB0.4 million, or 2%, from RMB23.8 million for the same period of 2016. EBITDA as a percentage of revenue for the three months ended March 31, 2017 was 25%, dropped from 31% for the same period of 2016.

#### **Profit for the period**

Net profit for the three months ended March 31, 2017 was RMB11.1 million, or RMB0.18 per share (basic) and RMB 0.17 per share (diluted) compared to RMB10.0 million or RMB0.16 per share (basic and diluted) for the same period of 2016.

### **Selected Quarterly Results**

The following set out the Company's consolidated quarterly results for the most recent eight quarters: In thousands of Chinese RMB, except per share amounts:

Quarterly data (RMB '000) except per share amounts	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Foreign exchange rate one RMB to Canadian dollars	0.1921	0.1996	0.1965	0.1972	0.2101	0.2034	0.2076	0.1982
Revenue	96,746	117,625	82,134	77,595	77,095	91,207	64,690	67,439
Gross profit	45,841	44,730	34,404	30,411	40,488	32,673	30,470	33,366
Profit (loss)	11,128	5,366	7,685	(1,718)	9,993	9,297	4,900	7,850
EPS								
- basic	0.18	0.06	0.10	0.00	0.16	0.09	0.10	0.15
- diluted	0.17	0.06	0.10	0.00	0.16	0.08	0.11	0.15

### **Financial Condition and Liquidity**

<b>Key Financial Data and Comparative Figures</b>		
<b>(RMB'000)</b>	<b>31-Mar-17</b>	<b>31-Dec-16</b>
Cash	182,233	142,377
Working deficit	(55,449)	(80,724)
Adjusted working capital (Note 1)	53,964	24,367
Plant and equipment	390,680	385,654
Total assets	659,503	627,060
Long term liabilities	164,787	145,817
Shareholders' equity	203,138	192,010

Notes: (1) These financial measures are identified and defined under the section "Non-IFRS Financial Measures".

Cash increased by RMB39.8 million to RMB182.2 million at March 31, 2017 from RMB142.4 million at December 31, 2016. Cash change mainly originated from cash inflow provided by operating activities of RMB37.6 million, and cash inflow of RMB11.8 million from financing activities, but offset by cash outflow of RMB9.4 million used in investing activities.

#### **Adjusted Working Capital**

Its adjusted working capital (see "Non-IFRS Financial Measures") was RMB54.0 million at March 31, 2017. Adjusted working capital excludes RMB75.1 million of receipts in advance from customers in connection with gas connection fees and RMB34.3 million of line of credit.

#### **Liquidity and Capital Resources**

##### *Overview*

The Company's principal sources of short-term funding are its existing cash balances, operating cash flows and borrowing under its line of credit. Its principal sources of long-term funding are its three term loans into which Changfeng entered in 2010, 2012, 2013 and 2016, respectively.

The Company's principal sources of liquidity are cash provided by operations, including advance payments from residential and commercial and industrial customers related to construction contracts for gas connection, and access to credit facilities and capital resources.

The Company's primary short-term cash requirement is to fund working capital, and repay the remainder of its outstanding withdrawal on its line of credit.

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

In the short term, management does not expect to face any liquidity problems considering its ability to generate sustainable cash flow from operations in the short and long term.

*Long-term bank loans*

	March 31, <u>2017</u> RMB'000	December 31, <u>2016</u> RMB'000
Bank borrowings		
- Secured, with variable rate	169,798	148,663
- Unsecured, with variable rate	<u>8,750</u>	<u>11,000</u>
	<u>178,548</u>	<u>159,663</u>
The carrying amounts of the above borrowings are repayable:*		
Within one year	27,000	28,000
Within a period of more than one year, but not exceeding two years	34,500	27,000
Within a period of more than two years, but not exceeding five years	52,000	52,000
Within a period of more than five years	<u>65,250</u>	<u>54,000</u>
	178,750	161,000
Less: Unamortized transaction costs	<u>(202)</u>	<u>(482)</u>
	178,548	160,518
Less: Amounts due within one year shown under current liabilities	<u>(27,000)</u>	<u>(28,000)</u>
Amounts shown under non-current liabilities	<u>151,548</u>	<u>132,518</u>

\* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The Group's long-term debts comprise:

