CHANGFENG ENERGY INC.

Management's Discussion and Analysis
For the three months ended March 31, 2016

Dated May 26, 2016

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, 2016. This information should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the three months ended March 31, 2016 and the audited consolidated financial statements and related notes and the MD&A for the year ended December 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") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Changfeng bases its estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

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

Amounts are stated in 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 approximately 25 million cubic meters (m^3) (883 million cubic feet (ft^3)) until December 31, 2016 at a favorable price;
  - Serving more than 174,383 residential and 849 commercial/industrial customers (primarily hotels and restaurants);
  - Serving 12 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");
  - Commenced the sale of natural gas to five ceramics manufacturers and five 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 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.

2016 Accomplishments

On March 31, 2016, the Company signed a new gas supply contract with CNOOC. CNOOC is committed to supply up to approximately 25 million cubic metres of natural gas annually until December 31, 2016 with a fixed contractual price and same terms stated in original contract. The price under the 2016 contract with approximately 25 million m3, while higher than under the previous 24 million m3 gas quota, remains favorable compared with the market price.

On April 27, 2016, shareholder loans in the aggregate amount of $8.0 million (RMB40 million) (December 31, 2015 - $8.5 million (RMB40 million)) to the Company, through wholly owned subsidiaries, were renewed for one year with the same terms and conditions.

On May 12, 2016, the company announced that the construction of a new CNG/LNG refueling retail station ("Sanya CNG/LNG Station") in Sanya City, Hainan Province has now been completed and it has commenced operation. Sanya CNG/LNG Station is designed to have a daily capacity of 30,000m^3 and mainly supplies gas to public buses and taxis owned by Sanya Public Transit Group.

Selected Quarterly Financial Information

In thousands of Canadian dollars	Three month ended March 31,			
except percentages and per share amounts	**2016**	**2015**	**Change**	**%**
Revenue	**16,198**	**16,701**	**(503)**	**-3%**
Gross margin	**8,506**	**9,575**	**(1,069)**	**-11%**
% of revenue	52.5%	57.3%	-4.8%	
General and administrative	3,005	3,111	(106)	-3%
% of revenue	18.6%	18.6%	0.0%	
Selling and marketing expenses	1,191	900	291	32%
% of revenue	7.4%	5.4%	2.0%	
Stock-based compensation	-	29	(29)	-100%
Total expenses	4,196	**4,041**	**155**	**4%**
% of revenue	25.9%	24.2%	1.7%	
Income from operations	**4,310**	**5,534**	**(1,224)**	**-22%**
Finance costs	515	516	(1)	0%
Interest (income)	(16)	(33)	17	-52%
Share of loss of an associate	0.4	0.4	-	0%
Share of loss of a joint venture	124	-	124	100%
Income before income taxes	**3,687**	**5,052**	(1,365)	**-27%**
% of revenue	22.8%	30.2%	-7.4%	
Income taxes	1,450	2,142	(692)	-32%
Profit for the period	**2,237**	**2,909**	(672)	**-23%**
% of revenue	13.8%	17.4%	-3.6%	
EBITDA (1)	**5,138**	**6,633**	(1,495)	**-23%**
% of revenue	31.7%	39.7%	-8.0%	
Non-controlling interests	**86**	**82**	**4**	**5%**
Basic EPS	**0.03**	**0.04**	(0.01)	**-25%**
Diluted EPS	**0.03**	**0.04**	(0.01)	**-25%**
Weighted average number of shares for purpose of basic EPS	**61,421**	**63,099**	**(1,678)**	**-3%**
Weighted average number of shares for purpose of diluted EPS	**61,935**	**63,822**	**(1,887)**	**-3%**

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

Results of Operations

Total Revenue

Total Revenue in RMB	Q1 2016	Q1 2015	Change	%
Gas distribution utility				
- Gas Sales	47,133,245	43,298,349	3,834,896	9%
- Pipeline Installation and Connection	22,277,993	29,570,067	(7,292,074)	-25%
CNG vehicle refueling	7,684,256	11,055,054	(3,370,798)	-30%
Total Revenue in RMB	**77,095,494**	**83,923,470**	**(6,827,976)**	**-8%**

Total Revenue in CAD	Q1 2016	Q1 2015	Change	%
- Gas Sales	9,902,695	8,616,371	1,286,324	15%
- Pipeline Installation and Connection	4,680,606	5,884,443	(1,203,837)	-20%
CNG vehicle refueling	1,614,462	2,199,956	(585,494)	-27%
Total Revenue in CAD	**16,197,763**	**16,700,770**	**(503,007)**	**-3%**

Revenue for the three months ended March 31, 2016 was $16.2 million, a decrease of $0.5 million, or 3%, from $16.7 million for the same period of 2015. This decrease was mainly due to the dropping revenue from pipeline connection and CNG sales in Changsha CNG station which superseded the increases in gas sales revenue in both Sanya and Pingxiang region.

