CHANGFENG ENERGY INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2009

(Unaudited)

(Expressed in Canadian currency)

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INDEX	PAGE
Interim Unaudited Consolidated Balance Sheet	1
Interim Unaudited Consolidated Statements of Operations and Deficit	2
Interim Unaudited Consolidated Statements of Comprehensive Income	2
Interim Unaudited Consolidated Statements of Cash Flows	3
Notes to the Interim Unaudited Consolidated Financial Statements	4 - 20

INTERIM UNAUDITED CONSOLIDATED BALANCE SHEET
AS AT MARCH 31,

(Expressed in Canadian currency)	March 31, 2009 (Unaudited) $	December 31, 2008 (Audited) $
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	4,432,370	5,477,208
Accounts and sundry receivables	1,311,952	1,350,747
Prepaid expenses, advances and deposits	93,674	111,573
Inventories (Note 5)	828,827	838,989
	6,666,823	7,778,517
PREPAIDS (Note 17)	184,400	-
PLANT AND EQUIPMENT (Note 6)	33,427,900	31,664,018
INTANGIBLE ASSET (Note 7)	368,800	-
FUTURE INCOME TAX	666,098	648,400
	41,314,021	40,090,935
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 11(a))	1,784,718	1,849,610
Deferred revenue	2,982,789	3,156,012
Interest payable (Note 9)	2,517,972	2,337,486
Current portion of long term debt (Note 9)	10,289,520	9,836,600
	17,574,999	17,179,708
LONG TERM DEBT (Note 9)	5,273,840	5,851,700
DUE TO RELATED PARTIES (Note 11(a))	7,296,678	7,180,000
	30,145,517	30,211,408
NON CONTROLLING INTEREST (Note 8)	379,398	20,398
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 10(b))	12,121,808	12,121,808
CONTRIBUTED SURPLUS (Note 10(c))	1,071,231	1,071,231
WARRANTS	321,724	321,724
	13,514,763	13,514,763
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 14)	1,034,513	727,220
DEFICIT	(3,760,170)	(4,382,854)
	(2,725,657)	(3,655,634)
	10,789,106	9,859,129
	41,314,021	40,090,935

GOING CONCERN (Note 1)
ECONOMIC DEPENDENCE (Note 15)
COMMITMENTS (Note 17)

APPROVED ON BEHALF OF THE BOARD:

Signed "Wencheng Zhang", Director

Signed "Jack Duffy", Director

See accompanying notes to the interim unaudited consolidated financial statements.

INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31,

(Expressed in Canadian currency)	2009 $	2008 $
REVENUE	4,336,860	2,966,091
COST OF SALES	1,458,845	1,201,416
GROSS MARGIN	2,878,015	1,764,675
EXPENSES		
General and administrative	1,329,268	737,401
Interest on long term debt (Note 9)	264,661	289,197
Travel and promotion	337,832	269,602
Amortization	293,687	239,966
	2,225,448	1,536,166
Income before the undernoted	652,567	228,509
Interest income	1,496	53,706
	654,063	282,215
Income tax expense	31,379	39,500
NET INCOME FOR THE PERIOD	622,684	242,715
DEFICIT, BEGINNING OF PERIOD	(4,382,854)	(5,301,145)
DEFICIT, END OF PERIOD	(3,760,170)	(5,058,430)
NET INCOME PER SHARE - basic and diluted	0.009	0.005
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
- basic	66,025,000	46,717,308
- diluted	66,095,936	46,717,308

INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31,

(Expressed in Canadian currency)	2009 $	2008 $
NET INCOME FOR THE PERIOD	622,684	242,715
OTHER COMPREHENSIVE INCOME FOR THE PERIOD Currency translation adjustment	307,293	160,024
COMPREHENSIVE INCOME FOR THE PERIOD	929,977	402,739

INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31,

(Expressed in Canadian currency)	2009 $	2008 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	622,684	242,715
Adjustments for:		
Income taxes	31,379	39,500
Amortization	293,687	239,966
	947,750	522,181
Accounts and sundry receivables	72,499	(173,167)
Prepaid expenses, advances and deposits	(161,929)	(19,739)
Inventories	32,670	(70,525)
Accounts payable and accrued liabilities	(52,868)	(381,036)
Deferred revenue	(256,281)	(216,743)
Interest payable	115,285	98,500
Cash flows from operating activities	697,126	(240,529)
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant and equipment	(1,237,084)	(1,137,745)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of interest on convertible debenture (Note 10(b)(ii))	-	(549,797)
Long term debt	(546,600)	(420,600)
Cash acquired on RTO (Note 2)	-	6,718,427
Cash flows from financing activities	(546,600)	5,748,030
Effects of foreign exchange on cash balances	41,720	215,599
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,086,558)	4,585,355
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,477,208	2,597,876
CASH AND CASH EQUIVALENTS, END OF PERIOD	4,432,370	7,183,231

SUPPLEMENTAL INFORMATION		
Interest paid	129,432	190,503
Taxes paid	31,379	-

See accompanying notes to the interim unaudited consolidated financial statements.

