



## Changfeng Reports Second Quarter 2013 Financial Results, and Provides Business Update

August 22, 2013

**Toronto, Ontario, August 22, 2013** – Changfeng Energy Inc., (TSXV: CFY) (“Changfeng” or the “Company”), is pleased to announce that the Company has filed its unaudited condensed interim consolidated financial results for the second quarter ended June 30, 2013. The unaudited condensed interim consolidated financial results and Management Discussion and Analysis can be downloaded from [www.SEDAR.com](http://www.SEDAR.com) or from the Company's website at [www.changfengenergy.com](http://www.changfengenergy.com).

### Summary of the Second Quarter of 2013 consolidated Financial Results

<i>In thousands of Canadian dollars except percentages and per share amounts</i>	Three months ended June 30,				Six months ended June 30,			
	2013	2012	Change	%	2013	2012	Change	%
Revenue	9,190	7,122	2,068	29%	18,813	14,487	4,326	30%
Gross margin	4,260	3,421	839	25%	9,769	7,323	2,446	33%
Other operating income	-	723	(723)		-	723	(723)	
Net income	625	826	(201)	-24%	1,897	1,652	245	15%
EBITDA	2,104	1,416	688	49%	5,105	3,532	1,573	45%
Adjusted net income (1)	625	283	342	121%	1,897	1,109	788	71%

Note (1): The adjusted net income excludes a government grant of \$542,535, net of tax.

Revenue for the three months ended June 30, 2013 was \$ 9.2 million, representing an increase of \$2.1 million, or 29%, from \$7.1 million for the same period of 2012. Revenue for the six months ended June 30, 2013 was \$ 18.8 million, representing an increase of \$4.3 million, or 30%, from \$14.5 million for the same period of 2012. This increase is mainly attributable to continued gas volume growth (16% for the three months ended June 30, 2013 and 20% for the six months ended June 30, 2013) and higher average selling prices for both its CNG refueling retail station in Changsha city and the natural gas distribution utility in Sanya city for commercial and industrial customers.

Gross margin for the three months ended June 30, 2013 increased \$0.8 million, or 25%, and increased \$2.4 million or 33% for the six months ended June 30, 2013, compared to the same periods in 2012. As a percentage of revenue, gross margin increased to 52% in the six months ended June 30, 2013 from 51 % in the same period of 2012.

As a percentage of revenue, the gross margin of the gas distribution utilities decreased 3% (51% for the three months ended June 30, 2013 versus 54% for the same period of 2012). As a percentage of revenue, the gross margin of the CNG refueling station improved 12% (29% for the three months ended June 30, 2013 versus 17% for the same period of 2012) primarily due



to increases in selling price, as well as operating costs that increased at a lower rate than gas volume sold.

EBITDA (non-GAAP measure as identified and defined under section “Non-GAAP Measures”) for the three months ended June 30, 2013 was \$2.1 million, an increase of 0.7 million, or 49%, from \$1.4 million for the same period of 2012. EBITDA for the six months ended June 30, 2013 was \$5.1 million, an increase of \$1.6 million, or 45%, from \$3.5 million for the same period of 2012. The increase was driven primarily by higher sales. EBITDA as a percentage of revenue for the three months ended June 30, 2013 was 23%, compared to 20% in the same period in 2012. EBITDA as a percentage of revenue for the six months ended June 30, 2013 was 27%, compared to 24% in the same period of 2012, representing an increase of 3%. This increase was due to higher sales partially offset by higher operating expenses.

Net income for the three months ended June 30, 2013 was \$0.6 million, or \$0.01 per share (basic and diluted) compared to \$0.8 million or \$0.01 per share (basic and diluted) for the same period in 2012. Net income for the six months ended June 30, 2013 was \$1.9 million, or \$0.03 per share (basic and diluted) compared to \$1.7 million or \$0.03 per share (basic and diluted) for the same period in 2012.

Adjusted net income is calculated as net income before other operating income. Other operating income represents a government grant received by the Company. There is no guarantee that the Company will receive this government grant every year. Changfeng believes that adjusted net income is a useful supplemental measure of the Company’s operating results.

