

Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars)

CHANGFENG ENERGY INC.

Three-month period ended March 31, 2016 and 2015
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The 's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor. The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

CHANGFENG ENERGY INC.

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

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Bank balances and cash	\$ 15,758,290	\$ 14,183,444
Pledged bank deposits	-	2,132,652
Trade receivables	6,474,234	8,581,260
Other receivables, prepaid expenses and deposits	5,230,042	4,082,159
Current portion of long-term lease prepayment	52,736	55,883
Inventories	1,201,694	1,252,368
Total current assets	28,716,996	30,287,766
Non-current assets:		
Long-term deposits and advances	1,329,628	2,282,491
Investment in an associate	738,616	993,885
Investment in a joint venture	4,022,000	4,180,931
Property and equipment	72,108,059	75,104,722
Long-term lease prepayment	1,914,479	2,097,134
Intangible assets	380,419	413,769
Total non-current assets	80,493,201	85,072,932
Total assets	\$ 109,210,197	\$ 115,360,698
Liabilities and Equity		
Current liabilities:		
Bank indebtedness (note 5(b))	\$ 10,311,264	\$ 8,469,000
Trade and other payables	6,684,269	12,202,494
Tax payable	2,069,763	1,919,609
Deferred revenue	18,007,580	18,665,994
Current portion of long-term debt (note 5(a))	3,871,175	4,048,900
Due to a shareholder (note 8)	8,044,000	8,524,000
Due to related parties (note 8)	1,340,913	1,343,444
Total current liabilities	50,328,964	55,173,441
Non-current liabilities:		
Long-term debt (note 5(a))	19,858,625	21,210,618
Deferred income - government grants	1,049,822	1,113,290
Deferred income tax liability	1,686,414	1,493,778
Total non-current liabilities	22,594,861	23,817,686
Total liabilities	72,923,825	78,991,127
Equity:		
Share capital (note 6)	10,423,485	10,640,247
Contributed surplus	2,614,974	2,614,974
Statutory surplus reserves	5,037,012	4,462,827
Retained earnings	10,135,667	8,559,724
Exchange translation reserve	6,492,954	8,410,072
Total shareholders' equity	34,704,092	34,687,844
Non-controlling interests	1,582,280	1,681,727
Total equity	36,286,372	36,369,571
Total liabilities and equity	\$ 109,210,197	\$ 115,360,698

See accompanying notes to condensed consolidated interim financial statements.

On behalf of the Board:

"Winfield Ding" _____ Director

"Wencheng Zhang" _____ Director

CHANGFENG ENERGY INC.

Condensed Consolidated Interim Statements of Profit or Loss and Other Comprehensive Income
(Expressed in Canadian dollars)
(Unaudited)

	Three-month periods ended March 31,	
	2016	2015
Revenue	\$ 16,197,763	\$ 16,700,770
Cost of sales	7,691,093	7,125,778
Gross margin	8,506,670	9,574,992
Expenses:		
General and administrative	3,005,394	3,111,095
Travel and business development	1,191,495	900,374
Stock-based compensation	-	29,120
	4,196,889	4,040,589
Income from operations	4,309,781	5,534,403
Finance costs	515,365	515,592
Interest income	(16,686)	(33,399)
Share of loss of an associate	381	350
Share of loss of a joint venture	124,101	-
Profit before income taxes	3,686,620	5,051,860
Income taxes	1,450,032	2,142,387
Profit for the period	2,236,588	2,909,473
Other comprehensive income:		
Exchange differences on translation of foreign operations	(2,103,025)	2,734,136
Total comprehensive income	\$ 133,563	\$ 5,643,609
Profit for the period attributable to:		
Owners of the Company	\$ 2,150,128	\$ 2,827,213
Non-controlling interests	86,460	82,260
	\$ 2,236,588	\$ 2,909,473
Total comprehensive (loss) income attributable to:		
Owners of the Company	\$ 233,010	\$ 5,561,349
Non-controlling interests	(99,447)	82,260
	\$ 133,563	\$ 5,643,609
Earnings per share attributable to common shareholders:		
Basic	\$ 0.03	\$ 0.04
Diluted	0.03	0.04

See accompanying notes to condensed consolidated interim financial statements.

CHANGFENG ENERGY INC.

