CHANGFENG ENERGY INC.

Management's Discussion and Analysis
For the year ended December 31, 2014

Dated May 29, 2015

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 year ended December 31, 2014. This information should be read in conjunction with the accompanying audited Consolidated Financial Statements of the Company and the notes thereto for the year ended December 31, 2014. "Changfeng" includes Changfeng Energy Inc. and its subsidiaries, unless otherwise indicated. Additional information related to Changfeng is available on SEDAR at www.sedar.com or on its website at www.changfengenergy.com.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS 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-GAAP financial measures to assist users in assessing its performance. Non-GAAP financial measures do not have any standard meaning prescribed by GAAP and may not be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Non-GAAP Financial Measures".

Amounts are stated in Canadian dollars unless otherwise indicated.

Caution Regarding Forward-Looking Information

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

Overview

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

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

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

- **In Sanya City, Hainan Province, China**
  - 30-year exclusive concession rights (2007-2037) in Sanya City with wholly-owned gas distribution pipeline networks and associated facilities;
  - Secured gas supply through its annual gas quota of 24 million cubic meters (m^3) (848 million cubic feet (ft^3)) until December 31, 2015 at a favorable price;
  - Serving more than 142,248 residential and 789 commercial/industrial customers (primarily hotels and restaurants);
  - Serving 7 hotels in Haitang Bay area, Sanya City.

- **In Xiangdong District, Pingxiang City, Jiangxi Province, China (Xiangdong Project)**
  - 50-year operation rights (2010-2060) in the administrative region of Xiangdong District, including the Pingxiang Industrial Ceramic Production Park (the "Park");
  - Secured gas supply through approval of a one-year gas quota of 2015: 50 million m^3 (1,765 million ft^3);
  - Commenced the sale of natural gas to five ceramics manufacturers and two other industrial customers in the Park;
  - Completed the installation of the main and service pipeline connecting to a gated community.

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

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

Vision

Changfeng is committed to contributing to a cleaner China and improving the quality of life by providing clean and safe energy to its customers.

Its vision is to become one of the predominant natural gas service providers in Southern China.

History

Changfeng was founded in 1995 as a privately-owned natural gas utility serving residential, commercial and industrial customers in Sanya City. In 2007, 30-year exclusive concession rights were granted to Changfeng by the local government to operate pipeline construction and gas distribution operations in the city.

Since 2003, Changfeng has been building an extensive pipeline network in the main district of Sanya City. In December 2010, Changfeng completed the extension of a 26.6 km of high-to-medium pressure pipeline linking Sanya City with the Haitang Bay region together with 21.2 km of low-pressure pipeline, and commenced the supply of gas to this newly- developed district of Sanya City. The company is continuing expanding its pipeline network in Haitang Bay region and currently is serving 7 hotels.

Since 2010, the Company completed the construction of its first CNG filling station and commenced its operations. In 2012, the Company upgraded its CNG retail station's capacity to meet the increasing demand. The company has been continuing to grow its customer base in 2013 and 2014 and its gas volume sold keeps increasing.

As of the end of 2014, the company is selling natural gas to seven industrial customers in the Park and completed the installation of the main and service pipeline connecting to a gated community for its Xiangdong project. The company is continuing expanding its pipeline network in the Park and administrative region of Xiangdong District.

Growth Strategy

Changfeng's corporate strategy is to maximize operating cash flow of its existing operations, and to pursue long-term growth opportunities that add long-term shareholder value while focusing on its core operations in the natural gas business in China. The following initiatives are central to Changfeng`s growth strategy:

- Maximize operating cash flow from its Pipeline Gas Distribution in Sanya through securing additional gas quotas with more competitive purchase pricing and from its pipeline connection service by increasing its customer base; and
- Focus on commercial and industrial -intensive, underdeveloped markets in medium and small cities in mainland China.

It is critical to successfully execute its growth strategies in order to achieve its vision. Below and throughout this MD&A, Changfeng will discuss the execution of its business strategy for 2015 and beyond.

Maximize operating cash flow from its Pipeline Gas Distribution in Sanya through securing additional gas quotas with more competitive purchase pricing and from its pipeline connection service by increasing its customer base

The Company's strategy is to continue to grow its business in the Sanya Region where Changfeng has strong secular growth trends in tourism and real estate development. However, ever since 2010, demand for natural gas in this region has greatly exceeded its annual 24 million m^3 quota gas ("Quota Gas") due to both urban expansion and rapid development of coastal tourism. Its Quota Gas in Sanya Region, which was originally established in 2006 and is set to expire at the end of 2015, at a relatively fixed purchase price, cannot fully meet the market demand. Changfeng anticipates that the gas shortage situation in Sanya Region will not be significantly mitigated when CNOOC completes construction and commences operation of its LNG receiver terminal that is currently under construction in Hainan Island. As a result, in 2015, its strategy is to maximize the profits and operating cash flows from its Sanya's operation through the gas supply management, which aims to maintain the gross margin on the sales of the extra gas beyond the Quota Gas. This strategy will enable its existing operation in Sanya Region to provide continued solid free operating cash flows which in part, are funding its strategic business development and expansion endeavors that are currently underway in mainland China.

At the same time, Changfeng has been working closely with the municipal government to find solutions to mitigate the negative effects of the gas shortage and higher gas pricing for Other Gas. Some practical measures to address the problem include a sales price increase to commercial and industrial customers, a government subsidy, and additional temporary gas quota, have been implemented successfully. The construction of Gas to Electricity Exchange Program was completed in 2014 and a 5 million m^3 exchanged gas had been sold to the Company in 2014. In 2015 another 5 million m^3 exchanged gas will be provided to the Company as well.

Changfeng's strategy is also to continue to grow its customer base for its pipeline connection services in the Sanya Region. With the strong growth trends in tourism and real estate development, the Company has connected various hotels, restaurants, hospitals and gated communities and generated continuingly increasing cash flow from these pipeline connection services.

Focus on commercial and industrial -intensive, underdeveloped markets in medium and small cities along the WEP II in mainland China

Changfeng will continue to explore and develop gas distribution business opportunities in the emerging markets in mainland China, especially along WEP II. As a major national project of the China's 11th Five-Year Plan, construction of WEP II started on February 22, 2008. The trunk pipeline of WEP II has been completed and commenced the supply of gas in June 2011, and is to bring additional 30 billion m^3 gas annually to China over the next 30 years. As a result, there is a significant need for natural gas distribution utilities to provide a distribution solution to take new gas from national pipelines and deliver it to end users.

The Company's focus continues to be on commercial and industrial-intensive, underdeveloped markets in medium and small cities in these regions. Changfeng believes that this focused growth strategy enables us to grow its business rapidly, but at the same time, to minimize its capital expenditure requirements by limiting the potential size and length of gas pipelines through directly connecting the vast natural gas users such as industrial companies and gas-fired plants to the existing and/or planned national or provincial gas pipelines.

