

Changfeng Announces the Second Quarter Financial Results for the Three and Six Months Ended June 30, 2016.

August 23rd, 2016

Toronto, Ontario, August 23rd, 2016 – Changfeng Energy Inc., (TSXV: CFY) (“Changfeng” or the “Company”), an energy service provider in China, announces that the Company has filed its unaudited condensed interim consolidated financial results for the second quarter ended June 30, 2016. The Company states that revenue had been up by 4%, gross profit was down by 11% and net income was down by 58% for the six months ended June 30, 2016. The unaudited condensed interim consolidated financial results and Management Discussion and Analysis can be downloaded from www.SEDAR.com or from the Company's website at www.changfengenergy.com.

Summary of the Second Quarter of 2016 Consolidated Financial Results

<i>In thousands of Canadian dollars except percentages</i>	Three months ended June 30,				Six months ended June 30,			
	2016	2015	Change	%	2016	2015	Change	%
Revenue	15,488	13,717	1,771	13%	31,686	30,418	1,268	4%
Gross margin	6,069	6,786	(717)	-11%	14,575	16,361	(1,786)	-11%
Net income	(343)	1,595	(1,938)	-122%	1,893	4,505	(2,612)	-58%
EBITDA (1)	2,848	4,660	(1,812)	-39%	7,986	11,294	(3,308)	-29%

Note:

(1) See Non- IFRS Financial Measures in this Press Release.

Revenue for the three months ended June 30, 2016 was \$15.5 million, an increase of \$1.8 million, or 13%, from \$13.7 million for the same period of 2015. Revenue for the six months ended June 30, 2016 was \$31.7 million, an increase of \$1.3 million, or 4%, from \$30.4 million for the same period of 2015.

This increase is mainly attributable to the continuously growing total gas sales volume in Sanya and Xiangdong regions, with a gross gas sales volume increase of 28% and 17% respectively for the three months and six months ended June 30, 2016, though offset by the declining CNG sales volume from CNG vehicle refueling stations which dropped at 18% and 23% respectively for the three months and six months ended June 30, 2016. Revenue from pipeline connection increased at 15% for the three months ended June 30, 2016 while still was in a drop of 3% for the six months ended June 30, 2016. The increase was also offset by the decrease of exchange rate between Chinese RMB and Canadian dollar.

Gas sales revenue for the three months ended June 30, 2016 was \$6.9 million, an increase of \$1.0 million or 18%, from 5.9 million for the same period of 2015. Gas sales revenue for the six months ended June 30, 2016 was \$16.8 million, an increase of \$2.3 million or 16%, from 14.5 million for the same period of 2015. The increase is mainly attributable to:

- the gas sales volume growth of 15% and 8% in Sanya region for the three and six months periods ended June 30, 2016

- the gas sales volume growth of 208% and 218% respectively in Xiangdong district for the three and six months periods ended June 30, 2016

Pipeline installation and connection revenue for the three months ended June 30, 2016 was \$6.4 million, an increase of \$0.8 million or 15%, from \$5.6 million for the same period of 2015. Pipeline installation and connection revenue for the six months ended June 30, 2016 was \$11.1 million, a decrease of 0.4 million or 3%, from 11.5 million for the same period of 2015. The changes are results of:

- higher number of new commercial customers connected during the three months ended June 30, 2016 in Sanya region, partly offset by the declining of new residential customers connected;
- higher number of new residential and commercial customers connected during the three months ended June 30, 2016 in Xiangdong region;
- new residential customers connected in Sanya region remained declining during the six months ended June 30, 2016;
- less pipeline installation completed during the six months ended June 30, 2016 in Sanya and Xiangdong region

Revenue from CNG refueling retail stations for the three months ended June 30, 2016 was \$2.1 million, a slight decrease of \$0.1 million, or 4%, from \$2.2 million for the same period of 2015. Total revenue from CNG refueling retail stations for the six months ended June 30, 2016 was \$3.7 million, a decrease of \$0.7 million, or 15%, from \$4.4 million for the same period of 2015. The decrease was mainly due to market competition and dropped sales volume of 1.2 million and 2.0 million m³, or 39% and 34% respectively for Changsha CNG refueling station during the three and six months ended June 30, 2016 with compared to the same period of 2015. Total revenue from new Sanya CNG/LNG refueling retail station for the six months ended June 30, 2016 was \$0.7 million.

Gross margin for the three months ended June 30, 2016, decreased \$0.7 million, or 11%, compared to the same period in 2015, decreased 1.8 million or 11% for the six months ended June 30, 2016 compared to the same periods in 2015. The gross margin percentage of 46% for the first half of 2016 is a decrease of 8% from 54% for the first half of 2015.

As a percentage of revenue, the gross margin of the gas distribution utility of 49% for the first half of 2016 is a decrease of 10 % from 59% for the first half of 2015. As a percentage of revenue, the gross margin of the CNG refueling stations for the first half of 2016 was 27%, an increase of 3% from 24% in the same period of 2015.

General and administrative expenses for the three months ended June 30, 2016 were \$2.8 million, an increase of \$0.9 million, or 46%, from \$1.9 million in the same period of 2015. For the six months ended June 30, 2016, general and administrative expenses were \$5.8 million, an increase of \$0.8 million, or 15%, from \$5.0 million in the same period of 2015. General and administrative expenses as a percentage of sales for the three and six month periods ended June 30, 2016 were both 18%, compared to 14% and 16% for the same periods of 2015, respectively.

