

Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars)

CHANGFENG ENERGY INC.

Three-month and nine-month periods ended
September 30, 2014 and 2013
(Unaudited)

CHANGFENG ENERGY INC.

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

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash	\$ 14,836,977	\$ 15,151,430
Trade and other receivables	4,749,898	4,296,974
Prepaid expenses and deposits	998,943	997,091
Inventories	1,186,940	691,789
Total current assets	21,772,758	21,137,284
Non-current assets:		
Long-term deposits and advances	1,736,325	1,675,317
Investment in associate	853,149	828,860
Property and equipment	62,676,068	57,310,958
Intangible assets	1,630,349	2,333,403
Due from related parties (note 7)	365,200	351,400
Total non-current assets	67,261,091	62,499,938
Total assets	\$ 89,033,849	\$ 83,637,222
Liabilities and Equity		
Current liabilities:		
Bank indebtedness (note 4(b))	\$ 3,507,200	\$ 3,352,400
Trade and other payables	9,669,900	8,145,905
Deferred revenue	14,925,079	14,488,531
Interest payable	—	886,502
Current portion of long-term debt (note 4(a))	2,830,300	2,284,100
Due to related parties (note 7)	1,447,110	1,445,321
Total current liabilities	32,379,589	30,602,759
Non-current liabilities:		
Long-term debt (note 4(a))	23,057,916	23,843,883
Due to related parties (note 7)	7,304,000	7,028,000
Government grants	1,039,723	985,824
Deferred income tax liability	806,749	636,818
Total non-current liabilities	32,208,388	32,494,525
Total liabilities	64,587,977	63,097,284
Equity:		
Share capital (note 5)	11,032,007	11,630,789
Contributed surplus	2,686,674	2,424,592
Statutory surplus reserves	2,188,926	1,612,089
Retained earnings	4,746,684	2,008,298
Accumulated other comprehensive income	3,368,374	2,358,789
Total shareholders' equity	24,022,665	20,034,557
Non-controlling interest	423,207	505,381
Total equity	24,445,872	20,539,938
Total liabilities and equity	\$ 89,033,849	\$ 83,637,222

See accompanying notes to condensed consolidated interim financial statements.

On behalf of the Board:

"Graham Warren" _____ Director

"Wencheng Zhang" _____ Director

CHANGFENG ENERGY INC.

Condensed Consolidated Interim Statements of Comprehensive Income
(Expressed in Canadian dollars)
(Unaudited)

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2014	2013	2014	2013
Revenue	\$ 12,094,158	\$ 10,240,031	\$ 36,249,574	\$ 29,052,899
Cost of sales	6,513,977	5,373,268	18,141,356	14,285,175
Gross margin	5,580,181	4,866,763	18,108,218	14,767,724
Expenses:				
General and administrative	2,871,838	2,275,803	8,020,540	6,533,152
Travel and business development	735,469	744,672	2,621,971	2,422,966
Stock-based compensation	87,361	294,342	262,082	294,342
	3,694,668	3,314,817	10,904,593	9,250,460
Income before interest expense, interest income, share of loss of investment in associate and income taxes	1,885,513	1,551,946	7,203,625	5,517,264
Interest expense	457,589	442,732	1,396,708	1,321,963
Interest income	(16,771)	(22,168)	(36,575)	(40,410)
Share of loss of investment in associate	276	280	8,031	859
Income before income taxes	1,444,419	1,131,102	5,835,461	4,234,852
Income taxes	748,161	559,912	2,602,412	1,766,572
Net income	696,258	571,190	3,233,049	2,468,280
Other comprehensive income (loss):				
Exchange differences on translation of foreign operations	1,586,000	(415,776)	1,009,585	861,813
Total comprehensive income	\$ 2,282,258	\$ 155,414	\$ 4,242,634	\$ 3,330,093
Net income (loss) attributable to:				
Owners of the Company	\$ 718,765	\$ 592,525	\$ 3,315,223	\$ 2,540,902
Non-controlling interest	(22,507)	(21,335)	(82,174)	(72,622)
	\$ 696,258	\$ 571,190	\$ 3,233,049	\$ 2,468,280
Total comprehensive income (loss) attributable to:				
Owners of the Company	\$ 2,304,765	\$ 176,749	\$ 4,324,808	\$ 3,402,715
Non-controlling interest	(22,507)	(21,335)	(82,174)	(72,622)
	\$ 2,282,258	\$ 155,414	\$ 4,242,634	\$ 3,330,093
Earnings per share attributable to common shareholders (note 6):				
Basic	\$ 0.011	\$ 0.009	\$ 0.052	\$ 0.039
Diluted	0.011	0.009	0.051	0.039