Condensed Consolidated Interim Statements of Changes in Equity
(Expressed in Canadian dollars)
(Unaudited)

Three-month period ended March 31, 2016	Share capital	Contributed surplus	Statutory surplus reserves	Retained earnings	Exchange translation reserve	Non- controlling interest	Total
Balance, January 1, 2016	\$ 10,640,247	\$ 2,614,974	\$ 4,462,827	\$ 8,559,724	\$ 8,410,072	\$ 1,681,727	\$ 36,369,571
Share repurchase	(216,762)	–	–	–	–	–	(216,762)
Profit for the period	–	–	574,185	1,575,943	–	86,460	2,236,588
Exchange differences on translation of foreign operations	–	–	–	–	(1,917,118)	(185,907)	(2,103,025)
Balance, March 31, 2016	\$ 10,423,485	\$ 2,614,974	\$ 5,037,012	\$ 10,135,667	\$ 6,492,954	\$ 1,582,280	\$ 36,286,372

Three-month period ended March 31, 2015	Share capital	Contributed surplus	Statutory surplus reserves	Retained earnings	Exchange translation reserve	Non- controlling interest	Total
Balance, January 1, 2015	\$ 11,032,007	\$ 2,696,380	\$ 3,554,010	\$ 3,256,801	\$ 3,971,706	\$ 803,011	\$ 25,313,915
Profit for the period	–	–	442,649	2,404,565	–	82,260	2,909,474
Exchange differences on translation of foreign operations	–	–	–	–	2,734,136	–	2,734,136
Stock-based compensation	–	29,120	–	–	–	–	29,120
Balance, March 31, 2015	\$ 11,032,007	\$ 2,725,500	\$ 3,976,659	\$ 5,661,366	\$ 6,705,842	\$ 885,271	\$ 30,986,645

See accompanying notes to condensed consolidated interim financial statements.

CHANGFENG ENERGY INC.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited)

	Three-month periods ended March 31,	
	2016	2015
Cash flows from operating activities:		
Profit for the period	\$ 2,236,588	\$ 2,909,473
Items not involving cash:		
Deferred income taxes	90,736	101,573
Amortization	828,354	1,070,165
Prepaid rent expense	27,575	26,118
Share of loss of investment in associate and joint venture	124,482	350
Current income taxes	1,359,296	1,640,814
Finance costs	515,365	515,592
Stock-based compensation	-	29,120
Income taxes paid	(1,182,876)	(557,231)
Interest expense paid	(415,983)	(499,703)
Change in non-cash operating working capital	(2,918,373)	589,635
Net cash flows from operating activities	665,164	5,825,906
Cash flows from financing activities:		
Repurchase of shares	(216,762)	-
Proceeds of bank indebtedness	3,463,990	3,980,000
Repayment of bank indebtedness	(1,029,490)	(3,980,000)
Repayment of long-term debt	(210,100)	(149,250)
Government grants	-	18,905
Net cash flows from financing activities	2,007,638	(130,345)
Cash flows from investing activities:		
Acquisition of property and equipment	(2,067,820)	(3,440,426)
Long-term deposit and advances	-	802,395
Release of pledged bank deposits	2,132,652	-
Net cash flows used in investing activities	64,832	(2,638,031)
Increase in cash	2,737,634	3,057,530
Effects of foreign exchange on cash balances	(1,162,788)	1,188,097
Cash, beginning of period	14,183,444	12,119,980
Cash, end of period	\$ 15,758,290	\$ 16,365,607

See accompanying notes to condensed consolidated interim financial statements.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2016 and 2015
(Unaudited)

1. Corporate information:

Changfeng Energy Inc. (the "Company" or "Changfeng") was incorporated under the Canada Business Corporations Act on May 4, 2006. Its ultimate controlling party is Mr. Huajun Lin ("Mr. Lin"), who is also an officer and director of the Company. Through its subsidiaries, the Company's core business activity is the distribution of natural gas for industrial, commercial and residential users in the People's Republic of China ("China" or "PRC"). The registered office of the Company is located at 650 Highway 7 East, Suite 306, Richmond Hill, Ontario, L4B 2N7, and the principal operations of its business are in China.

The ability to build and operate gas pipeline infrastructure and distribute piped gas in China is established by concession rights obtained from the applicable municipal and provincial governments. Natural gas distribution operations in China are subject to certain government regulations regarding the purchase and sale of natural gas, including pricing.

The condensed consolidated interim financial statements are presented in Canadian dollars. The functional currencies of the Company's subsidiaries include the Canadian dollar and the Chinese Renminbi ("RMB"). The condensed consolidated interim financial statements were approved and authorized by the Board of Directors on May 26, 2016.

