CHANGFENG ENERGY INC.

Management's Discussion and Analysis
For the three months ended March 31, 2015

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 three months ended March 31, 2015. This information should be read in conjunction with the accompanying audited Consolidated Financial Statements of the Company and the notes thereto for the three months ended March 31, 2015. "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 148,108 residential and 811 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.

Selected Annual Financial Information

In thousands of Canadian dollars except percentages and per share amoun	Three month ended March 31, 2015	2014	Change	%
Revenue	16,701	13,381	3,320	25%
Gross margin	**9,575**	**7,790**	1,785	23%
% of revenue	**57.3%**	**58.2%**	-0.9%	
General and administrative	3,111	2,738	373	14%
% of revenue	18.6%	20.5%	-1.8%	
Travel and business development	900	1,077	(177)	-16%
% of revenue	5.4%	8.0%	-2.7%	
Stock based compensation	29	87	(58)	-67%
% of revenue	0.2%	0.7%	-0.5%	
Total expenses	**4,041**	**3,902**	139	4%
% of revenue	**24.2%**	**29.2%**	-5.0%	
Income before interest, equity loss and income taxes	**5,534**	**3,887**	1,647	42%
% of revenue	**33.1%**	**29.0%**	4.1%	
Interest on long term debt	516	490	26	5%
% of revenue	3.1%	3.7%	-0.6%	
Interest (income) expense	(33)	(9)	(24)	271%
% of revenue	-0.2%	-0.1%	-0.1%	
Share of loss of investment in associate	0	8	(8)	-100%
Income before income taxes	**5,052**	**3,399**	1,653	49%
% of revenue	**30.2%**	**25.4%**	4.8%	
Income tax	2,142	1,469	673	46%
% of revenue	12.8%	11.0%	1.8%	
Net income	**2,909**	**1,930**	979	51%
% of revenue	17.4%	14.4%	3.0%	
EBITDA (1)	**6,634**	**5,019**	1,615	32%
% of revenue	**39.7%**	**37.5%**	2.2%	
Non-controlling interest	82	45	37	83%
Basic EPS	0.04	0.03	0.01	33%
Diluted EPS	0.04	0.03	0.01	33%
Weighted average number of common shares outstanding - Basic	63,099	64,172	(1,073)	-2%
Weighted average number of common shares outstanding - Diluted	63,822	65,146	(1,324)	-2%

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

Results of Operations

Revenue

Revenue in RMB	Q1 2015	Q1 2014	Change	Change %
Gas distribution utility				
- Gas Sales	43,298,349	39,591,796	3,706,553	9%
- Pipeline Installation and Connection	29,570,067	23,204,256	6,365,811	27%
CNG vehicle refueling	11,055,054	11,210,799	(155,746)	-1%
Total	**83,923,470**	**74,006,852**	**9,916,618**	**13%**

Revenue in CAD	Q1 2015	Q1 2014	Change	Change %
Gas distribution utility				
- Gas Sales	8,616,372	7,158,197	1,458,175	20%
- Pipeline Installation and Connection	5,884,443	4,195,330	1,689,114	40%
CNG vehicle refueling	2,199,956	2,026,913	173,043	9%
Total	**16,700,770**	**13,380,439**	**3,320,332**	**25%**

Revenue for the three months ended March 31, 2015 was $16.7 million, an increase of $3.3 million, or 25%, from $13.4 million for the same period of 2014. 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 for the three months ended March 31, 2015 with compared to that of the same period of 2014 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 continues to grow.

<u>Gas Sales</u>

	Q1 2015		Q1 2014		Change %	
Gas volume sold (m3)	**Sanya**	**Pingxiang**	**Sanya**	**Pingxiang**	**Sanya**	**Pingxiang**
Residential customers	3,483,800	44,284	2,860,000	9,146	22%	384%
Commercial customers	8,658,800	241,861	8,160,000	250,207	6%	-3%
Total gas volume sold (m3)	**12,142,600**	**286,146**	**11,020,000**	**259,353**	**10%**	**10%**

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. During the three months ended March 31, 2015, the Company utilized approximately 12 million m^3 of its gas quota.