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)

Nine-month period ended September 30, 2014	Share capital	Contributed surplus	Statutory surplus reserves	Retained earnings	Accumulated other comprehensive income	Non- controlling interest	Total
Balance, January 1, 2014	\$ 11,630,789	\$ 2,424,592	\$ 1,612,089	\$ 2,008,298	\$ 2,358,789	\$ 505,381	\$ 20,539,938
Share repurchase (note 5)	(598,782)	—	—	—	—	—	(598,782)
Net income (loss)	—	—	576,837	2,738,386	—	(82,174)	3,233,049
Stock-based compensation	—	262,082	—	—	—	—	262,082
Currency translation adjustment	—	—	—	—	1,009,585	—	1,009,585
Balance, September 30, 2014	\$ 11,032,007	\$ 2,686,674	\$ 2,188,926	\$ 4,746,684	\$ 3,368,374	\$ 423,207	\$ 24,445,872

Nine-month period ended September 30, 2013	Share capital	Contributed surplus	Statutory surplus reserves	Retained earnings (deficit)	Accumulated other comprehensive income	Non- controlling interest	Total
Balance, January 1, 2013	\$ 12,121,808	\$ 2,042,890	\$ 987,950	\$ (304,256)	\$ 591,636	\$ 627,953	\$ 16,067,981
Share repurchase	(403,889)	—	—	—	—	—	(403,889)
Option exercised	46,000	—	—	—	—	—	46,000
Net income (loss)	—	—	386,592	2,154,310	—	(72,622)	2,468,280
Stock-based compensation	—	294,342	—	—	—	—	294,342
Currency translation adjustment	—	—	—	—	861,813	—	861,813
Balance, September 30, 2013	\$ 11,763,919	\$ 2,337,232	\$ 1,374,542	\$ 1,850,054	\$ 1,453,449	\$ 555,331	\$ 19,334,527

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 period ended		Nine-month period ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Cash flows from operating activities:				
Net income	\$ 696,258	\$ 571,190	\$ 3,233,049	\$ 2,468,280
Items not involving cash:				
Deferred income taxes	11,941	44,448	156,651	267,097
Amortization	903,840	604,056	2,815,144	1,743,156
Prepaid rent expense	23,191	22,259	69,889	65,361
Share of loss of investment in associate	276	280	8,031	859
Current income taxes	736,221	515,464	2,445,762	1,499,475
Interest expense on long-term debt	457,589	442,732	1,396,708	1,321,963
Stock-based compensation	87,361	294,342	262,082	294,342
Income taxes paid	(482,017)	(325,577)	(2,340,295)	(1,344,939)
Interest expense paid	(438,708)	(446,332)	(2,244,538)	(1,653,963)
Change in non-cash operating working capital	(713,377)	2,677,478	163,464	2,343,838
Net cash flows from operating activities	1,282,575	4,400,340	5,965,947	7,005,469
Cash flows from financing activities:				
Repurchase of shares	–	(162,445)	(598,782)	(403,889)
Net increase in exercised options	–	46,000	–	46,000
Net increase in bank indebtedness	–	1,660,000	1,785,000	1,660,000
Net decrease in bank indebtedness	(1,785,000)	–	(1,785,000)	(4,980,000)
Net decrease in long-term debt	(130,525)	–	(1,286,875)	(415,000)
Net increase in long-term debt	–	–	–	9,960,000
Government grants	–	–	15,496	15,023
Net cash flows from (used in) financing activities	(1,915,525)	1,543,555	(1,870,161)	5,882,134
Cash flows from investing activities:				
Acquisition of property and equipment	(1,460,378)	(1,770,226)	(5,035,148)	(6,044,002)
Acquisition of intangible assets	–	(713,975)	(8,743)	(743,510)
Net cash flows used in investing activities	(1,460,378)	(2,484,201)	(5,043,891)	(6,787,512)
Increase (decrease) in cash	(2,093,328)	3,459,694	(948,105)	6,100,091
Effects of foreign exchange on cash balances	929,801	(29,210)	633,652	632,495
Cash, beginning of period	16,000,504	9,679,321	15,151,430	6,377,219
Cash, end of period	\$ 14,836,977	\$ 13,109,805	\$ 14,836,977	\$ 13,109,805