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

Natural Gas Distribution Utility

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

Gas Sales

Gas Volume Sold – Sanya Region

Sanya Region				
Gas volume sold (cubic meters)	**Q1 2016**	**Q1 2015**	**Change**	**%**
Residential customers	3,770,000	3,483,800	286,200	8%
Commercial customers	8,860,000	8,658,800	201,200	2%
Subtotal	**12,630,000**	**12,142,600**	**487,400**	**4%**

Currently, the Company has an annual gas quota of approximately 25.0 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, 2016, 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, 2016 was 12.6 million m^3, an increase of 0.5 million m^3 or 4%, with compared to 12.1 million m^3 for the same period of 2015, of which 3.8 million m^3 for residential customers at a growth rate of 8% and 8.8 million m^3 for commercial customers at a growth rate of 2%.

The Company's non-residential customers include commercial and industrial customers, mainly comprised of hotels, resorts and restaurants in Sanya City. Currently, approximately 70% of the total annual volume of gas in Sanya City is sold to these non-residential customers. Sanya municipal government's approval of the sales price increase related to the implementation of the long-term Budget Process (the "Budget Process"), which was implemented as part of the solution to address the ongoing gas deficit issue in the Sanya region. The Budget Process is intended to provide (a) potential subsidy for the loss, if any, on the gas sales to its residential customers; and (b) periodic sales price adjustments for its commercial customers enabling the sales prices to reflect the interaction between supply and demand; however, there is no guarantee that the Budget Process will be successfully implemented by the government in the future.

Gas Sales

Gas Volume Sold – Xiangdong Region

Xiangdong Region				
Gas volume sold (cubic meters)	**Q1 2016**	**Q1 2015**	**Change**	**%**
Residential customers	91,756	44,284	47,472	107%
Commercial customers	876,368	241,861	634,507	262%
Subtotal	**968,124**	**286,145**	**681,979**	**238%**

Gas sales volume for Xiangdong district during the three months ended March 31, 2016 was 0.9 million m^3, a significant increase of 0.7 million m^3 or 238% with compared to the same period of 2015.

Gas Sales

Gas Sales Revenue

Gas sales revenue in RMB	**Q1 2016**	**Q1 2015**	**Change**	**%**
Sanya	44,329,195	42,222,659	2,106,536	5%
Xiangdong	2,804,050	1,075,690	1,728,360	161%
Total	**47,133,245**	**43,298,349**	**3,834,896**	**9%**

Gas sales revenue in CAD	**Q1 2016**	**Q1 2015**	**Change**	**%**
Sanya	9,313,564	8,402,309	911,255	11%
Xiangdong	589,131	214,062	375,069	175%
Total	**9,902,695**	**8,616,371**	**1,286,324**	**15%**

Gas sales revenue for the three months ended March 31, 2016 was $9.9 million, an increase of $1.3 million or 15%, from 8.6 million for the same period of 2015. The increase was mainly attributable to:

- the gas sales volume increased by 4% for Sanya region;
- the gas sales volume growth of 238% in Xiangdong district;
- the appreciation of exchange rate between Chinese RMB and Canadian dollar.

Pipeline Installation and Connection

Sanya Region	**Q1 2016**	**Q1 2015**	**Change**	**%**
Customers newly connected during the period of				
Residential customers	5,107	5,860	(753)	-13%
Commercial customers	16	22	(6)	-27%
Total customers connected at the end of the period of				
Residential customers	174,383	148,108	26,275	18%
Commercial customers	849	811	38	5%

Xiangdong Region	**Q1 2016**	**Q1 2015**	**Change**	**%**
Customers newly connected during the period of				
Residential customers	147	118	29	25%
Commercial customers	3	2	1	50%
Total customers connected at the end of the period of				
Residential customers	1,582	1,209	373	31%
Commercial customers	13	9	4	44%