Gas sales volume for Sanya Region during the three months ended March 31, 2015 was 12.1 million m^3, an increase of 1.1 million m^3 or 10%, with compared to 11.0 million m^3 for the same period of 2014, of which 3.5 million m^3 for residential customers at an annual growth rate of 22% and 8.6 million m^3 for commercial customers at an annual growth rate of 6%.

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 during the three months ended March 31, 2015 was 0.3 million m^3, the same as for the same period of 2014.

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 71% 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 is now serving nine industrial customers in the Xiangdong region 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	Q1 2015	Q1 2014	Change	Change %
Sanya	42,222,659	38,775,065	3,447,594	9%
Xiangdong	1,075,690	816,731	258,959	32%
Total	**43,298,349**	**39,591,796**	**3,706,553**	**9%**

Gas sales revenue in CAD	Q1 2015	Q1 2014	Change	Change %
Sanya	8,402,309	7,010,532	1,391,777	20%
Xiangdong	214,062	147,665	66,397	45%
Total	**8,616,372**	**7,158,197**	**1,458,175**	**20%**

Gas sales revenue for the three months ended March 31, 2015 was $8.6 million, an increase of $1.4 million or 20%, from 7.2 million for the same period of 2014. The increase is mainly attributable to:

- the sustaining gas sales volume growth of 10% in Sanya region
- gas sales volume growth of 10% in Xiangdong district and
- the appreciation of exchange rate between Chinese RMB and Canadian dollar

Pipeline Installation and Connection

	Q1 2015		Q1 2014		Change %	
	Sanya	Pingxiang	Sanya	Pingxiang	Sanya	Pingxiang
Customers connected during the period						
Residential customers	5,860	118	2,031	69	189%	71%
Commercial customers	22	2	7	-	214%	
Customers connected at the end of the period						
Residential customers	148,108	1,209	120,696	334	23%	262%
Commercial customers	811	9	729	5	11%	80%

Pipeline connection revenue in RMB	Q1 2015	Q1 2014	Change	Change %
Sanya	29,287,188	22,888,534	6,398,654	28%
Xiangdong	282,879	315,723	(32,844)	-10%
Total	**29,570,067**	**23,204,256**	**6,365,811**	**27%**

Pipeline connection revenue in CAD	Q1 2015	Q1 2014	Change	Change %
Sanya	5,828,150	4,138,247	1,689,904	41%
Xiangdong	56,293	57,083	790	-1%
Total	**5,884,443**	**4,195,330**	**1,689,114**	**40%**

Pipeline installation and connection revenue for the three months ended March 31, 2015 was $5.9 million, a significant increase of $1.7 million or 40%, from $4.2 million for the same period of 2014. The increase is mainly attributable to:

- comparatively higher amount of new residential customers connected during the period in Sanya region, which was in a total of 5,860, an increase of 3,829 or 189%, from 2,031 for the same period of 2014;
- significantly higher amount of new commercial customers connected during the period in Sanya region, which was in a total of 22, an increase of 15 or 214%, from a total of 7 for the same period of 2014, moreover, some of them are in high contract amounts;

- comparatively higher amount of new residential customers connected in Xiangdong district during the three months ended March 31, 2015 in a total of 1,209, an increase of 875 or 262%, from 334 for the same period of 2014.
- two commercial customers connected during the period in Xiangdong district with compared to nil connection for the same period of 2014
- the appreciation of exchange rate between Chinese RMB and Canadian dollar

CNG vehicle refueling station

	Q1 2015	Q1 2014	Change	Change %
CNG sales volume (m3)	2,848,465	3,061,101	(212,636)	-7%

	Q1 2015	Q1 2014	Change	Change %
Revenue in RMB	11,055,054	11,210,799	(155,745)	-1%
Revenue in CAD	2,199,956	2,026,931	173,025	9%

Total revenue from CNG refueling retail station for the three months ended March 31, 2015 was $2.2 million, an increase of $0.2 million, or 9%, from $2.0 million for the same period of 2014. The increase was totally attributable to Chinese RMB appreciation and revenue in RMB was reduced by RMB 0.2 million or 1%. CNG sales volume dropped during the three months ended March 31, 2015 by 7% with compared to the same period of 2014, though the average selling price is higher due to the price increase announced in the third quarter of 2014 by the local pricing authority.