2. Basis of preparation of consolidated financial statements:

At March 31, 2016, the Company's current liabilities exceeded its current assets by \$21,611,968 (December 31, 2015 - \$24,885,675). In view of these circumstances, the management of the Company (the "Management") has given consideration to the future liquidity and performance of the Company and its available sources of finance in assessing whether the Company will have sufficient financial resources to continue as a going concern. The Management is satisfied that the Company will have sufficient financial resources to meet its financial obligations including the capital commitments and other commitments as they fall due in the foreseeable future and on April 27, 2016, Mr. Lin has extended the due date for repayment of the RMB40,000,000 (equivalent to \$8,044,000) loan to the Company for another year, to April 27, 2017. Taking into account the Company's cash flow projection, including the term facility, unutilized bank facilities, the Company's ability to renew or refinance the banking facilities upon maturity and the Company's future capital expenditure in respect of its non-cancellable capital commitments, the management considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the condensed consolidated interim financial statements have been prepared on a going concern basis.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2016 and 2015
(Unaudited)

3. Significant accounting policies:

These unaudited condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standard Board (“IASB”), and the IFRS Interpretations Committee (formerly “IFRIC”). They were also prepared in accordance with IAS34, Interim Financial Reporting. These accounting policies are based on the IFRS standards and IFRIC interpretations that are expected to be applicable at December 31, 2016.

The policies used for preparation of these unaudited interim condensed consolidated financial statements were the same accounting policies and methods of application as the audited consolidated financial statements of the Company for the year ended December 31, 2015 and were consistently applied to all the periods presented unless otherwise noted below. They do not include all of the information and disclosures required for annual financial statements. For further information, see the Company’s audited consolidated financial statements for the year ended December 31, 2015. In addition, the Company has adopted the following new accounting policies:

(a) Amendments to IFRSs that are mandatorily effective for current period

The Company has applied the following amendments to IFRSs.

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010 - 2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011 - 2013 Cycle

The application of the amendments to IFRSs has had no material effect on the Company’s financial performance and positions for the current and prior years and/or on the disclosures set out in these condensed consolidated interim financial statements.

(b) New and revised IFRS issued but not yet effective

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers ¹
IFRS 16	Leases ²
Amendments to IFRS 15	Clarifications to IFRS 15
	Revenue from Contracts with Customers ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 7	Disclosure Initiative ⁴

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2016 and 2015
(Unaudited)

3. Significant accounting policies (continued):

Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴
----------------------	---

- ¹ Effective for annual periods beginning on or after 1 January 2018
- ² Effective for annual periods beginning on or after 1 January 2019
- ³ Effective for annual periods beginning on or after a date to be determined
- ⁴ Effective for annual periods beginning on or after 1 January 2017

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2016 and 2015
(Unaudited)

3. Significant accounting policies (continued):

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Company performs a detailed review.

Except as described above, the directors of the Company consider that the application of other new and revised IFRS is unlikely to have a material impact on the Company's financial position and performance as well as disclosure.

4. Estimates and judgments:

The preparation of the condensed consolidated interim financial statements in accordance with IFRS requires management to make estimates and judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the periods in which the estimates are revised and in any future periods affected.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2016 and 2015
(Unaudited)

5. Long-term debt and bank indebtedness:

(a) Long-term debt:

	March 31, 2016	December 31, 2015
Term loan facility - Bank of China (i)	14,077,000	14,917,000
Term loan facility - Bank of China (ii)	7,038,500	7,458,500
Term loan facility - Bank of China (iii)	2,614,300	2,983,400
	23,729,800	25,358,900
Less unamortized transaction costs	-	99,382
	23,729,800	25,259,518
Less current portion	3,871,175	4,048,900
	\$ 19,858,625	\$ 21,210,618

- (i) On January 5, 2010, the Company entered into a RMB100,000,000 term loan with the Bank of China, Sanya Branch ("BOC, Sanya"), maturing in January 2019 and bearing interest at the 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 Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd. held by the Company's wholly owned subsidiaries, Hainan Energy Ltd., certain gas connection and gas supply rights, and a maximum of \$6,033,000 (RMB30,000,000) guarantee from and trade receivables during 2012 to 2022 owned by Sanya Changfeng Offshore Natural Gas Engineering Construction Co., Ltd. During the 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, \$14,077,000 (RMB 70,000,000) of the term loan is outstanding.

At March 31, 2016, the Company had zero unamortized transaction cost (December 31, 2015 - \$ 99,382 (RMB 466,363)), which has been offset against term loan.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2016 and 2015
(Unaudited)

5. Long-term debt and bank indebtedness (continued):

- (ii) 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 \$7,038,500 (RMB35,000,000) (December 31, 2015 - \$7,458,000 (RMB35,000,000)), which remains outstanding.