1. BASIS OF PRESENTATION AND GOING CONCERN

Changfeng Energy Inc. (the “Company”) was incorporated under the Canada Business Corporation Act on May 4, 2006. The reorganization described in Note 2 was completed on January 29, 2008 and the Company’s core business is the distribution of natural gas in Southern China, mostly in Sanya City of Hainan Province, through its wholly owned subsidiary, Sanya Changfeng Offshore Natural Gas Supply Co., Ltd. (“CF China”). CF China is 100% owned by Hainan Energy Limited (“HEL”) and HEL is 100% owned by the Company.

The Company is a rate regulated natural gas distribution utility, serving residential and commercial customers in Hainan Province, the People’s Republic of China (“PRC”). The rights of operation of a gas pipeline infrastructure and provision of piped gas business in PRC are established by permits obtained from the city and provincial governments. The plant and equipment of the Company consist primarily of pipeline, storage and compression facilities used in the transportation, storage and distribution of natural gas.

On December 18, 2008, the Company established a new company, Hunan Changfeng - CNPC Energy Co. Ltd. ("Hunan CF CNPC"), with a subsidiary of China National Petroleum Corporation (“CNPC”) and its associates to pursue compressed natural gas ("CNG") distribution opportunities in Changsha, a major city in China and capital of Hunan Province. The Company has 58% of the equity interests of Hunan CF CNPC through its newly incorporated, 99.92% owned subsidiary, Sanya Changfeng New Energy Investment Co. Ltd. (“Sanya CF NEI”) and its 60% owned subsidiary Hunan CNPC New Energy Investment Ltd. (see next paragraph) As of March 31, 2009, the Company has made its capital contribution in Hunan CF CNPC and the other parties are required to make their capital contributions by December 2010.

In January 2009, the Company acquired 60% of the equity interest in Hunan CNPC New Energy Investment Ltd. (“Hunan CNPC NEI”), which has a contract with Hunan CNPC Pipeline Gas Co. Ltd., an arm’s length corporation, to purchase 11 million M^3 of CNG a year until September 12, 2027 (see Note 7). The CNG purchased pursuant to this contract will be used to supply the Company’s CNG commercial vehicle filling stations in Changsha City, upon completion of construction.

Substantially all of the assets of the Company, most of which are located in PRC, are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts and permits, currency exchange fluctuations and political uncertainty. The Company’s operations are subject to government legislation, policies and controls relating to transportation, storage, distribution, pricing, environmental protection, taxes and labour standards. In order for the Company to carry out its natural gas distribution activities, the Company is required to hold a business license. CF China’s business license expires January 19, 2056. There is no assurance that the Company’s existing permits will be renewed or that new permits that have been applied for will be granted.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and follow the same accounting policies and methods of application as the audited consolidated financial statements of the Company for the year ended December 31, 2008, except as disclosed in Note 3. They do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Operating results for the period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2009. For further information, see the Company’s audited consolidated financial statements including the notes thereto for the year ended December 31, 2008.

As at March 31, 2009, the Company had a working capital deficiency of $10,908,176. These interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a “going concern”, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. There is no guarantee that at the Company’s current level of operations, it would be able to discharge its liabilities should Sanya State Assets Management Corporation decide to demand repayment of its loan in full (See Note 9(b)). If the “going concern” assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Such adjustments could be material.

2. REVERSE TAKEOVER TRANSACTIONS

Pursuant to an acquisition agreement dated November 28, 2007, the Company issued 32,750,000 common shares to CF Energy (BVI) Limited on January 29, 2008 in consideration for all of the issued and outstanding shares of HEL not otherwise held by the Company. HEL holds a 100% interest in CF China.

Following the transaction, the former shareholder of HEL held more than 50% of the issued and outstanding common shares of the Company. The substance of the transaction was a capital transaction and was accounted for as a reverse takeover in accordance with EIC-10 "Reverse Takeover Accounting" of the Canadian Institute of Chartered Accountants ("CICA") Handbook. HEL, the legal subsidiary is considered to have acquired the assets and liabilities of the Company, the legal parent. Prior to the transaction, the legal parent had outstanding 7,000,000 common shares, 3,750,000 options to purchase common shares at an exercise price of $0.60 per share valued at $1,057,603 (Note 8(c)), and 1,000,000 warrants to purchase common shares at an exercise price of $0.60 valued at $321,724 (Note 8(e)). The 3,750,000 options and 1,000,000 warrants granted by the legal parent were exchanged for an equivalent number of options and warrants of the legal subsidiary. The options and warrants granted by the legal subsidiary were valued at fair value at the time of the reverse takeover, and form part of the cost of the acquisition.

