CHANGFENG ENERGY INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2009

(Unaudited)

(Expressed in Canadian currency)

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INTERIM UNAUDITED CONSOLIDATED BALANCE SHEET

AS AT JUNE 30, 2009

(Expressed in Canadian currency)	June 30, 2009 $	December 31, 2008 $
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	4,332,507	5,477,208
Accounts and sundry receivables	1,398,631	1,350,747
Prepaid expenses, advances and deposits	186,961	111,573
Inventories (Note 5)	664,437	838,989
	6,582,536	7,778,517
PREPAIDS (Note 16)	187,220	-
PLANT AND EQUIPMENT (Note 6)	30,985,687	31,664,018
INTANGIBLE ASSET (Note 7)	453,867	-
FUTURE INCOME TAX	614,804	648,400
	38,824,114	40,090,935
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 11(a))	1,723,183	1,849,610
Deferred revenue	3,597,262	3,156,012
Interest payable (Note 9)	2,425,000	2,337,486
Current portion of long term debt (Note 9)	9,326,960	9,836,600
	17,072,405	17,179,708
LONG TERM DEBT (Note 9)	4,272,020	5,851,700
DUE TO RELATED PARTIES (Note 11(a))	6,808,000	7,180,000
FUTURE INCOME TAX LIABILITY (Note 7)	113,467	-
	28,265,892	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))	1,190,509	1,071,231
WARRANTS	321,724	321,724
	13,634,041	13,514,763
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 13)	176,649	727,220
DEFICIT	(3,631,866)	(4,382,854)
	(3,455,217)	(3,655,634)
	10,178,824	9,859,129
	38,824,114	40,090,935

GOING CONCERN (Note 1)
ECONOMIC DEPENDENCE (Note 14)
COMMITMENTS (Note 16)

APPROVED ON BEHALF OF THE BOARD:

Signed “Wencheng Zhang”, Director

Signed “Peter Cheung” , Director

See accompanying notes to the interim unaudited consolidated financial statements.

INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2009

	Three month period ended		Six month period ended	
(Expressed in Canadian currency)	June 30, 2009 (unaudited)	June 30, 2008	June 30, 2009 (unaudited)	June 30, 2008
REVENUE	3,742,368	2,967,558	8,079,228	5,933,649
COST OF SALES	1,420,310	1,361,464	2,879,155	2,562,880
GROSS MARGIN	2,322,058	1,606,094	5,200,073	3,370,769
EXPENSES				
General and administrative	1,317,120	911,280	2,646,387	1,648,681
Interest on long term debt (Note 9)	214,677	212,460	479,338	501,657
Travel and promotion	229,358	262,634	567,191	532,236
Amortization	276,606	192,369	570,293	432,335
Stock based compensation (Note 10(c))	119,278	-	119,278	-
	2,157,039	1,578,743	4,382,487	3,114,909
Income before the undernoted	165,019	27,351	817,586	255,860
Interest income	5,716	2,286	7,212	55,992
	170,735	29,637	824,798	311,852
Income tax expense	(42,431)	(28,100)	(73,810)	(67,600)
NET INCOME FOR THE PERIOD	128,304	1,537	750,988	244,252
DEFICIT, BEGINNING OF PERIOD	(3,760,170)	(5,058,430)	(4,382,854)	(5,301,145)
DEFICIT, END OF PERIOD	(3,631,866)	(5,056,893)	(3,631,866)	(5,056,893)
NET INCOME PER SHARE – basic and diluted	0.002	0.000	0.011	0.004
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING –				
basic	66,025,000	66,025,000	66,025,000	60,905,769
diluted	66,025,000	66,061,826	66,025,000	60,966,912

INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2009

	Three month period ended		Six month period ended	
(Expressed in Canadian currency)	June 30, 2009 (unaudited)	June 30, 2008	June 30, 2009 (unaudited)	June 30, 2008
NET INCOME FOR THE PERIOD	128,304	1,537	750,988	244,252
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD				
Currency translation adjustment	(857,864)	81,026	(550,571)	241,120
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	(729,560)	82,563	200,417	485,372

See accompanying notes to the interim unaudited consolidated financial statements.

INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30,

(Expressed in Canadian currency)	Three month period ended June 30, 2009 (unaudited)	Three month period ended June 30, 2008 (unaudited)	Six month period ended June 30, 2009 (unaudited)	Six month period ended June 30, 2008 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income for the period	128,304	1,537	750,988	244,252
Adjustments for:				
Income taxes	42,431	28,100	73,810	67,600
Amortization	276,606	192,369	570,293	432,335
Stock based compensation	119,278	-	119,278	-
	566,619	222,006	1,514,369	744,187
Changes in non cash working capital balances				
Accounts and sundry receivables	(189,443)	(105,540)	(116,944)	(278,707)
Prepaid expenses, advances and deposits	(115,884)	109,979	(277,813)	90,240
Inventories	103,266	(42,817)	135,936	(113,342)
Accounts payable and accrued liabilities	(123,423)	(51,969)	(176,291)	(433,005)
Deferred revenue	883,432	101,450	627,151	(115,293)
Interest payable	101,057	(23,921)	216,342	74,579
Cash flows from operating activities	1,225,624	209,188	1,922,750	(31,341)
CASH FLOWS FROM INVESTING ACTIVITIES				
Plant and equipment	(333,498)	(492,217)	(1,570,582)	(1,629,962)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of interest on convertible debenture	-	-	-	(549,797)
Long term debt	(777,150)	(649,650)	(1,323,750)	(1,070,250)
Cash acquired on RTO	-	-	-	6,718,427
Cash flows from financing activities	(777,150)	(649,650)	(1,323,750)	5,098,380
Effects of foreign exchange on cash balances	(214,839)	(109,577)	(173,119)	106,022
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(99,863)	(1,042,2	(1,144,701)	3,543,099
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,432,370	7,183,2	5,477,208	2,597,876
CASH AND CASH EQUIVALENTS, END OF PERIOD	4,332,507	6,140,975	4,332,507	6,140,975
SUPPLEMENTAL INFORMATION				
Interest paid	104,445	251,078	233,877	441,581
Taxes paid	42,431		73,810	-

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. A reorganization 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 June 30, 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 2. 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 June 30, 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 June 30, 2009, the Company had a working capital deficiency of $10,489,869. 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. 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.

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 June 30, 2009.

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.

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.

Future Accounting Changes (Continued)

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.

3. 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, 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 June 30, 2009, the Company held foreign currency cash and cash equivalents of RMB 21,341,881 ($3,632,388) (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.

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.

(Expressed in Canadian currency)

3. FINANCIAL INSTRUMENTS (Continued)

(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 June 30, 2009, the Company had variable interest rate term loan facilities in the aggregate of $13,598,980 (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 June 30, 2009, the Company had a cash and cash equivalents balance of $4,332,507 (December 31, 2008 - $5,477,208), to settle current liabilities of $17,072,405 (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 and long-term debt are classified as other financial liabilities, which are measured at amortized cost. As at June 30, 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 six months periods ended June 30, 2009 would have had the following impact on the Company's net income.

	Impact on Net Income
Interest rate +1%	$ 74,000
Interest rate -1%	($74,000)

(Expressed in Canadian currency)

4. CASH AND CASH EQUIVALENTS

	June 30, 2009 $	December 31, 2008 $
Cash	4,332,507	5,460,904
Cashable guaranteed investment certificate, bearing interest of 1.9%	-	16,304
	4,332,507	5,477,208

5. INVENTORIES

	June 30, 2009 $	December 31, 2008 $
Construction materials	483,565	601,571
Gas appliances, meters, and spare parts	180,872	237,418
	664,437	838,989

The amount of inventory recognized as an expense during the six-month period ended June 30, 2009 was $1,102,541 (2008 - $1,079,766).

6. PLANT AND EQUIPMENT

	June 30, 2009 Cost $	Accumulated Amortization $	June 30, 2009 Net $
Pipelines	31,021,182	5,789,949	25,231,233
Land use rights	1,261,522	273,001	988,521
Motor vehicles	773,226	185,780	587,446
Furniture and equipment	334,903	66,035	268,868
Computer equipment	94,875	42,919	51,956
	33,485,708	6,357,684	27,128,024
Construction in progress	3,857,663	-	3,857,663
	37,343,371	6,357,944	30,985,687

	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 June 30, 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 June 30, 2009 is capitalized interest of $97,476 (RMB 572,715) (December 31, 2008 - $102,802; RMB 572,715).

(Expressed in Canadian currency)

7. ACQUISITION OF HUNAN CNPC NEI

During the period ended June 30, 2009, the Company acquired a 60% equity interest in Hunan CNPC NEI (Note 1) for cash consideration of $851,000 (RMB 5,000,000). At the time of acquisition, Hunan CNPC NEI had entered into a contract to purchase CNG. This contract, valued at $340,400, plus a related future tax liability of $113,467 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 June 30, 2009, Hunan CNPC NEI had not commenced operations and its only assets are cash and the CNG contract. The assets acquired as at the date of acquisition are as follow:

Cash	$ 510,600
CNG purchase contract	453,867
Future tax liability	(113,467)
Cash consideration paid	$ 851,000

8. NON CONTROLLING INTEREST

Non controlling interest represents remaining equity interests not held by the Company in its subsidiaries. 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. 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.