Pipeline connection revenue in RMB	Q1 2016	Q1 2015	Change	%
Sanya	22,246,052	29,287,188	(7,041,136)	-24%
Xiangdong	31,941	282,879	(250,938)	-89%
Total	**22,277,993**	**29,570,067**	**(7,292,074)**	**-25%**

Pipeline connection revenue in CAD	Q1 2016	Q1 2015	Change	%
Sanya	4,673,896	5,828,150	(1,154,254)	-20%
Xiangdong	6,710	56,293	(49,583)	-88%
Total	**4,680,605**	**5,884,443**	**(1,203,838)**	**-20%**

Pipeline installation and connection revenue for the three months ended March 31, 2016 was $4.7 million, a decrease of $1.2 million or 20%, from $5.9 million for the same period of 2015. The decrease was mainly attributable to:

- comparatively fewer new residential customers connected during the period in Sanya region, which was in a total of 5,107, a decrease of 753 or 13%, from 5,860 for the same period of 2015;
- fewer new commercial customer connections completed during the period in Sanya region, which was in a total of 16, a decrease of 6 or 27%, from a total of 22 for the same period of 2015;

CNG vehicle refueling station

	Q1 2016	Q1 2015	Change	%
CNG sales volume (cubic meters)	2,047,075	2,848,465	(801,390)	-28%

CNG Sales Revenue	Q1 2016	Q1 2015	Change	%
Revenue in RMB	7,684,256	11,055,054	(3,370,798)	-30%
Revenue in CAD	1,614,462	2,199,956	(585,494)	-27%

Total revenue from CNG refueling retail station for the three months ended March 31, 2016 was $1.6 million, a decrease of $0.6 million, or 27%, from $2.2 million for the same period of 2015. The decrease was attributable to market competition and dropped sales volume of 0.8 million m^3, or 28% during the three months ended March 31, 2016 with compared to the same period of 2015.

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, 2016 were RMB 77.1million, a decrease of RMB 6.8 million (8%), from RMB 83.9 million for the same period of 2015.

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

One Chinese RMB to Canadian dollars	Q1 2016	Q1 2015	% change
Spot rate at the end of the period	0.2011	0.2044	-1.6%
Average rate for the period	0.2101	0.1990	5.6%

Gross margin

Gross margin for the three months ended March 31, 2016 was 8.5 million, a decrease of $1.1 million, or 11%, from $9.6 million for the same period of 2015. The gross margin percentage of 53% for the three months ended March 31, 2016 was decreased from that of 57% for the same period of 2015. The decrease of gross margin percentage is mainly due to the price under the 2016 CNOOC gas supply contract is higher than under the previous gas quota with CNOOC.

Operating expenses

General and administrative expenses for the three months ended March 31, 2016 were $3.0 million, a decrease of $0.1 million, or 3%, from $3.1 million for the same period of 2015. And as a percentage of sales, it is both 19% for the three months ended March 31, 2016 and for the same period of 2015.

Travel and business development expenses for the three months ended March 31, 2016 were $1.2 million, an increase of $0.3 million, or 32%, from $0.9 million for the same period of 2015. And there is also an increase as a percentage of sales to 7% for the three months ended March 31, 2016 from 5% for the same period of 2015. 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 the three months ended March 31, 2016 and 2015 was $0.5 million and $0.5 million, respectively.

EBITDA

EBITDA (non-IFRS measure as identified and defined under section "Non-IFRS Measures") for the three months ended March 31, 2016 was $5.1 million, a decrease of $1.5 million, or 23%, from $6.6 million for the same period of 2015. EBITDA as a percentage of revenue for the three months ended March 31, 2016 was 32%, dropped from 40% for the same period of 2015.

Profit

Profit for the three months ended March 31, 2016 was $2.2 million, or $0.03 per share (basic and diluted) compared to $2.9 million or $0.04 per share (basic and diluted) for the same period of 2015.