Currently, two of the projects are in commercial operation, which are the CNG refueling station in Changsha City, and Piped Gas Distribution in Xiangdong district, Pingxiang City. The Company is also pursuing a potential gas distribution opportunity in the Western Guangdong Area of Guangdong Province, China.

2014 Accomplishments

On December 16, 2014, the Company entered into a natural gas purchase and sale agreement (the "Agreement") with PetroChina Company Ltd. ("PetroChina") regarding the purchase and sale of piped natural gas in 2015 and thereafter for its Xiangdong Project to meet the natural gas quota (the "Quota Gas") approved by the Jiangxi Provincial Bureau of Energy in 2011. Under the terms of the Agreement, PetroChina agreed to supply the qualified Quota Gas up to a volume of 50 million m^3 to the Company in 2015. Thereafter, Changfeng and PetroChina will negotiate the annual volume of natural gas to be purchased by the Company from PetroChina in five year periods by the end of June in the year prior to each five year period. Under the terms of the Agreement, The Company is also required to commission contract with Jiangxi Provincial Natural Gas Investment Co., Ltd. (the "Carrier"), the official natural gas terminal receiver appointed by the Government of Jiangxi Province, for the Carrier to transmit the purchased gas from PetroChina's Second West-East Pipeline ("WEP II") to the Company's gate station. The Carrier is responsible for the construction of the branch pipeline of approximately 15 kilometers connecting the WEP II and the Company's gate station in Xiangdong. After the construction of the Carrier's branch pipeline is completed, the Agreement will allow the Company to significantly reduce the quantities of relatively expensive CNG it has been required to purchase to supply its operations in Xiangdong.

Business Segments

Changfeng's businesses are organized into two segments: Natural Gas Distribution Utility and CNG Refueling Retail Station.

Natural Gas Distribution Utility

The Natural Gas Distribution Utility consists of gas pipeline installation and connection and piped gas sales, which is currently in its primary operation.

Changfeng operates by installing and connecting gas pipelines and selling gas through its pipeline networks to the end users. Changfeng currently derives the majority of its revenue from installing and connecting services and distribution of natural gas through its pipeline networks in Sanya City, Hainan Province, China.

Since 2003, Changfeng has been building extensive pipeline networks in the main district of Sanya City. Over the last four years, Changfeng has committed significant resources to extend its gas pipeline networks from the main district of Sanya City to the Haitang Bay area, a newly developing, high growth tourist district in Sanya City. The rapid growth of the Haitang Bay district is mainly attributable to the commitment made by the China Central Government in late 2009 to build Hainan Province into an international tourism destination by 2020.

Since 2008, in order to add incremental value to its existing business, Changfeng has been actively pursuing its gas connections and pipeline gas business in selected cities in Jiangxi and Guangdong provinces in mainland China. These provinces represent potentially large, rapidly growing emerging-markets for Changfeng as a result of the full operation of the eight sub-lines of WEP II in 2012. Please refer to the Expansion Project section in this MD&A for further discussion of these projects.

CNG Refueling Retail Station

CNG Refueling Retail Station serves mainly for public transportation vehicles like buses and taxis in Changsha City, Hunan Province, China. Its first CNG refueling retail station was completed and commenced the supply of gas in April 2010.

Changsha City is the capital of Hunan Province with a population of approximately 7.1 million (2014), and it is an important commercial and trade center in central-south China. In 2006, the Changsha City municipal government began to encourage taxicab and public bus vehicles to be dual-fuel vehicles (gasoline and natural gas) in order to alleviate serious air pollution problems. Since 2012, the municipal government allowed private owners to switch to natural gas fueled vehicle.

Selected Annual Financial Information

In thousands of Canadian dollars except percentages and per share amounts	2014	2013	Change	%
Revenue	53,128	42,049	11,079	26%
Gross margin	**23,996**	**19,998**	3,999	20%
% of revenue	**45.2%**	**47.6%**	-2.4%	
General and administrative	10,619	9,268	1,351	15%
% of revenue	20.0%	22.0%	-2.1%	
Travel and business development	3,632	3,337	295	9%
% of revenue	6.8%	7.9%	-1.1%	
Stock based compensation	272	382	(110)	-29%
% of revenue	0.5%	0.9%	-0.4%	
Total expenses	**14,523**	**12,987**	1,536	12%
% of revenue	**27.3%**	**30.9%**	-3.6%	
Income before interest, equity loss and income taxes	**9,474**	**7,011**	2,463	35%
% of revenue	**17.8%**	**16.7%**	1.2%	
Interest on long term debt	1,704	1,638	65	4%
% of revenue	3.2%	3.9%	-0.7%	
Interest (income) expense	(257)	(37)	(220)	595%
% of revenue	-0.5%	-0.1%	-0.4%	
Share of loss of investment in associate	8	1.3	7	538%
Income before income taxes	**8,018**	**5,408**	2,610	48%
% of revenue	**15.1%**	**12.9%**	2.2%	
Income tax	3,976	2,594	1,382	53%
% of revenue	7.5%	6.2%	1.3%	
Net income	**4,043**	**2,814**	1,229	44%
% of revenue	7.6%	6.7%	0.9%	
EBITDA (1)	**13,509**	**9,806**	3,703	38%
% of revenue	**25.4%**	**23.3%**	2.1%	
Non-controlling interest	259	331	(72)	-22%
Basic EPS (Recasted - 2013)	0.06	0.04	0.02	50%
Diluted EPS (Recasted - 2013)	0.06	0.04	0.02	50%
Weighted average number of common shares outstanding - Basic	63,455	65,196	(1,742)	-3%
Weighted average number of common shares outstanding - Diluted	64,363	65,815	(1,452)	-2%

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

Results of Operations

Revenue

Revenue in RMB	2014	2013	Change	Change %
Gas distribution utility				
- Gas Sales	129,450,173	121,671,384	7,778,789	6%
- Pipeline Installation and Connection	117,617,664	82,431,811	35,185,853	43%
CNG vehicle refueling	49,241,099	46,935,855	2,305,244	5%
Total	**296,308,935**	**251,039,050**	**45,269,886**	**18%**

Revenue in CAD	2014	2013	Change	Change %
Gas distribution utility				
- Gas Sales	23,210,416	20,379,957	2,830,459	14%
- Pipeline Installation and Connection	21,088,847	13,807,328	7,281,519	53%
CNG vehicle refueling	8,828,929	7,861,756	967,173	12%
Total	**53,128,192**	**42,049,041**	**11,079,151**	**26%**

Revenue for fiscal 2014 was $53.1 million, an increase of $11.1 million, or 26%, from $42.0 million in 2013. This increase is mainly attributable to continued gas sales volume growth resulting from growing customer base, higher average selling price for its CNG refueling retail station in Changsha City, higher pipeline connection revenue, and appreciation of exchange rate between the Chinese RMB and the Canadian dollar.

Further analysis on operational performance and revenue during fiscal 2014 with compared to that of 2013 are presented below for the Company's two business segments: Natural Gas Distribution Utility and CNG vehicle refueling stations.