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 and nine-month periods ended September 30, 2014 and 2013
(Unaudited)

1. Corporate information:

Changfeng Energy Inc. (the "Company" or "Changfeng") was incorporated under the Canada Business Corporations Act on May 4, 2006. 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 25 Adelaide Street East, Suite 1612, Toronto, Ontario, M5C 3A1, 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.

2. Basis of presentation:

(a) Statement of compliance:

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies set out below were consistently applied to all periods presented.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2013 annual audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB.

The condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2013 annual audited consolidated financial statements.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 12, 2014.

CHANGFENG ENERGY INC.

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

Three-month and nine-month periods ended September 30, 2014 and 2013
(Unaudited)

2. Basis of presentation (continued):

(b) Historical cost basis of presentation and functional currencies:

The condensed consolidated interim financial statements have been prepared on a historical cost basis for all its recognized assets and liabilities, except for certain financial instruments measured at fair value.

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").

3. Significant accounting policies:

These condensed consolidated interim financial statements have been prepared in accordance with IFRS using the same accounting policies as were applied in the 2013 annual consolidated financial statements. In addition, the Company has adopted the following new accounting policies:

(a) Recent accounting pronouncements:

(i) Financial instruments - presentation:

In December 2011, the IASB published amendments to IAS 32, Financial Instruments - Presentation ("IAS 32"). The amendments to IAS 32 clarify when an entity has a legally enforceable right to offset, as well as clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The effective date for the amendments to IAS 32 is annual periods beginning January 1, 2014. The Company has adopted the amendments to IAS 32 in its condensed consolidated interim financial statements for the annual period beginning on January 1, 2014. The extent of the impact of adoption of the amendments to IAS 32 had no impact on the Company.

CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three-month and nine-month periods ended September 30, 2014 and 2013
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3. Significant accounting policies (continued):

(ii) Levies:

Beginning January 1, 2014, the Company adopted International Financial Reporting Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21"), on a retrospective basis with restatement. IFRIC 21 is applicable to all levies other than outflows that are within the scope of other standards, fines, or penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payments, as identified by the relevant legislation, occurs. The impact of the adoption of IFRIC 21 did not have a material impact on the Company's condensed consolidated interim financial statements.

(b) Accounting standards issued but not yet effective:

Certain pronouncements were issued by the IASB or the IFRIC that are not yet effective for the nine-month periods ended September 30, 2014 and 2013, and have not been applied in preparing these condensed consolidated interim financial statements.

Financial instruments - recognition and measurement:

In October 2010, the IASB published amendments to IFRS 9, Financial Instruments ("IFRS 9 (2010)"), which provide added guidance on the classification and measurement of financial liabilities. IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, either IFRS 9 (2009) or IFRS 9 (2010) may be applied. The Company intends to adopt IFRS 9 (2010) in its consolidated financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three-month and nine-month periods ended September 30, 2014 and 2013
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4. Long-term debt and bank indebtedness:

(a) Long-term debt:

	September 30, 2014	December 31, 2013
Term loan facility - Bank of China (i)	\$ 15,521,000	\$ 15,813,000
Term loan facility - Bank of China (ii)	7,304,000	7,028,000
Term loan facility - Bank of China (iii)	3,241,150	3,514,000
	26,066,150	26,355,000
Less unamortized transaction costs	177,934	227,017
	25,888,216	26,127,983
Less current portion	2,830,300	2,284,100
	\$ 23,057,916	\$ 23,843,883

- (i) On January 5, 2010, the Company entered into a term loan with the Bank of China, Sanya Branch ("BOC, Sanya") for \$18,260,000 (RMB 100,000,000) (December 31, 2013 - \$17,570,000 (RMB 100,000,000)), 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 Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd. ("CF China") held by Hainan Energy Ltd., and certain gas connection rights. During the nine-month period ended September 30, 2014, the Company made payments in the amount of \$913,000 (RMB 5,000,000) (2013 - \$410,500 (RMB 2,500,000)) in accordance with the semi-annual repayment provisions of the term loan agreement. At September 30, 2014, \$15,521,000 (RMB 85,000,000) of the term loan is outstanding.

At September 30, 2014, the Company had unamortized transaction costs of \$177,934 (RMB 974,447) (December 31, 2013 - \$227,017 (RMB 1,292,072)), which has been offset against the term loan.

CHANGFENG ENERGY INC.

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

Three-month and nine-month periods ended September 30, 2014 and 2013
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4. 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 \$9,130,000 (RMB 50,000,000) (the "Term Loan"). The bank loan facility provides that the proceeds of the Term Loan will 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 at 110% of the prime rate set by the People's Bank of China. As at September 30, 2014, the Company has withdrawn \$7,304,000 (RMB 40,000,000), which remains fully outstanding.

(iii) On December 21, 2012, the Company entered into a term loan with the Bank of China, Pingxiang Branch ("BOC, Pingxiang") for \$3,652,000 (RMB 20,000,000), 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 secured by the property and equipment of Pingxiang Changfeng Natural Gas Co., Ltd. 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. As of September 30, 2014, the Company had withdrawn \$3,652,000 (RMB 20,000,000) (December 31, 2013 - \$3,514,000 (RMB 20,000,000)). During the nine-month period ended September 30, 2014, the Company made payments in the amount of \$410,850 (RMB 2,250,000) (2013 - nil). At September 30, 2014, \$3,241,150 (RMB 17,750,000) of the term loan is outstanding.

(b) Bank indebtedness:

Included in current liabilities is \$1,826,000 (RMB 10,000,000) (December 31, 2013 - \$1,757,000 (RMB 10,000,000)) 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%.

CHANGFENG ENERGY INC.

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

Three-month and nine-month periods ended September 30, 2014 and 2013
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4. Long-term debt and bank indebtedness (continued):

Also included in current liabilities is \$1,681,200 (RMB 9,207,010) (December 31, 2013 - \$1,595,400 (RMB 9,080,250)) relating to a U.S. \$1,500,000 term loan from the Bank of China (Canada) pursuant to a credit facility letter agreement renewed on September 23, 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 10,000,000. The term loan has a one-year term from the date of the withdrawal and bears annual interest of six-month LIBOR rate plus 250bps.

The proceeds of the Credit Line and the term loan have been used for the general working capital purposes of the Company.

As at September 30, 2014, the Company was in compliance with all of its debt covenants.

(c) Interest payable:

Included in interest payable is nil (December 31, 2013 - \$882,401 (RMB 5,022,204)) in connection with the bank loans previously settled. The accrued interest was originally paid by Sanya State Assets Management Corporation to the bank on behalf of the Company. In the nine-month period ended September 30, 2014, the Company has fully paid the balance.

5. Share capital:

On November 21, 2013, the Company received approval from the TSX-V to make a normal-course issuer bid (the "Bid"). Pursuant to the Bid, the Company proposes to purchase through the facilities to the exchange, from time to time over the next 12 months, if considered advisable, up to an aggregate of 3,000,000 common shares. The Bid commenced on November 26, 2013 and will conclude on the earlier of the date on which purchases under the Bid have been completed and November 26, 2014.