- (iii) 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 1,000,000) (2015 - \$149,250 (RMB 750,000)). At March 31, 2016, \$2,614,300 (RMB 13,000,000) (December 31, 2015 - \$2,983,400 (RMB14,000,000)) of the term loan is outstanding.

(b) Bank indebtedness:

Included in current liabilities is \$2,011,000 (RMB10,000,000) (December 31, 2015 - \$2,131,000 (RMB10,000,000)) 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 Company's and CF China's debt-to-total-assets ratio to be maintained below 75% respectively.

Also included in current liabilities is \$3,036,610 (RMB15,100,000) (December 31, 2015 - 4,262,000 (RMB20,000,000)) 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.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2016 and 2015
(Unaudited)

5. Long-term debt and bank indebtedness (continued):

Also included in current liabilities is \$3,315,604 (RMB16,487,340) (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 \$1,948,050 (December 31, 2015 - \$2,076,000) relating to a US\$1,500,000 term loan from the Bank of China (Canada) granted to the Company pursuant to a credit facility letter agreement effective on October 6, 2015 (the "US Term Loan"). The US Term Loan is secured by a Standby Letter of Credit provided by the Company. The US Term Loan has a one-year term from the date of the withdrawal and bears annual interest of six-month LIBOR rate plus 250 basis points. The effective interest rate of the loan was 3.1%.

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

6. Share capital:

On November 21, 2013 and June 22, 2015, the Company received approval from the TSX-V to make normal-course issuer bid (the "Bid") to periodically purchase, for cancellation, up to 3,000,000 common shares for the period from November 26, 2013 to November 26, 2014 and from June 24, 2015 to June 23, 2016, respectively. During the period, the Company purchased 614,000 shares pursuant for cash considerations of \$216,762. As of March 31, 2016, the outstanding shares of the Company is 61,337,700.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2016 and 2015
(Unaudited)

7. Earnings per share ("EPS"):

Basic EPS amounts are calculated by dividing the profit for the period attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted EPS amounts are calculated by dividing the profit for the period attributable to common shareholders of the Company by the weighted average number of shares issued during the period, adjusted for the effect of potentially dilutive stock options.

The following tables set forth the calculation of basic and diluted EPS:

	Three-month period ended March 31, 2016			Three-month period ended March 31, 2015		
	Profit attributable to common shareholders	Weighted average number of shares	EPS	Profit attributable to common shareholders	Weighted average number of shares	EPS
Basic	\$ 2,150,128	61,421,151	\$ 0.03	\$ 2,827,213	63,099,200	\$ 0.04
Diluted	2,150,128	61,935,194	0.03	2,827,213	63,822,360	0.04

8. Related party disclosures:

(a) Included in current due to related parties as at March 31, 2016 amounted to \$603,300 (RMB3,000,000) (2015 - \$639,300 (RMB3,000,000)) was relating to an advance made by Shin-Ko Energy. Also included in current due to related parties, as at March 31, 2016, was \$251,184 (RMB1,249,050) (2015 - \$266,173 (RMB 1,249,050)) relating to a loan made to the Company by Shin-Ko Energy. The loans are interest-free unsecured and payable on demand.

(b) In 2007, Mr. Lin, advanced loans in the aggregate amount of \$8,044,000 (RMB40,000,000) (December 31, 2015 - \$8,524,000 (RMB40,000,000)) 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 were due on demand only after April 27, 2010. Pursuant to the Subordination and Forbearance Agreement, the lenders agreed to take no steps to demand or recover payment under the loans for a period of three years, and to enter into an agreement with the Company with the same terms and conditions as the Subordination and Forbearance Agreement every three years in perpetuity.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2016 and 2015
(Unaudited)

8. Related party disclosures (continued):

On April 27, 2010, these loans were renewed for another three years with the same terms and conditions. On April 27, 2013, these loans were renewed for another two years with the same terms and conditions. The comparative figures have been reclassified from non-current liabilities to current liabilities for presentation. 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.

(c) As at March 31, 2016, the Company owed an officer of the Company \$431,089 (December 31, 2015 - \$366,962) for unpaid salary.

(d) As at March 31, 2016, the Company owed certain directors nil (December 31, 2015 - \$71,009) for unpaid director's fees.

(e) As at March 31, 2016, Mr. Lin provided personal guarantee to the Company for a \$3,036,610 (RMB15,100,000) credit line. Details are set out in note 4.