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)	2016	2015				2014		
except per share amounts	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Foreign exchange rate one Chinese RMB to Canadian dollars	0.2101	0.2034	0.2076	0.1982	0.1990	0.1793	0.1767	0.1750
Revenue	16,198	18,551	13,158	13,717	16,701	16,878	12,094	10,775
Gross profit	8,506	6,429	6,197	7,004	9,575	5,888	5,580	4,738
Profit	2,237	604	997	1,905	2,909	809	696	607
EPS								
- basic	0.03	0.01	0.02	0.03	0.04	0.01	0.01	0.01
- diluted	0.03	0.00	0.02	0.03	0.04	0.01	0.01	0.01

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
($000's)	31-Mar-16	31-Dec-15
Cash	15,758	14,183
Working capital (deficit)	(21,612)	(24,885)
Adjusted working capital (deficit) (note1)	6,707	2,250
Plant and equipment	72,108	75,105
Total assets	109,210	115,361
Long term liabilities	22,595	23,818
Shareholders' equity	36,286	36,370

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

Cash increased by $1.6 million to $15.8 million at March 31, 2016 from $14.2 million at December 31, 2015. Cash change mainly originated from cash inflow provided by operating activities of $0.7 million, and cash withdrawal from bank indebtedness of $3.5 million, but offset by cash outflow including repayments of bank indebtedness of $1.0 million and long-term bank loan of $0.2million, share buyback of $0.2 million as well as capital expenditure of $2.1 million and release of pledged bank deposits of $2.1 million.

Adjusted Working Capital

Its adjusted working capital (see "Non-IFRS Financial Measures") was $6.7 million at March 31, 2016. Adjusted working capital excludes $18.0 million of deferred revenue in connection with gas connection fees and $10.3 million of line of credit.

Liquidity and Capital Resources

Overview

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

Long-term bank loans

On January 5, 2010, the Company entered into a RMB100 million term loan with the Bank of China, Sanya Branch ("BOC, Sanya"), maturing in January 2019 and bearing interest at the variable rate of the People's Bank of China, which is reset every six months the ("Term Loan 2010"). It is secured by 60% of the equity interest in CF China held by HEL, certain gas connection and gas supply rights, and a maximum of $6.0 million (RMB30 million) guarantee from and trade receivables during 2012 to 2022 owned by CF Engineering. During the three-month period ended March 31, 2016, the Company made no payments (2015 – nil) in accordance with the semi-annual repayment provisions of the term loan agreement. At March 31, 2016, $14.1 million (RMB 70 million) of the term loan is outstanding.

At March 31, 2016, the Company had zero unamortized transaction costs (December 31, 2015 - $ 99,382 (RMB 466,363)), 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 RMB 20 million, maturing six years from the date of the first withdrawal, and bearing both fixed and variable interest at 120% of the prime rate of the People's Bank of China. The variable component of interest will be calculated initially on the date of withdrawal and will be reset every three months. This term loan is guaranteed by CF China. The proceeds from this term loan will be used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang City, Jiangxi province. During the period, the Company made payments in the amount of $201,100 (RMB 1 million) (2015 - $149,250 (RMB 750,000)). At March 31, 2016, $2.6 million (RMB 13.0 million) (December 31, 2015 - $3.0 million (RMB14 million)) of the term loan is outstanding.

On January 15, 2013, the Company entered into an agreement with the BOC, Sanya to secure a bank loan facility in the amount of RMB 50 million (the "Term Loan 2013"). The bank loan facility provides that the proceeds of the Term Loan 2013 would be used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City. It has a 10-year term from the date of the first initial withdrawal, and bears interest of 110% of the prime rate set by the People's Bank of China. The Term Loan 2013 is secured and guaranteed by the same securities of the Term Loan 2010. During the three-month period ended March 31, 2016, the Company made no payments (2015 – nil) in accordance to the repayment terms stated in the agreement. As at March 31, 2016, the Company has withdrawn $7.0 million (RMB35 million) (December 31, 2015 - $7.5 million (RMB35 million)), which remains 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 (RMB10 million) (December 31, 2015 - $2.1 million (RMB10 million)) relating to the Company's line of credit with BOC, Sanya. The loan has fixed interest rate at 4.4% (2015 - 4.4%) per annum. This line of credit contains a financial covenant, which requires the Group's and CF China's debt-to-total-assets ratio to be maintained below 75% respectively.

Also included in current liabilities is $3.0 million (RMB15.1 million) (December 31, 2015 – 4.3 million (RMB20 million) relating to the Company's credit line with Minsheng Bank, Sanya. This credit line bears fixed interest rate of 5.4% per annum and is guaranteed by personal guarantee by Mr. Lin.

Also included in current liabilities is $3.3 million (RMB16.5 million) (December 31, 2015 - nil) relating to the Company's credit line with Guangda Bank, Sanya granted during the period. This credit line bears fixed interest rate of 4.35% per annum.