Natural Gas Distribution Utility

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 growth during 2014.

Gas Sales

	2014		2013		Change %	
Gas volume sold (m3)	**Sanya**	**Pingxiang**	**Sanya**	**Pingxiang**	**Sanya**	**Pingxiang**
Residential customers	8,170,000	57,387	7,700,000	6,060	6%	847%
Commercial customers	27,150,000	909,255	25,930,000	1,084,900	5%	-16%
Total gas volume sold	**35,320,000**	**966,642**	**33,630,000**	**1,090,960**	**5%**	**-11%**

Currently, the Company has an annual gas quota of 24.0 million m^3 for its Sanya Region operation. And an uncertain amount of extra gas quota made available each year through coordination with the local government in Sanya region. In 2014, the Company purchased 5.0 million m^3 exchanged pipeline gas from its Gas and Electricity Exchange Program which was completed at the end of 2013.

Gas sales volume for Sanya Region in 2014 was 35.3 million m^3, an increase of 1.7 million m^3 or 5%, with compared to 33.6 m^3 million in 2013, of which 8.2 million m^3 for residential customers at an annual growth rate of 6% and 27.1 million m^3 for commercial customers at an annual growth rate of 5%.

The Company also has secured its gas supply in Xiangdong district through the approval of one year gas quota of 50.0 million m^3 for 2015. Gas sales volume for Xiangdong district in 2014 was 1.0 million m^3 with compared to 1.1 million m^3 in 2013. The decrease was primarily due to the staggered development for ceramic production industry in which its major connected industrial customers are engaged in Xiangdong district.

The Company's non-residential customers include both commercial and industrial customers, mainly comprised of the hotels, resorts and restaurants in Sanya City. Currently, approximately 77% 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.

The Company commenced the sale of natural gas to seven industrial customers in the Xiangdong region and completed the installation of the main and service pipeline connecting to a gated community and started to sell natural gas to residential customers in the gated community in the downtown area of Xiangdong region since 2013. The Company is expecting to eventually connect 2,000 new residential customers and to serve another 8,000 residential customers by upgrading their coke gas fueled facilities to natural gas fueled facilities in downtown Xiangdong region.

Gas sales revenue in RMB	2014	2013	Change	Change %
Sanya	125,950,422	118,266,573	7,683,849	6%
Xiangdong	3,499,751	3,404,811	94,940	3%
Total	**129,450,173**	**121,671,384**	**7,778,789**	**6%**

Gas sales revenue in CAD	2014	2013	Change	Change %
Sanya	22,582,911	19,809,651	2,773,260	14%
Xiangdong	627,505	570,306	57,200	10%
Total	**23,210,416**	**20,379,957**	**2,830,459**	**14%**

Gas sales revenue for fiscal 2014 was $23.2 million, an increase of $2.8 million or 14%, from 20.4 million in 2013. The increase is mainly attributable to:

- the sustaining gas sales volume growth of 5% in Sanya region
- partly offset by the dropped gas sales volume in Xiangdong district of -11%, mainly due to industrial customers slow-down production
- the appreciation of exchange rate between Chinese RMB and Canadian dollar

Pipeline Installation and Connection

	2014		2013		Change %	
	Sanya	Pingxian	Sanya	Pingxiang	Sanya	Pingxiang
Customers connected during the period						
Residential customers	23,583	762	19,496	265	21%	188%
Commercial customers	6	2	39	5	72%	-60%
Customers connected at the end of the period						
Residential customers	142,248	1,027	118,665	265	20%	288%
Commercial customers	789	7	722	5	9%	40%

Pipeline connection revenue in RMB	2014	2013	Change	Change %
Sanya	116,534,509	81,849,386	34,685,123	42%
Xiangdong	1,083,154	582,425	500,730	86%
Total	**117,617,664**	**82,431,811**	**35,185,853**	**43%**

Pipeline connection revenue in CAD	2014	2013	Change	Change %
Sanya	20,894,638	13,709,772	7,184,865	52%
Xiangdong	194,210	97,556	96,653	99%
Total	**21,088,847**	**13,807,328**	**7,281,519**	**53%**

Pipeline installation and connection revenue for fiscal 2014 was $21.1 million, a significant increase of $7.3 million or 53%, from $13.8 million in 2013. The increase is mainly attributable to:

- comparatively higher amount of new residential customers connected during the period, which was in a total of 23,583, an increase of 4,087 or 21%, from 19,496 in 2013;

- significantly higher amount of new commercial customers connected during 2014, which was in a total of 67, an increase of 28 or 72%, from a total of 39 in 2013, moreover, some of them are in high contract amounts;
- comparatively higher amount of new residential customers connected in Xiangdong district during 2014 in a total of 762, an increase of 497 or 188%, from 265 in 2013.
- the appreciation of exchange rate between Chinese RMB and Canadian dollar

CNG vehicle refueling station

	2014	2013	Change	Change %
Gas sales volume (m3)	13,010,884	13,262,000	(251,116)	-2%

	2014	2013	Change	Change %
Revenue in RMB	49,241,099	46,935,855	2,305,244	5%
Revenue in CAD	8,828,929	7,861,756	967,173	12%

Total revenue from CNG refueling retail station for 2014 was $8.8 million, an increase of $0.9 million, or 12%, from $7.9 million in 2013. The increase was attributable to higher average selling price and Chinese RMB appreciation, but partly offset by the slightly dropped CNG sales volume (13.0 million m^3 in 2014 compared to 13.3 million m^3 in 2013). Effectively as of August 29, 2014, the local natural gas pricing authority approved a 9% price increase for CNG retail station in Changsha City as a response to a gasoline price increase. In addition, the Company has been upgrading its station's refueling capacity to meet the increasing demand that is primarily driven by both rising gasoline prices and continued government support for clean energy vehicles. It is expected that more existing gasoline-fueled buses in the city will be converted into dual-fuel vehicles (gasoline/CNG).

Foreign exchange rates

Changfeng reports its financial results in Canadian dollars but earns all of its revenues and incurs most of its expenses in Chinese RMB. Accordingly, any fluctuation in the exchange rate between these two currencies will affect the reported financial information. The impact of the changes in foreign exchange rates has been recognized as other comprehensive income, and not as in net income. Excluding the foreign exchange effect, revenues for fiscal 2014 were RMB 296.3 million, an increase of RMB 45.3 million (18%), from RMB 251.0 million in 2013.

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

One Chinese RMB to Canadian dollars	2014	2013	% change
Spot rate at the end of the year	0.1869	0.1757	6.4%
Average rate for the year	0.1793	0.1675	7.0%

Gross margin

Gross margin for 2014 was $24.0 million, an increase of $4.0 million, or 20%, from $20.0 million in 2013. The gross margin percentage of 45% for 2014 was slightly decreased from that of 48% for 2013.