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 the three months ended March 31, 2015 were RMB 83.9 million, an increase of RMB 9.9 million (13%), from RMB 74.0 million for the same period of 2014.

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

One Chinese RMB to Canadian dollars	2015	2014	% change
Spot rate at the end of the period	0.2044	0.1778	15.0%
Average rate for the period	0.1990	0.1808	10.1%

Gross margin

Gross margin for the three months ended March 31, 2015 was $9.6 million, an increase of $1.8 million, or 23%, from $7.8 million for the same period of 2014. The gross margin percentage of 57% for the three months ended March 31, 2015 was slightly decreased from that of 58% for the same period of 2014.

Natural gas distribution utility gross margin as a percentage of sales year-over-year dropped by 2% (63% for the three months ended March 31, 2015 VS 65% for the same period of 2014). The CNG refueling station gross margin as a percentage of sales year-over-year also increased by 3% (21% for the three months ended March 31, 2015 VS 18% for the same period of 2014) primarily attributing to the higher average selling price due to CNG sales price increase announced on August 29, 2014 by the local gas pricing authority.

Operating expenses

General and administrative expenses for the three months ended March 31, 2015 were $3.1 million, an increase of $0.4 million, or 14%, from $2.7 million for the same period of 2014. The increase is in correspondence with the sales growth and partly from the Chinese RMB appreciation. Due to more stringent and efficient cost management, general and administrative expenses as a percentage of sales for the three months ended March 31, 2015 were 19%, lower than 21% for the same period of 2014.

Travel and business development expenses for the three months ended March 31, 2015 were $0.9 million, a decrease of $0.2 million, or 16%, from $1.1 million for the same period of 2014 under more stringent and efficient cost management. As a percentage of sales, travel and business development expenses for the three months ended March 31, 2015 was 5.4%, a decrease from 8% for the same period of 2014.

Interest on long term debt for the three months ended March 31, 2015 and 2014 was $0.5 million and $0.5 million, respectively.

EBITDA

EBITDA (non-GAAP measure as identified and defined under section "Non-GAAP Measures") for the three months ended March 31, 2015 was $6.6 million, an increase of $1.6 million, or 32%, from $5.0 million for the same period of 2014. The increase was driven primarily by higher sales and connection revenue. EBITDA as a percentage of revenue for the three months ended March 31, 2015 was 40%, a slight increase from 38% as for the same period of 2014.

Net income

Net income for the three months ended March 31, 2015 was $2.9 million, or $0.04 and 0.04 per share (basic and diluted) compared to $1.9 million or $0.03 per share (basic and diluted) for the same period of 2014.

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)	2015	2014				2013		
except per share amounts	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Foreign exchange rate one Chinese RMB to Canadian dollars	0.1990	0.1793	0.1767	0.1750	0.1808	0.1675	0.1660	0.1642
Revenue	16,701	16,878	12,094	10,775	13,381	12,996	10,240	9,190
Gross profit	9,575	5,888	5,580	4,738	7,790	5,230	4,867	4,326
Interest	516	307	458	449	490	316	443	437
Net income (loss)	2,909	809	696	607	1,930	345	571	625
Net income (loss) per share								
- basic	0.04	0.01	0.01	0.01	0.03	0.00	0.01	0.01
- diluted	0.04	0.01	0.01	0.01	0.03	0.00	0.01	0.01

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
($000's)	31-Mar-15	31-Dec-14
Cash	16,366	12,120
Working capital (deficit)	(10,507)	(11,712)
Adjusted working capital (deficit) (note1)	8,536	5,300
Plant and equipment	72,742	65,526
Total assets	100,978	88,986
Long term liabilities	34,623	24,345
Shareholders' equity	30,987	25,314

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

Cash increased by $4.2 million to $16.4million at March 31, 2015 from $12.1 million at December 31, 2014. Cash change mainly originated from cash inflow provided by operating activities of $5.8 million, and cash withdrawal from bank loan of $4.0 million, but offset by cash outflow including repayments of bank indebtedness of $4.0 million and long term bank loan of $0.1 million as well as capital expenditure of $3.4 million.