Travel and business development expenses for the three months ended June 30, 2016 were \$0.8 million, a decrease of \$0.1 million, or 16%, from \$0.9 million in the same period of 2015. Travel and business development expenses for the six months ended June 30, 2016 were \$2.0 million, an increase of \$0.2 million, or 8%, from \$1.8 million in the same period of 2015. As a percentage

of sales, travel and business development expenses for the six months ended June 30, 2016 was 6.2%, increased from 6.0% in the same periods 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.

Share of loss of a joint venture increased \$0.8 million (2015 – Nil) and \$0.9 million (2015 – Nil) for the three months and six months ended June 30, 2016, respectively. Share of loss of a joint venture is not tax deductible. On July 21, 2015, Changfeng entered into a joint venture agreement with Tangshan Caofeidian Development Investment Group Co., Ltd. (“CFD Group”) to establish Caofeidian Evergrowth Energy Co., Ltd. (“Evergrowth”) to jointly operate liquefied natural gas (“LNG”) trading, natural gas distribution, transportation, and related infrastructure construction. Evergrowth is based in Tangshan City, Hebei province. Under the joint venture agreement, Evergrowth would operate and manage an energy resource exchange in Northern China.

Income taxes for the three months ended June 30, 2016, decreased \$0.1 million, or 4%, compared to the same period in 2015, decreased 0.7 million or 21% for the six months ended June 30, 2016 compared to the same period in 2015. However, as a percentage of profit before income taxes, the percentage of 59% for the first half of 2016 is an increase of 15% from 44% for the first half of 2015. The increase is mainly due to the share of loss of a joint venture of \$ 0.9 million for the first half of 2016, which is not tax deductible and increased withholding tax expense of \$0.4 million of first half of 2016 compared to nil of same period of 2015.

Net loss for the three months ended June 30, 2016 was \$0.3 million, compared to a net income of \$1.6 million or \$0.03 per share (basic and diluted) for the same period in 2015. Net income for the six months ended June 30, 2016 was \$1.9 million, or \$0.03 per share (basic and diluted) compared to \$4.5 million or \$0.07 per share (basic and diluted) for the same period in 2015.

EBITDA (non-IFRS measure as identified and defined under section “Non-IFRS Measures”) for three months ended June 30, 2016 was \$2.8 million, a decrease of \$1.9 million, or 39% from \$4.7 million for the same period of 2015. EBITDA for the six months ended June 30, 2016 was \$8.0 million, a decrease of \$3.3 million, or 29%, from \$11.3 million for the same period of 2015.

Financial Position

Cash decreased by \$0.7 million to \$13.5 million at June 30, 2016 from \$14.2 million at December 31, 2015, primarily resulting from cash provided by operating activities of \$3.5 million, cash from bank indebtedness of \$4.8 million and cash received as released pledged bank deposit of \$1.9 million, but offset by \$1.9 million repayment of long-term debt and 2.0 million repayment of bank indebtedness, repurchase of shares of \$0.2 million, as well as cash used for acquisition of property and equipment of \$4.8 million.

Net cash provided by operations was \$3.5 million for the six months ended June 30, 2016 compared to \$5.2 million for the same period of 2015.

Cash provided by financing activities for the six months ended June 30, 2016 was \$0.7 million, which included cash inflow from bank indebtedness of \$4.8 million and cash outflow bank indebtedness repayment of \$1.9 million as well as cash outflow of \$1.9 million repayment of long-term debt and \$0.2 million for share buyback.

Cash used for acquisition of property and equipment totaled \$4.8 million for the six months ended June 30, 2016 compared to \$3.0 million in the same period of 2015. An additional \$0.2 million

has been paid as deposit for acquisition of property and equipment during the six months ended June 30, 2016. The acquisition was mainly related to the purchase of equipment for the on-going construction of pipeline networks to connect new customers in the Sanya region and Xiangdong district. There was cash received as released pledged bank deposit of \$1.9 million and cash receipt from government of \$0.3 million for pipeline relocation.

Changfeng will finance the majority of the upcoming construction of projects under development in mainland China through its long-term bank loans with BOC Sanya and BOC Pingxiang, as well as operating cash flow from its existing operations.

Non-IFRS Financial Measures

The Company uses the following non-IFRS financial measure: EBITDA. The Company believes this non-IFRS financial measure provides useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

Management uses this non-IFRS financial measure to exclude the impact of certain expenses and income that must be recognized under IFRS when analyzing consolidated operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

This measure do not have a standardized meaning prescribed by IFRS and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies and should not be construed as an alternative to other financial measures determined in accordance with IFRS. This measure is 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 as follows:

In thousands (except for % figures)	Three months ended June 30,				Six months ended June 30,			
	2016	2015	Change	%	2016	2015	Change	%
Net Income	(343)	1,595	(1,938)	-122%	1,893	4,505	(2,612)	-58%
Add (less):								
Income tax	1,312	1,368	(56)	-4%	2,762	3,510	(748)	-21%
Interest (income) loss	(25)	(30)	5	-17%	(42)	(63)	21	-34%
Share of loss of investment in associate	0.3	0.3	-	0%	0.7	0.7	-	0%
Share of loss of investment in joint venture	793	-	793		918	-	918	
Stock-based compensation	-	48	(48)	-100%	-	77	(77)	-100%
Amortization	800	1,192	(392)	-33%	1,628	2,262	(634)	-28%
Interest on borrowing	311	487	(176)	-36%	826	1,002	(176)	-18%
EBITDA	2,848	4,660	(1,812)	-39%	7,986	11,294	(3,308)	-29%



About Changfeng Energy Inc.

Changfeng Energy Inc. is an energy 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 is also involved in the integrated energy system programs and energy comprehensive utilization projects in Haitang Bay, Sanya City. 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

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