The net assets that were acquired by HEL were as follows:

Cash	$ 6,718,427
Non cash working capital (deficiency)	(309,482)
Advances and deferred costs	766,537
Interest payable	(549,797)
Net assets acquired	$ 6,625,685

Immediately following the HEL reverse take over ("RTO"), the Company and McBroom Resources Inc. ("McBroom") completed their previously announced combination to form Amalco. McBroom filed Articles of Continuance effective January 14, 2008 to continue from the Province of Ontario to the federal jurisdiction of Canada, and McBroom and the Company filed Articles of Amalgamation effective January 29, 2008 to complete the combination, with Amalco issuing one common share for each share of the Company and McBroom outstanding on January 29, 2008. Prior to the transaction, McBroom had 1,775,000 common shares outstanding. In accordance with EIC-10, the substance of the transaction was a capital transaction and was accounted for as a RTO. The Company, the legal subsidiary, was considered to have acquired the assets and liabilities of McBroom, the legal parent.

The net liabilities that were assumed by the Company were as follows:

Non cash working capital (deficiency)	$ (28,831)
Net liabilities assumed	$ (28,831)

As a result of the transactions described above and in accordance with RTO accounting, the interim consolidated financial statements are a continuation of HEL and the comparative figures presented in the interim consolidated financial statements are those of HEL.

Costs related to these transactions of $525,720, were charged to equity during the year ended Dec 31, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with the prior year, except as disclosed below. Outlined below are those policies considered particularly significant.

Basis of Consolidation
The interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries HEL, CF China, its 97.6% interest in Sanya Changfeng Offshore Natural Gas Engineering Construction Co. Ltd.("CF Engineering"), its 99.92% interest in Sanya CF NEI, its 98% interest in Sanya Changfeng Offshore Natural Gas Design Co. Ltd.("CF Design"), its 58% interest in Hunan CF CNPC and its 60% interest in Hunan CNPC NEI. These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. All material intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand and balances with banks, cashable guaranteed investment certificates, and short-term investments with original maturities of three months or less.

Inventories
Inventories, including construction materials, gas appliances and meters, consumables and spare parts are stated at the lower of cost and net realizable value, with cost being determined using the weighted average cost basis.

Plant and Equipment, Construction in Progress and Amortization
Construction in progress represents machinery and pipelines under construction and is stated at cost. Cost comprises directly attributable costs of acquisition or construction, which include capitalized borrowing costs. Assets under construction are not depreciated. Completed items are transferred from construction in progress to proper categories of plant and equipment when they are ready for their intended use. Plant and equipment are recorded at cost. Land use rights were recorded at cost and amortized over the term of the land use rights.

Amortization of plant and equipment is provided at the following annual rates based on their estimated useful lives:

Pipelines	30 - 35 years straight line
Land use rights	50 years straight line
Motor vehicles	3 - 10 years straight line
Furniture and equipment	3 - 20 years straight line
Computer equipment	3 - 5 years straight line

The Company tests its long-lived assets for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Asset Retirement Obligations
The accounting standard for asset retirement obligations, under normal circumstances, requires companies to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be determined. The associated asset retirement cost is capitalized as part of the carrying amount of the long-lived asset. The liability is accreted over the estimated useful life of the asset.

The Company's natural gas distribution network is comprised of mains, service lines, measuring and regulating equipment and storage facilities. The Company estimates that it does not have a material legal retirement obligation with respect to its distribution and supply network.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition
Revenues include revenue from the delivery of natural gas and revenue from the installation and connection of natural gas pipelines for end users. The Company recognizes revenues when gas has been delivered. Gas distribution revenues are recorded on the basis of regular meter readings and estimates of usage since the last meter reading to the end of the reporting period. Revenues of gas are recorded using relatively fixed prices approved by the provincial government.

Gas connection revenue is deferred and only recognized when the outcome of a contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognized on the percentage of completion method, measured by reference to the value of work carried out during the period. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense immediately. Sales of gas appliances are recognized when goods are delivered and title has passed.

As at March 31, 2009, the Company had deferred revenue of $2,982,789 (December 31, 2008 - $3,156,012), with respect to deposits received from customers in excess of the value of work carried out during the period.

Interest income is recorded on an accrual basis.

Income Taxes
The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities. These income tax assets and liabilities are measured using the substantively enacted tax rates in which the income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Entities Subject to Rate Regulation
In May 2005, the CICA issued Accounting Guideline 19 (“AcG-19”) to establish disclosure guidelines for entities subject to rate regulation. AcG-19 provides guidance for the disclosure of general information regarding the nature and economic effects of rate regulation, as well as additional information on how rate regulation has affected the financial statements. The guideline does not address recognition and measurement issues associated with the accounting for rate-regulated operations.

The Company is a rate regulated natural gas distribution utility and operates within Hainan Province, PRC. The utility operation of the Company is subject to regulation. Rate schedules are approved periodically by the provincial government and are designed to permit a fair and reasonable return on the utility investment.