<u>Lender</u>	<u>Secured/ unsecured</u>	<u>Contractual interest rate</u>	<u>Effective interest rate</u>		<u>Carrying amount</u>		<u>Note</u>
			March 31, <u>2017</u>	December 31, <u>2016</u>	March 31, <u>2017</u> RMB'000	December 31, <u>2016</u> RMB'000	
Bank of China, Sanya	Secured	5-year People's Bank of China ("PBOC") benchmark borrowing rate, repricing every 6 months	4.9%	4.9%	59,798	59,518	(a)
Bank of China, Sanya	Secured	110% of 5-year PBOC benchmark borrowing rate, repricing every 6 months	5.4%	5.4%	30,000	30,000	(b)
Bank of China, Sanya	Secured	10-year PBOC benchmark borrowing rate, repricing every 12 months	4.9%	4.9%	80,000	60,000	(c)
Bank of China, Pingxiang	Unsecured	120% of 5-year PBOC benchmark borrowing rate, repricing every 3 months	5.9%	5.9%	8,750	11,000	(d)
Total long-term debts					<u>178,548</u>	<u>160,518</u>	

Notes:

- a. The term loan from Bank of China, Sanya with an original principal amount of RMB100.0 million was drawn upon in 2010. The loan is secured by 60% of the equity interest in CF China together

with the gas connection and gas supply rights of CF China. The loan is repayable semi-annually by instalments and will be fully repaid in 2019.

- b. In 2013, the Group entered into an agreement with Bank of China, Sanya to secure a bank loan facility in the amount of RMB40.0 million. The bank loan facility was used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City, the PRC. The loan is secured by 60% of the equity interest in CF China together with the gas connection and gas supply rights of CF China and the trade receivables from 2012 to 2022 of CF China and CF Engineering. The loan is repayable semi-annually by instalments and will be fully repaid in 2023.
- c. In 2016, the Group entered into an agreement with Bank of China, Sanya to secure a bank loan facility in the amount of RMB80.0 million. The bank loan facility was used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City, the PRC. The loan has a 10-year term from the date of the first initial withdrawal. The loan is secured by the gas connection and gas supply rights of CF China, the trade receivables of CF China and CF Engineering and certain property and equipment with an aggregate amount of RMB56.8 million. The loan will begin repayment from 2019 and will be fully repaid in 2025.
- d. In 2012, the Group entered into a term loan with the Bank of China, Pingxiang for RMB20.0 million, maturing six years from the date of the first withdrawal. The proceeds from the loan would be used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang city, Jiangxi province, the PRC. The loan is repayable by four instalments annually and will be fully repaid in 2018.

#### *Credit Agreement*

The Company's short-term bank borrowings comprise:

<u>Lender</u>	<u>Secured/unsecured</u>	<u>Contractual interest rate</u>	<u>Effective interest rate</u>		<u>Carrying amount</u>		<u>Note</u>
			March 31, <u>2017</u>	December 31, <u>2016</u>	March 31, <u>2017</u>	December 31, <u>2016</u>	
					RMB'000	RMB'000	
Bank of China, Sanya	Unsecured	Fixed interest rate at 4.35%	4.35%	-	14,000	-	(a)
Bank of China (Canada)	Secured	Six-month LIBOR plus 250 basis point	2.3%	2.3%	10,323	10,435	(b)
China Everbright Bank, Haikou	Unsecured	Fixed interest rate at 4.4%	4.4%	4.4%	10,000	30,000	(c)
Total short-term bank borrowings					<u>34,323</u>	<u>40,435</u>	

#### Notes:

- a. In 2017, the Group entered into 1-year facility line of credit with Bank of China Sanya with an aggregate amount of RMB20.0 million. RMB14.0 million is withdrawn by the Group during the period ended March 31, 2017.
- b. The 1-year term loan from Bank of China (Canada) is denominated in United States dollars ("USD") with a principal amount of USD1,500,000 and is secured by a pledged bank deposit to of RMB1.0 million (2015: RMB10.0 million).
- c. In 2016, the Group entered into 1-year facility line of credit with China Everbright Bank Haikou with an aggregate amount of RMB50.0 million. RMB10.0 million is withdrawn by the Group during the period ended March 31, 2017.

As at March 31, 2017 and December 31, 2016, the Group was in compliance with all of its debt covenants.

#### *Cash Flow from Operations*

Net cash provided by operations was RMB37.6 million for the three months ended March 31, 2017 compared to RMB3.2 million for the same period of 2016.

### *Cash Flow from Financing Activities*

Cash from financing activities during the three months ended March 31, 2017 primarily included cash withdrawals of RMB20.0 million from long term bank loan and RMB14.0 million from short term bank loan, offsetting by repayments of RMB2.3 million for long-term loan and of RMB20.0 million for bank indebtedness.