Natural gas distribution utility gross margin as a percentage of sales year-over-year dropped by 3% (50% for 2014 VS 53% for 2013) reflecting the higher volume of gas purchased at market rate prices in order to satisfy the increased gas demand during 2014. The CNG refueling station gross margin as a percentage of sales year-over-year also decreased by 4% (21% for 2014 VS 25% for 2013) primarily due to the higher proportionate gas purchase cost increase with compared to the gas sales price increase announced on August 29, 2014 by the local gas pricing authority.

Operating expenses

General and administrative expenses for 2014 were $10.6 million, an increase of $1.3 million, or 15%, from $9.3 million in 2013. The increase was attributable to higher employee salaries and benefits as a result of a higher inflation rate in China, additional employees, and higher conference and professional fees. General and administrative expenses as a percentage of sales for 2014 were 20%, lower than 22% for 2013.

Travel and business development expenses for 2014 were $3.6 million, an increase of $0.3 million, or 9%, from $3.3 million in 2013. As a percentage of sales, travel and business development expenses for 2014 was 7%, a decrease from 8% in 2013. These expenses normally fluctuate with travel and business development activities in mainland China as the Company seeks to develop new projects in close proximity to the new national pipelines.

Interest on long term debt for fiscal 2014 and 2013 was $1.7 million and $1.6 million, respectively, an increase of $0.1 million. The increase is mostly due to Chinese RMB appreciation in 2014.

EBITDA

EBITDA (non-GAAP measure as identified and defined under section "Non-GAAP Measures") for fiscal 2014 was $13.5 million, an increase of $3.7 million, or 38%, from $9.8 million for 2013. The increase was driven primarily by higher sales and connection revenue. EBITDA as a percentage of revenue for 2014 was 25%, a slight increase from 23% as in 2013.

Net income

Net income for fiscal 2014 was $4.0 million, or $0.06 and 0.06 per share (basic and diluted) compared to $2.8 million or $0.04 per share (basic and diluted) in 2013.

Expansion Projects

Changfeng has the following projects under development as part of its growth strategy.

Haitang Bay Pipelined Gas Project, Sanya City, Hainan Province

Haitang Bay is one of the five major bays in Sanya City, Hainan Province. It is a flagship project being promoted by the Hainan provincial government to build Hainan Island into an international tourism destination by 2020. The size of the Haitang Bay development area is estimated at 98.7 square km and includes approximately 24 km of beachfront. It is planned to build this area into a new township and house more than twenty (20) five-star hotels by 2020.

In December 2010, Changfeng completed the extension of a 26.6 km of high-to-medium pressure pipeline linking Sanya City with Haitang Bay district together with 21.2 km of low pressure pipeline and associated facilities, and began to supply gas for this district.

During 2013 and 2014, the construction of pipeline networks in this district was slowed due to the tightening of credit by the Central Government of China to address growing inflation in China. In the long term, Changfeng believe that the Haitang Bay would represent a high-growth potential area for its operation in Sanya Region as more luxury hotels are to be constructed and connected to its pipeline networks.

Currently, there are seven newly built hotels, including the Hilton, and Sheraton-chains, in operation and using the natural gas supplied by the Company for cooking and hot water. The gas consumption in 2014 was 3.3 million cubic meters, accounting for 10 percent of the total gas sales in Sanya operation.

CNG Refueling Retail Stations Project, Changsha City, Hunan Province

CNG refueling stations represent Changfeng's first growth project in mainland China. However, further expansion and development of CNG refueling retail stations in Changsha beyond the first station has been delayed pending a secured gas source at a price that will provide a reasonable margin. In addition, other issues such as pricing of the lands to be either leased or purchased for construction of the CNG refueling stations, market size/development and capital budgeting are expected to play a role in the evolution of its CNG station initiative in Changsha City.

CNG and Piped Gas Distribution-Project, Xiangdong district, Pingxiang City, Jiangxi Province

In December 2014, the Company entered into a natural gas purchase and sale agreement with PetroChina Company Ltd. regarding the purchase and sale of piped natural gas of 50 million m^3 in 2015. Thereafter, Changfeng and PetroChina will negotiate the annual volume of natural gas to be purchased by the Company from PetroChina in five year periods. Under the terms of the Agreement, The Company is also required to commission contract with Jiangxi Provincial Natural Gas Investment Co., Ltd. (the "Carrier"), the official natural gas terminal receiver appointed by the Government of Jiangxi Province, for the Carrier to transmit the purchased gas from PetroChina's Second West-East Pipeline ("WEP II") to the Company's gate station. After the construction of the Carrier's branch pipeline is completed, the Agreement will allow the Company to significantly reduce the quantities of relatively expensive CNG it has been required to purchase to supply its operations in Xiangdong.

Pipelined Gas Project, in the Western Guangdong Area ("Yue Xi") of Guangdong Province, China

The Company has identified two gas fueled power plants as its phase I targeted customers ("Phase I"). The Company intends to establish a joint venture with PetroChina Kunlun Gas Co., Ltd ("CNPC Kunlun Gas"), a wholly owned subsidiary of PetroChina, to build high pressure transmission pipelines and associated facilities (the "Pipelines") to link the existing and/or planned provincial trunk lines to certain gas fueled power plants located in Guangdong Province, China.

The Company filed a feasibility study on the first potential gas fueled power plant in Phase I with CNPC Kunlun Gas and is now reviewing CNPC Kunlun Gas' feedback and preparing a revised feasibility study which will be submitted shortly.

The Company has also submitted an initial project proposal on the second potential gas fueled power plant in Phase I to CNPC Kunlun Gas for its review. If the initial project proposal is accepted by CNPC Kunlun Gas, the company will then prepare a feasibility study for review by CNPC Kunlun Gas.

The two potential gas fueled power plants in Phase I are located in Zhaoqing City and Jiangmen City, Guangdong Province, China, respectively. Phase I will include a two-kilometer (1.4 mile) pipeline and a one-kilometer (0.7 mile) pipeline for the two potential gas fueled power plants, respectively.

Selected Quarterly Results

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

Quarterly data ($000's)	2014				2013			
except per share amounts	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Foreign exchange rate one Chinese RMB to Canadian dollars	0.1793	0.1767	0.1750	0.1808	0.1675	0.1660	0.1642	0.1621
Revenue	16,878	12,094	10,775	13,381	12,996	10,240	9,190	9,623
Gross profit	5,888	5,580	4,738	7,790	5,230	4,867	4,326	5,575
Interest	307	458	449	490	316	443	437	442
Net income (loss)	1,083	696	607	1,930	345	571	625	1,273
Net income (loss) per share								
- basic	0.01	0.01	0.01	0.03	0.00	0.01	0.01	0.02
- diluted	0.01	0.01	0.01	0.03	0.00	0.01	0.01	0.02

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
($000's)	31-Dec-14	31-Dec-13
Cash	12,120	15,151
Working capital (deficit)	(11,712)	(9,465)
Adjusted working capital (deficit) (note1)	5,300	8,375
Plant and equipment	65,526	57,311
Total assets	88,986	83,637
Long term liabilities	31,821	32,495
Shareholders' equity	25,314	20,540

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

Cash decreased by $3.1 million to $12.1million at December 31, 2014 from $15.2 million at December 31, 2014. Cash change mainly originated from cash inflow provided by operating activities of $5.6 million, and cash withdrawal from bank loan of $1.8 million, but offset by cash outflow including repayments of bank indebtedness of $1.8 million and long term bank loan of $2.3 million as well as capital expenditure of $5.7 million and share buyback of $0.6 million.