The Company follows Canadian GAAP, which may differ for regulated operations from those otherwise expected in non-regulated businesses. As a result, the Company may record assets and liabilities that result from the regulated rate making process that would not have been recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because future recovery in customer rates is probable. Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred. The Company did not have any rate regulated assets or liabilities as at December 31, 2008, March 31, 2009 and 2008.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation
The Canadian dollar is the functional currency of the parent company's operations, and the Chinese Renminbi or ("RMB") is the functional currency of the Company's subsidiaries. The Canadian dollar has been chosen as the reporting currency of the Company. Since the RMB is not a fully convertible currency, all foreign exchange translations involving RMB must take place either through the People's Bank of China or other institutions authorized to buy and sell foreign exchange.

Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the balance sheet date. The Company's foreign subsidiaries are defined as self-sustaining. Assets and liabilities denominated in RMB are translated into Canadian dollars using the exchange rate in effect on the balance sheet date. Operating revenues and expenses are translated at the average exchange rates during the period. Foreign exchange gains and losses arising from translation of the balances are disclosed separately as comprehensive income or loss. The accumulated foreign exchange gains or losses are reported as a separate component of shareholders' equity as accumulated other comprehensive income or loss.

Stock Based Compensation
The Company records compensation cost based on the fair value method of accounting for stock based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to share capital. The Company's stock option plan is described in Note 10(c).

Income Per Share
Basic income per share is calculated using the weighted average number of shares outstanding. Diluted income per share is calculated using the treasury stock method. In order to determine diluted income per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted income per share calculation. The diluted income per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

Measurement Uncertainty
The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 related reported amounts of revenue and expense during the reporting period. Such estimates and assumptions affect the carrying value and useful lives of assets and affect the valuation of investments, stock based compensation, warrants, and accrued interest with respect to the term loan facility described in Note 9(b) and income tax accounts. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

Government Assistance
Government assistance related to current expenses is recorded as a reduction of these expenses in the period incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income
Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, and foreign currency gains and losses relating to self sustaining foreign operations, all of which are not included in the calculation of net earnings until the period that the related asset or liability affects income.

Transaction Costs
On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166 "Accounting Policy Choice for Transaction Costs" ("EIC-166"). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held for trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held for trading, but that a different accounting policy choice might be made for financial instruments that are not similar. The Company has evaluated the impact of EIC-166 on adoption and determined that no adjustments were required.

Capital Disclosures
CICA Handbook Section 1535 "Capital Disclosures", issued in December 2006, establishes standards for disclosures about capital that are effective for fiscal periods beginning on or after October 1, 2007. It requires an entity to disclose its objectives, policies and processes for managing capital and to disclose quantitative data about what it considers to be capital. It also requires an entity to disclose whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 16 to these interim consolidated financial statements.

Financial Instruments
In December 2006, the Canadian Accounting Standards Board (AcSB) issued two new Sections in relation to financial instruments: Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation. The Company adopted both sections, effective January 1, 2008. The Company has included disclosures recommended by the new Handbook section in Note 12 to these interim consolidated financial statements.

Inventories
In June 2007, the CICA issued section 3031, Inventories to establish standards for the measurement and disclosure of inventories. The standard provides guidance on the determination of cost and requires the allocation of overhead expenses and other costs to inventory. Inventories must be measured at the lower of cost and net realizable value. Consistent use must be made of the method of determining inventory. Reversal of previous write-downs is required when there is a subsequent increase in the value of inventories. The amount of inventories recognized as an expense during the period is disclosed. Except for the new guidance on reversal of write downs the Company's practice for valuing inventory in prior periods was substantially in accordance with this new standard. The Company has adopted this change in accounting policy and the adoption of this standard did not have a material impact on the Company's interim consolidated financial statements.

New Accounting Policies

Rate Regulated Operations
Effective January 1, 2009, the temporary exemption from CICA Handbook Section 1100, "Generally Accepted Accounting Principles", which permits the recognition and measurement of assets and liabilities arising from rate regulation, will be withdrawn. This change did not have a material impact on the Company's interim consolidated financial statements for the period ended March 31, 2009.

Continued...

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Policies (Continued)

Goodwill and Intangible Assets

Intangible assets with definitive useful lives are recorded at their fair value at the acquisition date. Amortization is calculated using the straight-line method for all intangibles over their estimated useful lives. In November 2007, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces the existing Handbook Section 3062, Goodwill and Other Intangible Assets and Handbook Section 3450, Research and Development Costs. This standard was adopted by the Company effective January 1, 2009. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The adoption of this standard did not have a material effect on the Company's interim consolidated financial statements.

EIC 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks.

Future Accounting Changes

Business Combinations
CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company will adopt this standard on January 1, 2011.

Consolidations
CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company will adopt this standard on January 1, 2011.

International Financial Reporting Standards ("IFRS")
In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators ("CSA") has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the (continued) use of US GAAP by domestic issuers. The eventual changeover to IFRS represents changes due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The Company is assessing the potential impacts of this changeover and is developing its IFRS changeover plan, which will include project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential exemptions to the initial adoption of IFRS as permitted by IFRS Statement 1.