Also included in current liabilities is $1.9 million (December 31, 2015 - $2.1 million) relating to a US$1.5 million term loan from the Bank of China (Canada) granted to the Company pursuant to a credit facility letter agreement effective on October 6, 2015 (the "US Term Loan"). The US Term Loan is secured by a Standby Letter of Credit provided by the Company. The US Term Loan has a one-year term from the date of the withdrawal and bears annual interest of six-month LIBOR rate plus 250 basis points. The effective interest rate of the loan was 3.1%.

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

Cash Flow from Operations

Net cash provided by operations was $0.7 million for the three months ended March 31, 2016 compared to $5.8 million for the same period of 2015.

Cash Flow from Financing Activities

Cash used in financing activities during the three months ended March 31, 2016 primarily included a $0.2 million long-term loan repayment, $1.0 million bank indebtedness repayment, $0.2 million for share buyback and proceeds of bank indebtedness of $3.5 million.

Investing Activities

Cash used in investing activity included capital expenditures of $2.1 million for the three months ended March 31, 2016 compared to $3.4 million for the same period of 2015 and a release of pledged bank deposits of $2.1 million. The capital expenditures were mainly related to the purchase of equipment and on-going construction of pipeline networks to connect new customers in the Sanya region and Xiangdong 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, Sanya and BOC, Pingxiang, as well as operating cash flow from its existing operations.

Contractual Obligations and Commitments

Pipeline Construction and Equipment:

As of March 31, 2016, there has been no significant change to contractual obligations and commitments since December 31, 2015.

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 61,337,700 common shares outstanding, 5,490,000 stock options outstanding and exercisable at a weighted average exercise price of $0.31 per share. The Company has no warrants outstanding.

Non-IFRS Financial Measures

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

EBITDA

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

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

In thousands (except for % figures)	Three months ended March 31,			
	2016	2015	Change	Change %
Profit	2,237	2,909	(672)	-23%
Add (less):				
Income tax	1,450	2,142	(692)	-32%
Interest (income) expense	(16)	(33)	17	-52%
Share of loss of investment in associate and joint venture	124	0	124	100%
Stock-based compensation	-	29	(29)	-100%
Amortization	828	1,070	(242)	-23%
Interest on borrowing	515	516	(1)	0%
EBITDA	5,138	6,633	(1,495)	-23%

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-16**	**31-Dec-15**
Current assets	28,717	30,288
Less: Current liabilities	50,329	55,173
Working capital (deficit)	(21,612)	24,885
Add: Deferred revenue	18,008	18,666
Line of credit	10,311	8,469
Adjusted working capital	**6,707**	**2,250**

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 Condensed Consolidated Interim Financial Statements" for further details around these contracts.

Related Parties Transactions

- Included in current due to related parties as at March 31, 2016 amounted to $0.6 million (RMB 3.0 million) (2015 - $0.6 million (RMB 3.0 million) was relating to an advance made by Shin-Ko Energy. Also, included in current due to related parties as at March 31, 2016, was $0.3 million (RMB1.2 million) (2015 - $0.3 million (RMB 1.2 million)) relating to a loan made to the Company by Shin-Ko Energy. The loans are interest-free, unsecured and payable on demand.
- In 2007, a significant shareholder, Mr. Lin, advanced loans in the aggregate amount of $8.0 million (RMB 40.0 million) (December 31, 2015 - $8.5 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. On April 27, 2016, these loans have been renewed for one year with the same terms and conditions.
- As at March 31, 2016, the Company has owed an officer and director of the Company $0.4 million (December 31, 2015 - $0.4 million) for unpaid salary.
- As at March 31, 2016, the Company owed certain directors nil (December 31, 2015 - $0.07 million) for unpaid director's fees.
- As at March 31, 2016, Mr. Lin provided personal guarantee to the Company for a $3 million (RMB15.1 million) credit line.

Outlook

The Company expects to continue to add both residential and commercial and industrial customers to its existing pipeline networks in the Sanya Region and Xiangdong district, and the volume of gas sold during the rest of 2016 will continue to increase especially from its operations in the Sanya Region with the new CNG/LNG retailing station. While gross margin from gas distribution utility in Sanya Region may expect for dropping due to the relatively higher gas purchase price in 2016.

In the rest of 2016, Changfeng will continue to implement its long-term growth strategy through its proposed pipelined gas project in the Western Guangdong Area of the Guangdong Province, China.