Adjusted Working Capital

Its adjusted working capital (see "Non-GAAP Financial Measures") was $5.3 million at December 31, 2014. Adjusted working capital excludes $13.4 million of deferred revenue in connection with gas connection fees and $3.6 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 January 2010, December 2012 and January 2013, respectively.

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

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

The Company's medium and long-term cash goals are to fund construction of its pipeline networks and gas distribution facilities, to acquire capital and intangible assets for its growth initiatives in mainland China and to repay its long-term loans from the BOC, 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. The Company has not experienced any difficulties in collecting its outstanding receivables from its customers and expects no such difficulties in the foreseeable future.

Long-term bank loans

On December 21, 2012, the Company entered into a term loan with the Bank of China, Pingxiang Branch ("BOC, Pingxiang") for $3.7 million (RMB 20.0 million), maturing six years from the date of the first withdrawal, and bearing interest at 120% of the prime rate of the People's Bank of China. This term loan is secured by the property and equipment of Pingxiang CF and guaranteed by CF China. The proceeds from this term loan will be used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang City, Jiangxi Province. During the year, the Company made payments in the amount of $560,700 (RMB 3.0 million) and another payment in the first quarter of 2015 in the amount of $140,175 (RMB 750,000), as of the date, $3.0 million (RMB 16.3 million). of the term loan is outstanding.

On January, 15, 2013 the Company entered an agreement with BOC, Sanya Branch to secure a bank loan facility in the amount of $9.3 million (RMB 50.0 million) (the "Term Loan"). The Term Loan agreement requires that the proceeds be used to fund continued construction of pipeline and associated facilities for the Haitang Bay project in Sanya City, Hainan Province, China. The Term Loan is secured by the same collateral as that of the existing term loan and the Credit Line described in note 13(a)(ii) and 13(b)(i) of the Consolidated Financial Statements, respectively. It has a ten-year term from the date of the first initial withdrawal, and bears interest of 110% of the prime rate set by the People's Bank of China. As at December 31, 2014 the Company has withdrawn $7.5 million (RMB 40.0 million).

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

Government grants

In 2014, the Company received government grant of $17,034 (RMB 95,000) (2013 - $93,268 (RMB 530,834)) which is to fund the construction of certain items of property and equipment for the Company's operation in Sanya City. These government grants were recognized as a long-term liability and will be recognized in net income over the expected useful life of the related assets when the related assets are ready for use.

Credit Agreement

Included in current liabilities is $1.9 million (RMB 10.0 million) (December 31, 2013 - $1.8 million (RMB 10.0 million)) relating to the Company's Line of Credit (the "Credit Line") with BOC, Sanya. This loan contains a financial covenant, which requires the Company's subsidiary CF China's debt-to-total-assets ratio to be maintained below 80%. In the fourth quarter of 2014, the Company renewed its line of credit with BOC for $1.9 million (RMB 10 million). As of December 31, 2014, the Company had withdrawn $1.9 million (RMB 10.0 million) (December 31, 2013 - $1.8 million (RMB 10.0 million)).

Also included in current liabilities is $1.7 million (RMB 9.3 million) (December 31, 2013 - $1.6 million (RMB 9.1 million) relating to a US$1.5 million term loan from the Bank of China (Canada) pursuant to a Credit Facility Letter Agreement effective September 22, 2014. The Term Loan is secured by a Standby Letter of Credit provided by the Company and issued by the Bank of China Hainan Branch for the amount of RMB 10.0 million. The Term Loan has a one-year term from the date of the withdrawal and bears annual interest of 6-month LIBOR Rate plus 250bps.

Cash Flow from Operations

Net cash provided by operations was $5.6 million for fiscal 2014 compared to $10.0 million in 2013.

Cash Flow from Financing Activities

Cash used in financing activities in 2014 included a $2.3 million long term loan repayment, $0.6 million paid for the share buyback, and in a total amount of $2.9 million.

Investing Activities

Cash used in investing activity included capital expenditures of $5.7 million for fiscal 2014 compared to $9.3 million in 2013. The expenditures were mainly related to the purchase of equipment and new office building construction for the Xiangdong project, and the on-going construction of pipeline networks to connect new customers in the Sanya region and Xiangdong district.

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 and BOC, Pingxiang, as well as operating cash flow from its existing operations.

Contractual Obligations and Commitments

Pipeline Construction and Equipment:

The Company has capital commitments for the purchase of property and equipment contracted for but not provided in the consolidated financial statements amounting to $3,083,850 (RMB 16,500,000) (2013 - $4,466,190 (RMB 23,900,000)).

Natural Gas Purchase Commitments:

The following tables summarize its contractual obligations and commitments as of December 31, 2014 in connection with its natural gas purchase contracts:

Year	Gas source supplier	Gas volume quota	Location
2006-2015	Ya13-1 Gas Well (CNOOC)	24 million m^3 a year	Sanya city
2010-2015	Shennan LNG	LNG unlimited supply is variable within Changfeng's forecast demand	Sanya city
2011-2015	Chengmaisanyou CNG	Maximum of 5 million m^3 a year,	Sanya city
2014-2015	Gas and Electricity Exchange Program (CNOOC)	Maximum of 5 million m^3 a year	Sanya city
2015 and beyond	Yangpu LNG Receiving terminal (CNOOC)	Letter of intent for up to 150 million m^3 a year	Sanya city

Lease Commitment:

On September 28, 2010, the Company signed a land lease agreement for the construction of its second CNG refuelling station in Changsha City, Hunan Province. The lease term is for 21 years, ending September 27, 2035. Upon signing the agreement, the Company paid a deposit of $0.02 million (RMB 0.1 million), which is expected to be refunded when the agreement expires. The first year's rent of $0.06 million (RMB 0.3 million) is required to be paid upon commencement of construction. As at December 31, 2014, construction of the refueling station had not commenced.

The minimum lease payments in successive years are as follows:

	RMB	**Cdn. $**
2015	829,500	155,034
2016	833,613	155,802
2017	854,175	159,645
2018	854,175	159,645
2019	854,175	159,645
Thereafter	12,517,123	2,339,450
	16,742,761	3,129,221

Other obligations and commitments are incurred in the normal course of business operations.

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.