Continued...

4. CASH AND CASH EQUIVALENTS

	March 31, 2009 $	December 31, 2008 $
Cash	4,416,066	5,460,904
Cashable guaranteed investment certificate, bearing interest of 1.9%	16,304	16,304
	4,432,370	5,477,208

5. INVENTORIES

	March 31, 2009 $	December 31, 2008 $
Construction materials	540,535	601,571
Gas appliances, meters, and spare parts	258,292	237,418
	828,827	838,989

The amount of inventory recognized as an expense during the three month period ended March 31, 2009 was $544,979 (2008 - $495,829).

6. PLANT AND EQUIPMENT

	March 31, 2009 Cost $	Accumulated Amortization $	March 31, 2009 Net $
Pipelines	33,459,601	6,021,513	27,438,088
Land use rights	1,366,773	286,702	1,080,071
Motor vehicles	837,737	175,057	662,680
Furniture and equipment	355,396	62,293	292,103
Computer equipment	93,987	40,899	53,088
	36,113,494	6,587,464	29,526,030
Construction in progress	3,901,870	-	3,901,870
	40,015,364	6,587,464	33,427,900

	December 31, 2008 Cost $	Accumulated Amortization $	December 31, 2008 Net $
Pipelines	32,302,722	5,623,911	26,678,811
Land use rights	1,330,454	264,197	1,066,257
Motor vehicles	771,710	145,307	626,403
Furniture and equipment	346,164	54,427	291,737
Computer equipment	82,510	34,824	47,686
	34,833,560	6,122,666	28,710,894
Construction in progress	2,953,124	-	2,953,124
	37,786,684	6,122,666	31,664,018

As at March 31, 2009, the Company has four land use rights certificates covering 92,437M² of land. They all have a 50 year term with an expiry date of February 28, 2051. No new land use rights were acquired in 2009.

Included in plant and equipment as at March 31, 2009 is capitalized interest of $105,609 (RMB 572,715) (December 31, 2008 - $102,802; RMB 572,715).

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7. ACQUISITION OF HUNAN CNPC NEI

During the period ended March 31, 2009, the Company acquired a 60% equity interest in Hunan CNPC NEI (Note 1) for cash consideration of $922,000 (RMB 5,000,000). At the time of acquisition, NEI had entered into a contract to purchase CNG. This contract, valued at $368,800 has been reflected as an intangible asset on the balance sheet and will be amortized over the contract period once the CNG stations commence operations. As at March 31, 2009, Hunan CNPC NEI had not commenced operations and its only assets are cash and the CNG contract.

8. NON CONTROLLING INTEREST

Non controlling interest represents remaining equity interests not held by the Company in its subsidiaries as described in Note 3. These interests were recorded at the carrying value of the net assets at the time of the acquisition and adjusted for their share of income and losses incurred after the acquisition. As of March 31, 2009, the carrying value of $379,398 was recorded. Non controlling interest was not separately presented in the income statement and the amount was not adjusted in the balance sheet as the effect from income and losses since the acquisition was minimal.

Continued…

9. LONG-TERM DEBT

	March 31, 2009 $	December 31, 2008 $
a) Term Loan Facility – China Development Bank RMB 32,200,000 (December 31, 2008 – RMB 35,200,000), advanced from the China Development Bank to Sanya State Assets Management Corporation (an intermediary company controlled by the municipality of Sanya City, see Note 9(b), and loaned to the Company, bearing interest at the floating prescribed rate of the People's Bank of China (5.76% as at March 31, 2009 and December 31, 2008) due quarterly, principal repayments commencing February 2008, due November 2012, secured by all pipelines and land use rights of the Company with an estimated net book value as at March 31, 2009 of $28,518,159 (2008 - $27,745,068) and gas distribution rights.	5,937,680	6,318,400
b) Term Loan Facility – Sanya State Assets Management Corporation RMB 42,200,000 (December 31, 2008 – RMB 42,200,000), representing principal repayments of the term loan facility described in Note 9(a) made by Sanya State Assets Management Corporation on behalf of the Company, unsecured, with no fixed terms of repayment. Interest is calculated at the floating prescribed rate of the People's Bank of China (5.76% per annum as at March 31, 2009 and December 31, 2008).	7,781,680	7,574,900
c) Term Loan Facility – Bank of China RMB 10,000,000 (December 31, 2008 - RMB 10,000,000), bears interest at a rate of 110% of the floating prescribed rate of the People's Bank of China prime lending rate (6.336% as at March 31, 2009 and December 31, 2008), interest due monthly with principal repayable in 20 monthly payments of RMB 500,000 ($92,200), commencing April 30, 2011. The interest rate is adjusted semi-annually based on the floating prescribed rate at that time. This loan is secured by gas connection fees.	1,844,000	1,795,000
	15,563,360	15,688,300
Less: current portion	(10,289,520)	(9,836,600)
	5,273,840	5,851,700

Principal payments over successive years ending March 31 are as follows:

	RMB	$
2010	55,800,000	10,289,520
2011	10,600,000	1,705,250
2012	11,000,000	2,028,400
2013	7,000,000	1,290,800
	84,400,000	15,563,360

Continued…

9. LONG-TERM DEBT (Continued)

As at March 31, 2009, the Company had accrued interest of $2,517,972 (RMB 13,654,944) (December 31, 2008 - $2,337,486; RMB 13,022,204) with respect to the loan facilities described in Notes 9(a), (b) and (c). As at December 31, 2008, interest of $Nil was charged on the loan facility described in Note 9(b) as a form of government assistance provided to the Company by Sanya State Assets Management Corporation.