Adjusted Working Capital

Its adjusted working capital (see "Non-GAAP Financial Measures") was $8.5 million at March 31, 2015. Adjusted working capital excludes $15.1 million of deferred revenue in connection with gas connection fees and $3.9 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 January 5, 2010, the Company entered into a term loan with the Bank of China, Sanya Branch ("BOC, Sanya") for $20.4 million (RMB 100 million), maturing in January 2019 and bearing interest at the prescribed lending rate of the People's Bank of China, which is reset every six months. It is secured by 60% of the interest in CF China held by HEL, and certain gas conection rights. During the three-month period ended March 31, 2015, the Company made no repayments in accordance with the semi-annual repayment provisions of the term loan agreement. As at March 31, 2015, $16.4 million (RMB 80 million) of the term loan is outstanding.

At March 31, 2015, the Company had unamortized transaction costs of $169,877 (RMB 830,288), which has been offset against term loan.

On December 21, 2012, the Company entered into a term loan with the Bank of China, Pingxiang Branch ("BOC, Pingxiang") for $4.1 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. The variable interest will be calculated initially on the date of withdrawal and will be reset every three months. This term loan is secured by the property and equipment of Pingxiang CF and guaranteed by CF China. The proceeds from this term loan will be used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang City, Jiangxi Province. During the three-month period ended March 31, 2015, the Company made payments in the amount of $149,250 (RMB 750,000), as of the date, $3.3 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 $10.2 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. It has a 10-year term from the date of the first initial withdrawal, and bears interest of 110% of the prime rate set by the People's Bank of China. As at March 31, 2015 the Company has withdrawn $8.2 million (RMB 40.0 million), which remains fully outstanding.

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.

Credit Agreement

Included in current liabilities is $2.0 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 75%.

Also included in current liabilities is $1.9 million (RMB 9.3 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. The proceeds of the term loan were used for the general working capital purposes of the Company.

Cash Flow from Operations

Net cash provided by operations was $5.8 million for the three months ended March 31, 2015 compared to $2.1 million for the same period of 2014.

Cash Flow from Financing Activities

Cash used in financing activities during the three months ended March 31, 2015 primarily included a $0.1 million long term loan repayment.

Investing Activities

Cash used in investing activity included capital expenditures of $3.4 million for the three months ended March 31, 2015 compared to $1.9 million for the same period of 2014. 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:

As of March 31, 2015, there has been no significant change to contractual obligations and commitments since December 31, 2014.

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 63,099,200 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.

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, 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	Three months ended March 31,			
(except for % figures)	2015	2014	Change	Change %
Net Income	2,909	1,930	979	51%
Add (less):				
Income tax	2,142	1,469	673	46%
Interest (income) expense	(33)	(9)	(24)	271%
Share of loss of investment in associate	0	8	(8)	-100%
Stock-based compensation	29	87	(58)	-67%
Amortization	1,070	1,044	26	3%
Interest on borrowing	516	490	26	5%
EBITDA	6,634	5,019	1,615	32%

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. 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 $ thousands **As at**	**31-Mar-15**	**31-Dec-14**
Current assets	24,862	20,139
Less: Current liabilities	35,369	39,327
Working capital (deficit)	(10,507)	(11,712)
Add: Deferred revenue	15,099	13,403
Line of credit	3,944	3,609
Adjusted working capital (deficit)	**8,536**	**5,300**

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.

Related Parties Transactions

- Included in current due to related parties as at March 31, 2015, is a required capital contribution of $0.6 million (RMB 3.0 million) (December 31, 2014 - $0.6 million (RMB 3.0 million) to be made to Shin-Ko Energy. Also, included in current due to related parties as at March 31, 2015, was $0.3 million (RMB1.2 million) (2014 - $0.2 million (RMB 1.2 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 $8.2 million (RMB 40.0 million) (December 31, 2014 - $7.5 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 March 31, 2015, the Company has owed an officer and director of the Company $0.5 million (December 31, 2014 - $0.4 million) for unpaid salary.
- As at March 31, 2015, the Company owed certain directors $0.07 million (December 31, 2014 - $0.07 million) for unpaid director's fees.
- As at March 31, 2015, the Company owed a minority shareholder of the Company nil (December 31, 2014, $54,631) for unpaid dividend.

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 is currently experience significant growth and will continue to be a prominent revenue contributor.

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.