Related Parties Transactions

- As at December 31, 2014, the Company had an outstanding loan of nil (2013 – $0.4 million) due from the minority shareholder of Hunan Changfeng CNPC Energy Co., Ltd. ("Hunan CF CNPC"), which used the funds to contribute the capital it owed to that subsidiary. As at December 31, 2014, the loan has been fully repaid by the minority shareholder.
- Included in current due to related parties as at December 31, 2014, is a required capital contribution of $0.6 million (RMB 3.0 million) (December 31, 2013 - $0.5 million (RMB 3.0 million) to be made to Shin-Ko Energy. Also, included in current due to related parties as at December 31, 2014, was $0.2 million (RMB1.2 million) (2013 - $0.2 million (RMB 1.3 million)) relating to a loan made to the Company by Shin-Ko Energy. The loan is interest-free and is not secured. It is payable on demand.
- In 2007, a significant shareholder, who is also an officer and director of the Company, advanced loans in the aggregate amount of $7.5 million (RMB 40.0 million) (December 31, 2013 - $7.0 million (RMB 40.0 million)) to the Company, through wholly owned corporations, in accordance with a Subordination and Forbearance Agreement dated April 27, 2007, Consignment Loan Agreements dated May 23, 2007 and June 26, 2007, and other ancillary documentation. These loans are unsecured, non-interest bearing, are subordinated to the claims of all other creditors, including unsecured creditors of the Company, and are due on demand 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 Company 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 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.
- As at December 31, 2014, the Company has owed an officer and director of the Company $0.4 million (2013 - $0.6 million) for unpaid salary .
- As at December 31, 2014, the Company owed certain directors $0.07 million (2013 - $0.07 million) for unpaid director's fees.
- As at December 31, 2014, the Company owed a minority shareholder of the Company $0.01 million (RMB 0.3 million (2013 – nil) for unpaid dividend.

Share Capital

As of the date of this MD&A, the Company has 63,099,200 common shares outstanding, 6,300,000 stock options outstanding and exercisable at a weighted average exercise price of $0.34 per share. The Company has no warrants outstanding. On May 27, 2015, 800,000 options expired.

During 2014, the Company purchased for cancellation 1,540,000 of its common shares under its normal-course issuer bid (the "Bid") for cash of $598,782. These shares were cancelled automatically after the company purchased them. The Bid expired on November 26, 2014.

Risks and Uncertainties

The Company is exposed to a variety of risks in the normal course of operations that could significantly affect its operating cash flow and profitability of operations and could cause its actual results to differ in material respects from its anticipated results. These risks may include, but are not limited to, those listed below. The Company seeks to manage the risks associated with its business operations; however, many of the factors affecting these risks are beyond the Company's control. The future effect of these risks and uncertainties cannot be quantified or predicted.

Country risks

As substantially all of the business of the Company is operated in China, the profitability, financial position and prospects of the Company are subject to the consideration and risks of operating in China. These include risks associated with the political and economic environment, foreign currency exchange and the legal system in China. Any changes in the policies of the Chinese government regarding the domestic economy (for example, changes affecting foreign exchange rates, inflation, taxation and trade) may have a material effect on the overall economy.

The Chinese government has been pursuing economic reforms since it first adopted its "open-door" policy in 1978. The current reforms are unprecedented, producing effects that are unpredictable, and are subject to further refinement and improvement. New political, economic and social developments and considerations may lead the Chinese government to make adjustments to these reform measures. Any change in governmental policies or any unfavourable change in the political, economic or social conditions, the laws or regulations, or the rate or method of taxation in China may have a material adverse effect on the business of the Company.

Many laws and regulations dealing with economic matters in general, and foreign investment in particular, have been enacted in China. However, China still does not have a comprehensive system of laws, and enforcement of existing laws may be uncertain and sporadic. In China, gas distribution companies invest in and operate the piped gas supply business in urban areas under the supervision of a number of government ministries and departments, including the Ministry of Commerce, the Ministry of Labor and Social Security and the Ministry of Public Security. The Company must comply with the relevant requirements of certain regulations, including the City Fuel Gas Administration Regulations, the Tentative Regulations in relation to the Supervision and Administration of the Safety of Petroleum and Natural Gas Pipelines and the Regulations of the Safety of City Fuel Gas Administration. In addition, the Company must comply with the relevant requirements and policies of local authorities where the Company's projects are situated. Rights or rights of first refusal to provide piped gas are granted by local governments pursuant to policies of promoting environmental protection and encouraging the use of natural gas and the construction of natural gas supply facilities. In addition, the natural gas distribution business in China is highly regulated and pricing is controlled by the Chinese government. Any change in such laws or regulations could have a material adverse effect on the business of the Company. There can be no assurance that the above regulatory regime and policies (including the granting of rights or rights of first refusal to supply piped gas) will not be changed. The Company's operations and profitability may be materially adversely affected if changes that occur are not favorable to the Company.

Changes in foreign exchange regulations

Since 1996, the Chinese government has promulgated various foreign exchange rules, regulations and notices (the "Policies") to raise the convertibility of the Chinese renminbi ("renminbi"). According to the Policies, a foreign-invested enterprise ("FIE") must open a "current account" and a "capital account" at a bank authorized to trade foreign exchange. A FIE may convert renminbi in the capital account into any foreign currency at any authorized bank with the prior approval of the State Administration for Foreign Exchange ("SAFE") . The income and expenditures of the Company are denominated in renminbi. At present, renminbi cannot be freely converted into other currencies. According to the Polices, upon producing the board resolution on the authorization of the distribution of profits or dividends or the commercial documents evidencing foreign exchange transactions, the Company may purchase the foreign exchange required for the distribution from a designated authorized bank. The Company cannot guarantee that the Policies will not be withdrawn or amended. The Company continues to have substantial requirements for foreign currency, including foreign currency denominated loans and purchases of imported equipment and materials. Repayment of the principal and interest on loans denominated in foreign currency shall be approved by SAFE in advance. Such approval requirements could affect the Company's ability to obtain foreign exchange through debt financing or to obtain foreign exchange for capital expenditure. In addition, according to the current foreign exchange control system, there can be no assurance that sufficient foreign exchange can be obtained pursuant to a specific exchange rate in order to satisfy the Company's needs. A shortage in the foreign exchange may prevent the Company from obtaining sufficient currency to pay dividends or limit its ability to satisfy its needs for foreign exchange.

Development projects and acquisitions

Changfeng continues to focus on growing its business segments through organic development projects or acquisitions. The Company capitalizes costs incurred on certain of its projects during the development period when the project meets specific criteria and is expected to proceed through to completion. The related capital costs of a project that does not proceed through to completion are expensed at the time it is discontinued to the extent that these costs and underlying materials cannot be utilized on another project. With respect to the Company's acquisition of assets and operations, there is a risk that certain business opportunities may not materialize as expected, resulting in asset impairment.