The entire balance of the loan described in Note 9(b) has been classified as current due to the fact that no fixed terms of repayment have been established.

10. CAPITAL STOCK

a) Authorized
Unlimited number of common shares

b) Issued
66,025,000 common shares

Transactions during the periods are as follows:

	Number of Shares	Amount $
Balance, December 31, 2007	100,000	7,430,001
Adjustments to give effect to RTO transactions		
Adjust number of common shares outstanding to that of the legal parent immediately prior to the RTO	6,900,000	-
Share exchange to effect RTO and conversion of subscription receipts (i) and convertible debentures (ii)	59,025,000	5,217,527
RTO transaction costs	-	(525,720)
Balance, December 31, 2008 and March 31, 2009	66,025,000	12,121,808

(i) Immediately prior to the RTO transactions described in Note 2, the legal parent completed a private placement and issued 12,500,000 subscription receipts for gross proceeds of $7,500,000. These subscription receipts were subsequently converted into 12,500,000 common shares for no additional consideration. The legal parent paid cash commission of $600,000 and issued 1,000,000 agents warrants valued at $321,724. The legal parent also incurred additional costs of $585,000 relating to the private placement.

(ii) In 2007, the legal parent issued 12,000,000 common shares upon the conversion of convertible debentures (the "Debentures") at a conversion price of $0.50 per common share. The Debentures were issued by the legal parent during the year ended December 31, 2006 for gross proceeds of $6,000,000 less related costs of $314,530. The Debentures bore simple interest at an annual rate of 12% of the principal amount payable upon the earlier of:

i. the conversion of the Debentures; and
ii. May 19, 2012.

On January 29, 2008, the Company paid interest of $549,797 to the Debenture holders in full settlement of the interest payable, upon conversion of the Debentures.

Continued…

10. CAPITAL STOCK (Continued)

c) Stock Options and Contributed Surplus

The maximum number of shares reserved for issuance under the stock option plan was increased to 6,600,000. The options are non assignable and may be granted for a term not exceeding ten years. The exercise price is fixed by the board of directors of the Company at the time of grant, subject to all applicable regulatory requirements.

A continuity of stock options is as follows:

	Number of Stock Options Issued and Exercisable	Weighted Average Exercise Price	Expiry Date
	#	$	
Balance, December 31, 2007	-	-	
Options granted by legal parent prior to RTO	3,750,000	0.60	January 22, 2013
Options granted in 2008	50,000	0.60	August 25, 2013
Balance, December 31, 2008 and March 31, 2009 (See Note 10(d))	3,800,000	0.60	

A continuity of contributed surplus is as follows:

	Balance
	$
Balance, December 31, 2007	-
Options granted by legal parent prior to RTO	1,057,603
Options granted in 2008	13,628
Balance, December 31, 2008 and March 31, 2009	1,071,231

d) Shares and Options Held in Escrow

Pursuant to Escrow Agreements entered into during the year ended December 31, 2008, 36,725,000 common shares of the Company and 1,750,000 options issued to certain officers and directors of the Company were held in escrow and released as follows: one quarter were released on February 4, 2008, the date on which the common shares were listed on a Canadian stock exchange; one third of the remaining securities were released six months following the listing date; one half of the remaining securities will be released twelve months following the listing date; and the remaining securities will be released 18 months following the listing date. As at March 31, 2009, 9,181,250 common shares and 437,500 options remained in escrow.

11. RELATED PARTY TRANSACTIONS

(a) Due to related parties

During the year ended December 31, 2007, a significant shareholder, who is also an officer and director of the Company advanced loans in the aggregate amount of RMB 40,000,000 (March 31, 2009 $7,376,000) (December 31, 2008 - $7,180,000) 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 subordinate to the claims of all other creditors, including unsecured creditors, of the Company, and are due on demand; however, the lender cannot demand the repayment of the loans at any time until April 27, 2010. 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 every three years, in perpetuity.

This individual owns 2.4% of the equity in CF Engineering through a corporation which the individual controls.

Continued…

11. RELATED PARTY TRANSACTIONS (Continued)

A corporation controlled by this same individual owed the Company a total of US$62,889 (Cdn$79,322) as at March 31, 2009 (December 31, 2008 – US$62,889(Cdn$76,599)) for various expenditures paid by the Company on behalf of this corporation. This amount is unsecured, non-interest bearing with no fixed terms of repayment. The amount was recorded against the loan described above under due to related parties.