### *Investing Activities*

Cash used in investing activity included capital expenditures of RMB 0.6 million for deposit and RMB8.8 million for acquisition of property and equipment for the three months ended March 31, 2017 compared to RMB9.9 million for the same period of 2016. The capital expenditures were mainly related to the purchase of equipment and on-going construction of pipeline networks to connect new customers in the Sanya region and Xiangdong.

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

## **Contractual Obligations and Commitments**

### **Pipeline Construction and Equipment:**

As of March 31, 2017, there has been no significant change to contractual obligations and commitments since December 31, 2016.

## **Off-Balance Sheet Arrangements**

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

## **Share Capital**

As of the date of this MD&A, the Company has 63,735,035 common shares outstanding, 3,422,665 stock options outstanding and exercisable at a weighted average exercise price of RMB0.37 per share. The Company has no warrants outstanding.

## **Non-IFRS Financial Measures**

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

### **EBITDA**

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

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

In RMB'000 (except for % figures)	Q1 2017	Q1 2016	Change	Change%
Profit for the period	11,128	9,993	1,135	11%
Add (less):				
Income tax	7,344	6,902	442	6%
Interest (income) loss	(185)	(79)	(106)	133%
Share of loss of an associate	1	2	(1)	-50%
Share of loss of a joint venture	0	590	(590)	-100%
Amortization	4,134	3,941	193	5%
Interest on borrowing	1,755	2,453	(698)	-28%
<b>EBITDA</b>	<b>24,177</b>	<b>23,802</b>	<b>375</b>	<b>2%</b>

### Adjusted working capital

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

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

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

In RMB'000		
As at	31-Mar-17	31-Dec-16
Current assets	236,129	208,509
Less: Current liabilities	291,578	289,233
Working capital (deficit)	(55,449)	(80,724)
Add: Receipts in advance from customers	75,090	64,656
Short-term bank loans	34,323	40,435
<b>Adjusted working capital (deficit)</b>	<b>53,964</b>	<b>24,367</b>

### Financial Instruments

The Company's major financial instruments include available-for-sale financial assets, trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to an ultimate controlling shareholder and related parties, and short-term bank borrowings and long-term debts. Details of these financial statements are disclosed in the respective notes. The risks associated with these financial instruments include market risks (foreign exchange risk, commodity price risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## **Related Parties Transactions**

### **Amount due to ultimate controlling shareholder**

The amount is unsecured, non-interest bearing, subordinated to the claims of all other creditors, including unsecured creditors of the Group and were due on demand only after April 27, 2017. In 2007, companies controlled by Mr. Lin advanced loans in the aggregate amount of RMB40,000,000 to the Company, 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. 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 have been renewed for one year with the same terms and conditions.

On November 7, 2016, these loans were transferred to Mr. Lin by the lenders.

### **Amounts due from (to) related parties**

<u>Name of related parties</u>	<u>Relationship</u>	<u>Terms</u>	March 31 2017 RMB'000	December 31 2016 RMB'000
Shin-Ko Energy	Associate	Non-trade, unsecured, non-interest bearing and repayable on demand	(4,249)	(4,249)

## **Subsequent Event**

On May 25, 2017, the Board of Directors of the Company (with Mr. Lin abstaining) approved a proposal to repay the loans advanced by Mr. Lin to the Company with a cash payment of RMB 36.0 million (the "Cash Payment"), subject to approval of the shareholders of the Company. In addition, the Company has the right to request that Mr. Lin, directly or indirectly, subscribe for common shares of the Company in an amount equal to the Cash Payment if the Company's common shares are not listed on the Hong Kong Stock Exchange by June 30, 2019, at a price equal to the volume weighted average price of the common shares of the Company on the TSX-V (or any other exchange on which such common shares are then trading (collectively the "Exchange")) for the 30 trading days immediately prior to June 30, 2019, subject to the approval of the Exchange.

## **Outlook**

The Company expects to continue to add both residential and commercial and industrial customers to its existing pipeline networks in the Sanya Region and Xiangdong district, and the volume of gas sold during the rest of 2017 will continue to increase especially from its operations in the Sanya Region with the new CNG/LNG retailing station. While gross margin from gas distribution utility in Sanya Region may expect for dropping due to the relatively higher gas purchase price in 2017.

In the rest of 2017, Changfeng will continue to implement its long-term growth strategy through its proposed pipelined gas project in the Western Guangdong Area of the Guangdong Province and for the integrated energy system program and energy comprehensive utilization with EDF Group in Sanya City.