Substantial initial capital expenditure requirement

The nature of the Company's operations require it to make a substantial initial investment in the construction of gas pipeline infrastructure and the construction of CNG filling stations. The initial investment must be financed by internal resources of the Company, bank loans and/or equity fund raising. There can be no assurance that external sources of financing will be available to fund the Company's capital expenditure program. The failure to obtain such financing may hinder the Company's ability to continue its existing investments or make new investments. In addition, there are risks associated with the construction of new facilities, including risks that costs of construction may be greater than anticipated, and that construction may be delayed due to factors beyond the control of the Company.

Grant of additional licenses

The business objectives of the Company include the expansion of its operations by applying for distribution and construction permits for natural gas distribution rights in other cities in China. Applicants for such licenses are required to meet extensive criteria, and to submit to a detailed examination of their infrastructure and management to a special team appointed by the government body reviewing such applications. Notwithstanding the results of any such review, distribution and construction permits are granted to applicants at the sole discretion of the government body reviewing such applications, and such grants occur on an infrequent basis. Accordingly, there can be no assurance that the Company will be granted any distribution or construction permits for which it applies, which may in turn have a material adverse effect upon the operations and growth strategy of the Company.

Price control

Any increase in gas usage charges exceeding the original approved charge requires the approval of the local state price bureau. There is no assurance that any increases (except for an increase to offset the rise in the Company's purchase price of gas) will be approved. There is no assurance that the Company will be able to offset any increase in the purchase price of gas with an increase in the sales price, such that its profitability may be adversely impacted.

Obligations to purchase gas

The Company currently has a letter of intent with CNOOC for the purchase of 150 million m^3. The Company may, at its option, enter into a take or pay agreement with CNOOC which will leave it financially committed to purchase gas without any assurance that it will have sales to offset the purchase obligations. In addition, the agreement in principle between the Company and CNOOC is conditional upon the completion of a plant to be constructed by CNOOC, which is in turn subject to the receipt of various regulatory and governmental approvals. Failure by CNOOC to obtain the required approvals and/or to complete construction of its proposed plant may have a material adverse effect on the Company.

Reliance on the suppliers of natural gas

At present, the Company purchases natural gas solely from Hainan Petrol pursuant to the supply agreement. Currently, the Company has a contract to purchase 24 million m^3 gas a year from this supplier until December 31, 2015. There can be no assurance that the Company will be able to obtain natural gas from suppliers on terms similar to those of the supply agreement or without material interruption.

Limited insurance coverage

As natural gas is an inherently flammable and explosive substance, the Company has implemented strict safety measures for the operation and maintenance of its facilities; however, the Company cannot guarantee that industry-related accidents will not happen in the future. Significant operational hazards and natural disasters may cause interruptions in the Company's operations that could have a material adverse impact on the financial condition of the Company. Although the Company may maintain insurance to protect against certain risks in such amounts as considered reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not be available or may not be adequate to cover any resulting liability. A successful claim made against the Company that is not covered by any of the Company's insurance policies or is in excess of its insurance coverage could have a material adverse effect on the Company's business and financial position.

Environmental risks and hazards

All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist in connection with the pipelines and distribution networks in which the Company holds interests that are unknown to the Company at present. Government approvals and permits are currently, and may in the future, be required to be obtained or renewed in connection with the Company's operations. To the extent such approvals are required and not obtained or existing permits are not renewed, the Company may be curtailed or prohibited from continuing its operations or from proceeding with planned development of its proposed projects. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing current or proposed operations and activities of the Company, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in development expenses, capital expenditures or production costs, or require abandonment or delays in development of new projects. The Company is subject to the Chinese environmental protection laws and regulations which impose fines for violations of laws, regulations or decrees and provide for the shutdown by the central, provisional or municipal governments of any facility not in compliance with governmental orders requiring the cessation or cure of certain activities causing environmental damage. As natural gas is an environmentally friendly form of fuel, the Company has not adopted any special environmental protection measures other than the measures taken in the ordinary course of business by companies in the industry.

Key executives

The Company is dependent upon the services of key executives, management of the Company and a small number of highly-skilled and experienced executives and personnel. In addition, in the event that the Company expands its operations to other jurisdictions in the Hainan and Guangdong Provinces as presently contemplated, it will be required to hire additional skilled personnel. Due to the relatively small size of the Company, the loss of these persons or the Company's inability to attract and retain additional highly-skilled employees may adversely affect its business and future operations.

Infrastructure

Natural gas distribution activities depend on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations. Any increase in the operating costs of the natural gas distribution networks of the Company could have a material adverse effect on the Company.

Competition

The natural gas distribution industry is competitive in all of its segments. The Company faces strong competition from other natural gas distribution companies in connection with the development of pipelines and acquisition of distribution rights for natural gas. Many of these companies have greater financial resources, operational experience and technical capabilities than the Company. As a result of this competition, the Company may be unable to maintain or acquire distribution rights on terms it considers acceptable, or at all. The ability of the Company to acquire natural gas distribution rights depends upon whether the Company is able to meet certain qualifications, the extent of competition, and the discretion of the MCC and other applicable government bodies. Factors beyond the control of the Company may affect its ability to obtain or retain distribution rights, or to secure exclusive concession rights with local municipalities, as well as the marketability of natural gas distributed by the Company. As a result of these and other factors, competitors of the Company may be granted shared or exclusive natural gas distribution rights in the target markets of the

Company, either of which may adversely affect the Company's future growth plans and operations. Changfeng also competes for financing with other companies, many of whom have greater financial resources and/or more advanced operations. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company.

Substitute products

Coal, gas, liquid propane gas, liquid natural gas and electricity are the main substitutes for natural gas. Ultimate consumers will consider factors such as cost, reliability, convenience and safety when choosing a fuel. Connection fees, gas usage charges and heat content are the major factors affecting customers' choice of fuel. Save for newly built residential apartments that are required to be equipped with natural gas supply for cooking stoves, in most of the locations in which the Company has established a presence, there is no assurance that existing fuel users will shift to use piped natural gas. Continued growth of the Company is dependent upon the continued conversion by Chinese residential and business consumers to natural gas as a fuel source.

Commodity prices

The price of the securities of the Company, the Company's financial results and development activities may in the future be significantly and adversely affected by declines in the price of natural gas and other commodities. The price of natural gas and other commodities fluctuates widely and is affected by numerous factors beyond the Company's control, such as the sale or purchase of natural gas by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the ("US") dollar and other foreign currencies, global and regional supply and demand, the political and economic conditions of major oil-producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges. Future serious price declines in the market value of natural gas and other commodities could cause continued development of the Company's projects to be impracticable. Depending on the price of natural gas and other commodities, cash flow from operations may not be sufficient and the Company could be forced to discontinue development of, may lose its interest in, or may be forced to sell, some of its interests.

Currency, interest rate and exchange fluctuations

The value of renminbi is subject to changes in the Chinese government's policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of the renminbi to US dollars has generally been stable, and renminbi has appreciated slightly against the US dollar. Any devaluation of renminbi may adversely affect the value of, and dividends payable on, the securities of the Company in foreign currency terms since the Company receives its revenues in renminbi. Results of operations and the financial condition of the Company may also be affected by changes in the value of certain currencies other than renminbi in which the Company's obligations are denominated. In particular, a devaluation of the renminbi is likely to increase the portion of the Company's cash flow required to satisfy its foreign currency-denominated obligations.