In addition, the Company owed this individual $145,665 for unpaid salary which amount is included in accounts payable. This amount is unsecured, non-interest bearing with no fixed terms of repayment. This transaction was in the normal course of operations and was measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

12. FINANCIAL INSTRUMENTS

Fair Value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash and cash equivalents, accounts and sundry receivables, advances, accounts payable and accrued liabilities, short-term loans, and interest payable on the balance sheet approximate fair value because of the limited term of these instruments. It is not practicable to estimate the fair value of the amounts due to related parties.

The fair value of long-term debt described in Note 9 approximates carrying value since interest is charged on a floating rate basis, based on the rate of interest as prescribed by the People's Bank of China.

Financial Risk Factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(a) Foreign Exchange Risk

Substantially all of the assets, liabilities and operations of the Company are denominated in Chinese RMB. RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally and supply and demand of RMB. The appreciation or devaluation of RMB against the Canadian dollar may have positive or negative impact on the results of operations of the Company.

As at March 31, 2009, the Company held foreign currency cash and cash equivalents of RMB 18,854,414 ($3,476,754) (December 31, 2008 – RMB 18,046,198 ($3,239,293)).

(b) Regulatory Risks and Uncertainties

The price of natural gas charged by CF China for the supply of natural gas to its customers is fixed by the local state price bureau. Any increase in gas usage charges exceeding the original approved charge requires the approval of the local state price bureau. There is no assurance that any increases, except for an increase to offset the rise in the Company's purchase price of natural gas, will be approved.

Continued…

12. FINANCIAL INSTRUMENTS (Continued)

Financial Risk Factors (Continued)

Connection fees chargeable by CF China require the approval of the local state price bureau. There is no assurance that CF China will be able to obtain approvals from the relevant state price bureau for an increase in connection fees, which may in turn adversely affect the profits of CF China. Since the price of natural gas and connection fees are all regulated by the local government, the price fluctuation risk is considered minimal.

(c) Interest Rate Risk
The Company has cash balances and interest bearing debt. The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company's interest rate on its debt is based upon the prescribed rate of the People's Bank of China which is subject to fluctuation and may result in an increase or decrease in interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

As at March 31, 2009, the Company had variable interest rate term loan facilities in the aggregate of $15,563,360 (December 31, 2008 - $15,688,300) as described in Note 9.

(d) Credit Risk
Credit risk arises from exposure to customers including outstanding accounts receivable. Historically, the Company has not had collection issues associated with its receivables and the aging of receivables is reviewed on a regular basis to ensure the timely collection of amounts owing to the Company. The Company manages its credit risk by entering into purchase and connection agreements with creditworthy parties and through regular review of accounts receivable. Payments are usually required in advance for gas purchases and connection services. The maximum exposure to credit risk is represented by the net carrying amount of these financial assets. Management believes that the credit risk concentration with respect to financial instruments included in other assets is remote.

(e) Liquidity Risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The contractual maturities of the Company's long term financial liabilities are described in Note 9 and the remaining financial liabilities consisting of accounts payable are expected to be realized within one year. As at March 31, 2009, the Company had a cash and cash equivalents balance of $4,432,370 (December 31, 2008 - $5,477,208), to settle current liabilities of $17,574,999 (December 31, 2008 - $17,179,708). The Company has classified the loan from Sanya State Assets Management Corporation as current since no fixed terms of repayment have been established (see Note 9(b)).

(f) Sensitivity Analysis
The Company has designated its cash and cash equivalents as held for trading, which are measured at fair value. Financial instruments included in other assets are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, short-term loans and long-term debt are classified as other financial liabilities, which are measured at amortized cost. As at March 31, 2009, the carrying and fair value amounts of the Company's financial instruments are approximately the same.

A 1% increase or decrease in the average interest rate charged on the term loan facilities described in Note 9 for the three months periods ended March 31, 2009 would have had the following impact on the Company's net income.

	Impact on Net Income
Interest rate +1%	$ 39,000
Interest rate -1%	($39,000)

Continued…

13. SEGMENTED INFORMATION

For management purposes, the Company is currently organized into two operating divisions: gas connections and piped gas sales. These principal operating activities are the basis on which the Company reports its primary segment information. Expenses and assets of non-operational divisions are allocated to the gas connection and piped gas sales divisions based on their portion of consolidated revenue. Transactions between reportable segments, namely the transfer of certain pipeline assets from the gas connection segment to the piped gas sale segment, have been accounted for based on the carrying values of the assets transferred. The gas connection and piped gas sales operating divisions are based in the PRC.