During the nine-month period ended September 30, 2014, the Company purchased 1,540,000 shares pursuant to the Bid for cash cost of \$598,782, inclusive of transaction costs. Subsequent to September 30, 2014, the Company purchased no shares.

CHANGFENG ENERGY INC.

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

Three-month and nine-month periods ended September 30, 2014 and 2013
(Unaudited)

6. Earnings per share ("EPS"):

Basic EPS amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of shares outstanding during the three-month and nine-month periods ended September 30, 2014 and 2013. Diluted EPS amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of shares outstanding during the three-month and nine-month periods ended September 30, 2014 and 2013, 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 September 30, 2014			Three-month period ended September 30, 2013		
	Net income attributable to common shareholders	Weighted average number of shares	EPS	Net income attributable to common shareholders	Weighted average number of shares	EPS
Basic	\$ 718,765	63,099,200	\$ 0.011	\$ 592,525	65,215,943	\$ 0.009
Diluted	718,765	63,953,733	0.011	592,525	65,832,356	0.009

	Nine-month period ended September 30, 2014			Nine-month period ended September 30, 2013		
	Net income attributable to common shareholders	Weighted average number of shares	EPS	Net income attributable to common shareholders	Weighted average number of shares	EPS
Basic	\$ 3,315,223	63,617,760	\$ 0.052	\$ 2,540,902	65,337,548	\$ 0.039
Diluted	3,315,223	64,603,307	0.051	2,540,902	65,943,835	0.039

CHANGFENG ENERGY INC.

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

Three-month and nine-month periods ended September 30, 2014 and 2013
(Unaudited)

7. Related party disclosures:

(a) Related party transactions:

(i) As at September 30, 2014, the Company had an outstanding loan of \$365,200 (RMB 2,000,000) (December 31, 2013 - \$351,400 (RMB 2,000,000)) due from the minority shareholder of Hunan Changfeng CNPC Energy Co., Ltd., which used the funds to contribute the capital it owed to that subsidiary. The minority shareholder has waived its right to any future profit that it would otherwise be allocated until the loan is repaid. The Company will begin recording this shareholder's profit allocation prospectively at the time the loan has been repaid.

(ii) Xiangtan Shin-Ko Energy Co., Ltd. ("Shin-Ko Energy"):

Included in current due to related parties as at September 30, 2014, is a required capital contribution of \$547,800 (RMB 3,000,000) (December 31, 2013 - \$527,100 (RMB 3,000,000)) to be made to Shin-Ko Energy. Also included in current due to related parties, as at September 30, 2014, was \$228,077 (RMB 1,249,050) (December 31, 2013 - \$224,378 (RMB 1,277,050)) 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.

(b) Transactions with key management personnel:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and/or its subsidiaries, directly or indirectly, including any external director of the Company and/or its subsidiaries. Key management personnel include: the Chief Executive Officer, the Chief Financial Officer, the Vice President and the Company's directors.

CHANGFENG ENERGY INC.

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

Three-month and nine-month periods ended September 30, 2014 and 2013
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7. Related party disclosures (continued):

- (i) In 2007, a significant shareholder, who is also an officer and director of the Company, advanced loans in the aggregate amount of \$7,304,000 (RMB 40,000,000) (December 31, 2013 - \$7,028,000 (RMB 40,000,000)) 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 are due on demand. However, these corporations and the Company have entered into Loan Renewal Agreements whereby the parties have agreed to enter into further loan renewal agreements upon the same terms and conditions as the Consignment Loan Agreements, in perpetuity.
- (ii) As at September 30, 2014, the Company owed an officer of the Company \$671,233 (December 31, 2013 - \$621,171) for unpaid salary.
- (iii) As at September 30, 2014, the Company owed certain directors nil (December 31, 2013 - \$72,673) for unpaid director's fees.

8. 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, 2013.

As at September 30, 2014, the Company had a working capital deficiency of \$10,606,831 (December 31, 2013 - \$9,465,475). 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.

CHANGFENG ENERGY INC.

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

Three-month and nine-month periods ended September 30, 2014 and 2013
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8. Financial instruments and risk management (continued):

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.