Government regulation

The construction and distribution activities of the Company are subject to various laws governing development, construction, distribution, taxes, labour standards and occupational health, toxic substances, land use, water use, and other matters. Although the Company's operations are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or distribution activities. Amendments to current laws and regulations governing natural gas distribution and related matters or more stringent implementation thereof could have a substantial adverse impact on the Company.

Non-GAAP 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, 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 thousands (except for % figures)	2014	2013	Change	Change %
Net Income	4,043	2,814	1,229	44%
Add (less):				
Income tax	3,976	2,594	1,382	53%
Interest (income) expense	(257)	(37)	(220)	595%
Share of loss of investment in associate	8	1	7	538%
Stock-based compensation	272	382	(110)	-29%
Amortization	3,764	2,414	1,350	56%
Interest on borrowing	1,704	1,638	65	4%
EBITDA	13,509	9,806	3,703	38%

Adjusted working capital

Adjusted working capital is calculated as current assets less adjusted current liabilities. Adjusted current liabilities is calculated as current liabilities, excluding deferred revenue in connection with gas connection fees, which are deferred when Changfeng receives payments from customers in advance of work having commenced and are recognized on the percentage of completion method, as well as the credit line and due to related party. 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 $ thousand **As at**	**31-Dec-14**	**31-Dec-13**
Current assets	20,139	21,137
Less: Current liabilities	31,851	30,603
Working capital (deficit)	(11,712)	(9,466)
Add: Deferred revenue	13,403	14,489
Line of credit	3,609	3,352
Adjusted working capital	**5,300**	**8,375**

Financial Instruments

Changfeng does not have complex financial instruments, and the various risks related to these financial instruments, including foreign currency risk, commodity price risk, interest rate risk, concentration of credit risk and liquidity risk have been disclosed in the notes to the Consolidated Financial Statements. See the "Note to the Consolidated Financial Statements" for further details around these contracts.

Recast of 2013 Financial Statements

Management determined through a review of an agreement in place with one of its minority shareholders that certain income should be attributable to non-controlling interest. The comparative financial information has been recasted to correct an error identified by management on the 2013 net income attributable to non-controlling interest. Refer to financial statements for more information.

Critical Accounting Policies and Estimates

To prepare financial statements that conform to IFRS, Changfeng is required to make estimates and assumptions that affect both the amount and timing of recording assets, liabilities, revenues and expenses, since the determination of these items may be dependent on future events. Each of these estimates varies with respect to the level of judgment involved and the potential impact on the Company's reported financial results. Estimates are deemed critical when the Company's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the consolidated financial statements of future periods.

All of the Company's significant accounting policies are discussed in Note 3 of the Audited Consolidated Financial Statements, which are incorporated by reference and can be found on the regulator's web site at www.sedar.com

Critical Accounting Estimates

Revenue recognition

Gas connection revenue is deferred and only recognized when the outcome of a contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably.

Revenue from gas connection contracts is recognized on the percentage of completion method, measured by reference to the value of work carried out during the year. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense immediately. Sales of gas appliances are recognized when goods are delivered and title has passed.

Amortization expense

The Company holds long-term prepayments, also described as land use rights, in China, which enables it to utilize land for a fixed period of time.

Amortization of property and equipment is recorded on a straight-line basis over their estimated useful lives as follows:

Buildings	30 - 35 years
Pipelines	30 - 35 years
Motor vehicles	3 - 10 years
Furniture and equipment	3 - 20 years
Long-term leasehold prepayments	Term of agreement
Leasehold improvement	Term of agreement

Assets classified as construction in progress are not amortized until they are ready for their intended use, at which point, they are transferred to property and equipment.

Impairment

The Company assesses intangible assets with indefinite lives for impairment annually or when an event or change in circumstances may indicate impairment. This assessment includes a comparison of the carrying value of the indefinite life intangible asset to its estimated fair value to ensure that the fair value is greater than the carrying value. The Company calculates the estimated fair value using valuation methods such as discounted cash flow analysis. These valuation methods employ a variety of assumptions, including future revenue growth, expected earnings, and earnings multiples. Estimating the fair value of an indefinite life intangible asset is a subjective process and requires the use of its best estimates. If its estimates or assumptions change from those used in its current valuation, Changfeng may be required to recognize impairment losses in future periods.

The Company assesses the carrying value of long-lived assets, which include property, plant and equipment and intangible assets subject to amortization, for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated future cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, current income taxes are recognized for the estimated taxes payable for the current year. Future income taxes are determined based on the temporary differences between the accounting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. These income tax assets and liabilities are measured using the enacted or substantively enacted tax rates in which the income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely that future income tax assets will be realized.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances, which are not clearly defined. There is no statute of limitations in the case of tax evasion. The tax returns of the Company's PRC subsidiaries for the 2010 tax year are subject to examination by the relevant tax authorities.

Share-based payments:

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the dates at which they are granted. Determining fair value for share-based payment transactions requires the use of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The determination of fair value requires estimating the expected life of the share option, volatility and dividend yield.

Future Accounting Changes

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are not yet effective for the year ended December 31, 2014, and have not been applied in preparing these consolidated financial statements.

Revenue recognition

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). The new standard provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Financial Instruments - Recognition and Measurement

In July 2014, the IASB issued IFRS 9, Financial Instruments replacing IAS 39, Financial Instruments - Recognition and Measurement. The standard had three main phases: classification and measurement, impairment and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with the exception of the general hedging phase which is applied prospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements

Presentation of Financial Statements

In December 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements ("IAS 1 amendments"). The IAS 1 amendments provide guidance on the application of judgment in the preparation of financial statements and disclosures. The IAS 1 amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company is currently assessing the impact of the IAS 1 amendments on its consolidated financial statements.

Accounting for Acquisitions of Interests in Joint Operations

In May 2014, the IASB issued Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11). The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Clarification of Acceptable Methods of Depreciation and Amortization

In May 2014, the IASB issued amendments to IAS 16, Property, Plant and Equipment ("IAS 16") and IAS 38, Intangible Assets ("IAS 38"). The Company intends to adopt the amendments to IAS 16 and IAS 38 in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

Outlook

The outlook for 2015 is very positive. 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 2015 will continue to increase especially from its operations in the Sanya Region with the upcoming additional volume of gas supply to be obtained from the Gas & Electricity Exchange Program. Also revenue from gas pipeline connection and installation in Sanya Region will experience promising growth.

In 2015, Changfeng will continue to implement its long-term growth strategy through its proposed joint venture for the pipelined gas project in the Western Guangdong Area of the Guangdong Province, China as discussed in the Expansion Project section in this MD&A on page 11.