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2009

	Gas Connection	Piped Gas Sales	Consolidated
	$	$	$
REVENUE	1,425,215	2,911,645	4,336,860
COST OF SALES	727,024	731,821	1,458,845
	698,191	2,179,824	2,878,015
EXPENSES			
General and administrative	465,924	863,344	1,329,268
Interest on long-term debt	-	264,661	264,661
Travel and promotion	130,251	207,581	337,832
Amortization	9,442	284,245	293,687
	605,617	1,619,831	2,225,448
Income before the under-noted	92,574	559,993	652,567
Interest income	492	1,004	1,496
	93,066	560,997	654,063
Income tax expenses	31,379	-	31,379
NET INCOME FOR THE PERIOD	61,687	560,997	622,684
ACQUISITION OF PLANT AND EQUIPMENT DURING THE PERIOD	56,226	1,180,858	1,237,084
AS AT MARCH 31, 2009			
ASSETS	2,789,795	38,524,227	41,314,021

Substantially all of the Company's assets are located in the PRC. As at March 31, 2009, there was cash of $764,723 (December 31, 2008 - $973,250) and other current assets of $96,878 (December 31, 2008 - $102,084) held in Canada.

Continued…

13. SEGMENTED INFORMATION (Continued)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2008

	Gas Connection	Piped Gas Sales	Consolidated
	$	$	$
REVENUE	1,201,480	1,764,611	2,966,091
COST OF SALES	766,695	434,721	1,201,416
	434,785	1,329,890	1,764,675
EXPENSES			
General and administrative	304,627	432,774	737,401
Interest on long-term debt	-	289,197	289,197
Travel and promotion	133,368	136,234	269,602
Amortization	4,019	235,947	239,966
	442,014	1,094,152	1,536,166
Income before the under-noted	(7,229)	235,738	228,509
Interest income	21,755	31,951	53,706
	14,526	267,689	282,215
Income tax expenses	315	39,185	39,500
NET INCOME FOR THE PERIOD	14,211	228,504	242,715
ACQUISITION OF PLANT AND EQUIPMENT DURING THE PERIOD	2,483	1,135,263	1,137,745
AS AT MARCH 31, 2008 ASSETS	2,253,953	31,438,647	33,692,600

Substantially all of the Company's assets are located in the PRC as of March 31, 2008.

14. ACCUMULATED OTHER COMPREHENSIVE INCOME

	March 31, 2009 (Unaudited)	December 31, 2008 (Audited)
	$	$
Balance, at the beginning of the period	727,220	(460,613)
Currency translation adjustment during the period	307,293	1,187,833
Balance, at the end of the period	1,034,513	727,220

15. ECONOMIC DEPENDENCE

Currently, one gas field in the South China Sea supplies all of the Company's natural gas. There may be no alternative supply in the short-term. Interruption of this gas field could affect the Company's ability to operate. Currently, the Company has a contract to purchase up to 24 million M^3 gas a year (which represents less than 1% of the field's total capacity) from this supplier until March 31, 2015. There is no certainty that the Company will be able to purchase gas in excess of this amount from this gas field. The Company is currently exploring other possible sources of natural gas.

16. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of share capital, contributed surplus and warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the ongoing operations of the business. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended March 31, 2009.

17. COMMITMENTS

Statutory Reserves

In accordance with PRC Company Law, CF China is required to provide for certain statutory reserves commencing from the year it reports retained earnings. Prior to June 6, 2007, as a domestic limited liability company, CF China was required to allocate at least 10% of its after tax profits to a statutory surplus reserve with the right to discontinue allocations to the statutory surplus reserve if such reserves reach 50% of its registered capital. CF China was also required to appropriate 5% of after tax profit to a statutory welfare reserve to be used only for the collective benefits of CF China's employees. All statutory reserves are required to be calculated based on amounts reported in CF China's PRC statutory financial statements under China GAAP. Effective from June 6, 2007, as CF China became a foreign invested enterprise ("FIE"), in accordance with PRC Company Law for FIEs, CF China is required to provide for a surplus reserve fund, enterprise development fund, and employee welfare fund, each at a percentage of after tax profits, which is a discretionary percentage and is decided by the CF China's board of directors each calendar year. These reserves can only be used for specific purposes and are not transferred to the Company in the form of loans, advances, or cash dividends. These reserves can be distributed to the shareholder of CF China at the time when CF China is wound up.

As of March 31, 2009, CF China had not appropriated RMB to the above statutory reserve funds as CF China has not yet reported retained earnings.

Haitang Bay Pipeline Construction

The Company has signed eight contracts with a sub-contractor and other relevant suppliers to construct pipelines to extend to the Haitang Bay area of Sanya City, for a total contract amount of RMB 20,893,429 ($3,852,748), of which RMB 15,666,868 ($2,888,970) was incurred as at March 31, 2009 and included in construction in progress. The contracts are expected to be completed by August 31, 2009.

Purchase Commitments

See Note 15.

In connection with the CNG contract described in Note 7, the Company is required to pay a one time charge of RMB 3,000,000 ($553,200) in addition to the price of the gas. As of March 31, 2009, RMB 1,000,000 ($184,400) has been paid.