As at September 30, 2014, 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.

9. 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 period. 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.

10. Segmented reporting:

The Company has two reportable segments: gas distribution utilities (the "utility") and compressed natural gas ("CNG") refuelling station. 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 other segment is a CNG refuelling retail station, which is used primarily to supply gas for taxicabs and public transportation vehicles. The performance of each segment is measured by income from operations.

CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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(Unaudited)

10. Segmented reporting (continued):

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

Three-month period ended September 30, 2014	Gas distribution utilities	CNG refuelling station	Consolidated
Revenue	\$ 9,784,386	\$ 2,309,772	\$ 12,094,158
Cost of sales	4,717,907	1,796,070	6,513,977
	5,066,479	513,702	5,580,181
Expenses:			
General and administrative	2,598,900	272,938	2,871,838
Travel and business development	718,633	16,836	735,469
Stock-based compensation	70,675	16,686	87,361
	3,388,208	306,460	3,694,668
Income before interest expense, interest income, share of loss of investment in associate and income taxes	\$ 1,678,271	\$ 207,242	\$ 1,885,513

Three-month period ended September 30, 2013	Gas distribution utilities	CNG refuelling station	Consolidated
Revenue	\$ 8,209,385	\$ 2,030,646	\$ 10,240,031
Cost of sales	3,865,862	1,507,406	5,373,268
	4,343,523	523,240	4,866,763
Expenses:			
General and administrative	1,970,695	305,108	2,275,803
Travel and business development	737,144	7,528	744,672
Stock-based compensation	294,342	–	294,342
	3,002,181	312,636	3,314,817
Income before interest expense, interest income, share of loss of investment in associate and income taxes	\$ 1,341,342	\$ 210,604	\$ 1,551,946

CHANGFENG ENERGY INC.

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

Three-month and nine-month periods ended September 30, 2014 and 2013
(Unaudited)

10. Segmented reporting (continued):

Nine-month period ended September 30, 2014	Gas distribution utilities	CNG refuelling station	Consolidated
Revenue	\$ 29,806,109	\$ 6,443,465	\$ 36,249,574
Cost of sales	13,039,881	5,101,475	18,141,356
	16,766,228	1,341,990	18,108,218
Expenses:			
General and administrative	7,315,786	704,754	8,020,540
Travel and business development	2,575,830	46,141	2,621,971
Stock-based compensation	215,496	46,586	262,082
	10,107,112	797,481	10,904,593
Income before interest expense, interest income, share of loss of investment in associate and income taxes	\$ 6,659,116	\$ 544,509	\$ 7,203,625
Investment in associate	\$ 853,149	\$ –	\$ 853,149
Total assets, September 30, 2014	\$ 84,681,025	\$ 4,352,824	\$ 89,033,849
Total assets, December 31, 2013	79,942,756	3,694,466	83,637,222

CHANGFENG ENERGY INC.

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

Three-month and nine-month periods ended September 30, 2014 and 2013
(Unaudited)

10. Segmented reporting (continued):

Nine-month period ended September 30, 2013	Gas distribution utilities	CNG refuelling station	Consolidated
Revenue	\$ 23,316,930	\$ 5,735,969	\$ 29,052,899
Cost of sales	10,072,401	4,212,774	14,285,175
	13,244,529	1,523,195	14,767,724
Expenses:			
General and administrative	5,927,212	605,940	6,533,152
Travel and business development	2,392,390	30,576	2,422,966
Stock-based compensation	294,342	–	294,342
	8,613,944	636,516	9,250,460
Income before interest expense, interest income, share of loss of investment in associate and income taxes	\$ 4,630,585	\$ 886,679	\$ 5,517,264
Investment in associate	\$ 792,959	\$ –	\$ 792,959
Total assets, September 30, 2013	\$ 72,976,705	\$ 3,095,768	\$ 76,072,473
Total assets, December 31, 2012	58,509,028	2,690,504	61,199,532

Geographic information:

The Company's revenue is wholly generated from China and the majority of its assets are located in China.