## **Financial Position**

Cash increased by \$3.3 million to \$9.7 million at June 30, 2013 from \$6.4 million at December 31, 2012, primarily resulting from cash of \$2.6 million provided by operating activities, cash flow from financing activities of \$4.3 million, offset by cash used for capital expenditures of \$4.3 million.

The working capital deficit as at June 30, 2013 decreased to \$5.6 million from \$12.2 million as at December 31, 2012, primarily resulting from the effective conversion of the Company’s line of credit to long term debt and an increase of current assets.

On December 21, 2012, the Company entered into a term loan facility with the Bank of China, Pingxiang Branch for \$3.4 million (RMB 20.0 million). As of June 30, 2013, the Company had withdrawn \$3.4 million (RMB 20.0 million).

On January 15, 2013, the Company entered into an agreement with the Bank of China, Sanya Branch to secure a term loan facility in the amount of \$8.6 million (RMB 50.0 million). As of June 30, 2013, the Company had withdrawn \$6.9 million (RMB 40.0 million).

***Adjusted working capital***

Adjusted working capital is calculated as current assets less adjusted current liabilities. Adjusted current liabilities are calculated as current liabilities, excluding:

- i) 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; and
- ii) the line of credit, as in China, typically, lines of credit 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.

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

<i>In thousands of Canadian dollars</i>	June 30, 2013	December 31, 2012
Current assets	14,485	11,306
Less: Current liabilities	20,037	23,511
Working capital (deficit)	(5,552)	(12,205)
Add: Deferred revenue	10,461	8,911
Line of credit	-	4,791
Adjusted working capital	4,909	1,497

Mr. Huajun Lin, the Chairman and C.E.O. of the Company commented that “we had another very successful quarter and are pleased with the financial results driven by the gas sales volume increase in both the piped natural gas distribution operations in Sanya city and the CNG refueling station in Changsha city as well as commencing gas sales to industrial and residential customers in Xiangdong District, Pingxiang City. Going forward, we are hopeful that we will have continuing market penetration in Sanya City and Xiangdong District, and will endeavor to expand the business in Mainland China to bring long-term sustainable value to the Company and to our shareholders.”



## **Business Update**

### ***Sanya Piped Gas Distribution Operation, Sanya City, Hainan Province***

Further to the Press Release dated February 22, 2012 regarding the Gas to Electricity Exchange Program, the construction of the facilities has been completed and is going through the acceptance inspection by the relevant authorities. The gas sales and purchase agreement is negotiated through the government's coordination. The Company will provide further details regarding the price, expected annual volumes and supply schedule of the gas once the agreement is finalized.

### ***Xiangdong Piped Gas Distribution Operation, Xiangdong District, Pingxiang City, Jiangxi Province***

The Company is continuing its market penetration in the Xiangdong District. As of the date of this release, the Company is supplying gas to four (4) ceramic manufacturers and one residential gated community.

In addition the Company has extended its pipeline network to the downtown area and the outskirts of the town. A citygate in the Park to depressurize the piped gas from WEP II is under construction.

There is nothing further to report on the process for the approval of the construction of the section of the interprovincial pipeline that is proposed to link the Company's citygate and PetroChina's citygate. The Company is working with the local energy boards and regulatory authorities on this regulatory approval process.

## **About Changfeng Energy Inc.**

Changfeng Energy Inc., is a natural gas service provider with operations located throughout the People's Republic of China. The Company services industrial, commercial and residential customers, providing them with natural gas for heating purposes and fuel for transportation. The Company has developed a significant natural gas pipeline network as well as urban gas delivery networks, stations, substations and gas pressure regulating stations in Sanya City & Haitang Bay. Through its network of pipelines, the Company provides safe and reliable delivery of natural gas to both homes and businesses. The Company is headquartered in Toronto, Ontario and its shares trade on the Toronto Venture Exchange under the trading symbol "CFY". For more information, please visit the Company website at [www.changfengenergy.com](http://www.changfengenergy.com)



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**Forward-Looking Statements**

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