9. Financial instruments and risk management:

The Company is exposed to foreign exchange risk, interest rate risk, credit risk, liquidity risk and regulatory risk and uncertainty. The Company has policies for managing these risks that are aligned with its overall objectives to maintain a simple and cost-effective capital structure that supports a long-term growth strategy and maximizes operating flexibility. There have been no material changes to the Company's risk and risk management activities since December 31, 2015.

As at March 31, 2016, the Company had a working capital deficiency of \$21,611,968 (December 31, 2015 - \$24,885,675). The Company believes that this deficiency can be funded through projected operating cash flows from operations and through securing additional financing from third-party financial institutions. There are certain assumptions made by management in determining projected operating cash flow, such as temporary natural gas contracts from the Government of China and continued growth in its operations.

While management believes that the assumptions included in its operating forecast are reasonable, there is no guarantee that they will materialize as planned. The Company may not be successful in obtaining additional financing on acceptable terms, on a timely basis, or at all, and projected operating cash flows may not materialize as planned.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2016 and 2015
(Unaudited)

9. Financial instruments and risk management (continued):

As at March 31, 2016, the carrying amounts for trade and other receivables, trade and other payables and interest payable on the condensed consolidated interim balance sheets approximate fair values because of the limited term to maturity of these financial instruments.

The Company's financial instruments that are carried at fair value consisting of cash, have been classified as Level 1 within the fair value hierarchy.

10. Seasonality of operations:

Seasonality can impact the Company's natural gas distribution sales. The Company's current operations are primarily located in Sanya City, an international tourist destination in the PRC's only tropical province. Sanya City attracts more tourists in the winter than the rest of the year. The Company's natural gas sales are higher during this high tourism season, as a large portion of the Company's natural gas sales are made to hotels and restaurants. Seasonality can also impact the Company's CNG retail station sales due to vehicles being in need of more gas during the warmer seasons for air-conditioning.

11. Segmented reporting:

Information reported to the Company's Chief Executive Officer, being the chief operating decision maker, for the purposes of allocating resources to segments and assessing their performance are organized on the basis of the revenue streams. The Company's operating and reportable segments are (a) gas distribution utility (the "utility") which includes gas sales and pipeline installation and connection and (b) CNG vehicle refueling. The utility provides gas pipeline connection services and delivers natural gas to commercial, industrial and residential customers through its pipeline networks and associated facilities. The Company's another segment is a CNG refuelling retail station, which is primarily to supply gas for taxicabs and public transportation vehicles. For segment reporting, no individual operating segments have been aggregated to derive a single reportable segment.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2016 and 2015
(Unaudited)

11. Segmented reporting (continued):

There were no significant intragroup transactions between segments. Summarized financial information concerning the reportable segments is shown in the following tables:

Three-month period ended March 31, 2016	Gas distribution utility	CNG refuelling station	Consolidated
Revenue	\$ 14,583,301	\$ 1,614,462	\$ 16,197,763
Cost of sales	6,593,428	1,097,665	7,691,093
	7,989,873	516,797	8,506,670
Expenses:			
General and administrative	2,794,345	211,049	3,005,394
Travel and business development	1,174,541	16,954	1,191,495
	3,968,886	228,003	4,196,889
Income from operations	\$ 4,020,987	\$ 288,794	\$ 4,309,781
Total assets March 31, 2016	\$ 102,661,932	\$ 6,548,265	\$ 109,210,197
Total assets December 31, 2015	\$ 110,859,960	\$ 4,500,738	\$ 115,360,698

Three-month period ended March 31, 2015	Gas distribution utility	CNG refuelling station	Consolidated
Revenue	\$ 14,500,815	\$ 2,199,955	\$ 16,700,770
Cost of sales	5,397,833	1,727,945	7,125,778
	9,102,982	472,010	9,574,992
Expenses:			
General and administrative	2,816,682	294,413	3,111,095
Travel and business development	879,824	20,550	900,374
Stock-based compensation	29,120	-	29,120
	3,725,626	314,963	4,040,589
Income from operations	\$ 5,377,356	\$ 157,047	\$ 5,534,403
Total assets March 31, 2015	\$ 96,615,720	\$ 4,362,651	\$ 100,978,371

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2016 and 2015
(Unaudited)

11. Segmented reporting (continued):

Geographic information:

The Company's revenue is wholly generated from China and the majority of its assets are located in China. For the three-month periods ended March 31, 2016 and 2015, there is no significant individual customer from which sales amounted to more than 10% of the Company's revenue.