(Expressed in Canadian currency)

9. LONG-TERM DEBT

	June 30, 2009 $	December 31, 2008 $
a) Term Loan Facility – China Development Bank RMB 27,700,000 (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 June 30, 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 June 30, 2009 of $26,219,754 (2008 - $27,745,068) and gas distribution rights.	4,714,540	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 June 30, 2009 and December 31, 2008).	7,182,440	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 June 30, 2009 and December 31, 2008), interest due monthly with principal repayable in 20 monthly payments of RMB 500,000 ($85,100), 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.	1,702,000	1,795,000
	13,598,980	15,688,300
Less: current portion	(9,326,960)	(9,836,600)
	4,272,020	5,851,700

Principal payments over successive years ending June 30 are as follows:

	RMB	$
2010	54,800,000	9,326,960
2011	10,100,000	1,719,020
2012	11,000,000	1,872,200
2013	4,000,000	680,800
	79,900,000	13,598,980

(Expressed in Canadian currency)

9. LONG-TERM DEBT (Continued)

As at June 30, 2009, the Company had accrued interest of $2,425,000 (RMB 14,247,940) (December 31, 2008 - $2,337,486; RMB 13,022,204) with respect to the loan facilities described in Notes 9(a), (b) and (c).

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 June 30, 2009	66,025,000	12,121,808

(i) Immediately prior to the RTO transactions in 2008, 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.

(Expressed in Canadian currency)

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.

On June 29, 2009, the Company granted options to new directors of the Company to acquire 400,000 common shares of the Company at an exercise price of $0.55 per share on or before June 29, 2014. The options vested immediately. The fair value of the options granted was estimated as $119,278 at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield	0%
Expected volatility	74%
Risk free interest rate	2.5%
Expected life	60 months

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 prior to RTO	3,750,000	0.60	January 22, 2013
Granted	50,000	0.60	August 25, 2013
Balance, December 31, 2008	3,800,000	0.60	
Granted	400,000	0.55	June 28, 2014
Balance, June 30, 2009	4,200,000	0.60	

A continuity of contributed surplus is as follows:	Balance
	$
Balance, December 31, 2007	-
Options granted prior to RTO	1,057,603
Options granted	13,628
Balance, December 31, 2008	1,071,231
Options granted	119,278
Balance, June 30, 2009	1,190,509

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 were released twelve months following the listing date; and the remaining securities will be released 18 months following the listing date. As at June 30, 2009, 9,181,250 common shares and 437,500 options remained in escrow.

On August 4, 2009 the 9,181,250 common shares and 437,500 options were released from escrow. See Note 18.

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 (June 30, 2009 - $6,808,000) (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, a subsidiary of CF China, through a corporation which the individual controls.

A corporation controlled by this same individual owed the Company a total of US$70,829 (Cdn$82,374) as at June 30, 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 is included in accounts receivables.

In addition, the Company owed this individual $183,165 for unpaid salary which amount is included in accounts payable as at June 30, 2009. The Company also had unpaid directors' fees of $14,600 included in accounts payable. These amounts are unsecured, non-interest bearing with no fixed terms of repayment. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(Expressed in Canadian currency)

12. 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 SIX MONTH PERIOD ENDED JUNE 30, 2009

	Gas Connection	Piped Gas Sales	Consolidated
	$	$	$
REVENUE	2,682,019	5,397,209	8,079,228
COST OF SALES	1,515,210	1,363,945	2,879,155
	1,166,809	4,033,264	5,200,073
EXPENSES			
General and administrative	990,901	1,655,486	2,646,387
Interest on long-term debt	-	479,338	479,338
Travel and promotion	221,680	345,511	567,191
Amortization	18,086	552,207	570,293
Stock based compensation	39,596	79,682	119,278
	1,270,263	3,112,224	4,382,487
(Loss) Income before the under-noted	(103,454)	921,040	817,586
Interest income	2,394	4,818	7,212
	(101,060)	925,858	824,798
Income tax expenses	(73,810)	-	(73,810)
NET (LOSS) INCOME FOR THE PERIOD	(174,870)	925,858	750,988
ACQUISITION OF PLANT AND EQUIPMENT DURING THE PERIOD	76,460	1,494,122	1,570,582
AS AT JUNE 30, 2009			
ASSETS	3,265,718	35,558,396	38,824,114

Substantially all of the Company's assets are located in the PRC. As at June 30, 2009, there was cash of $665,846 (December 31, 2008 - $973,250) and other current assets of $110,454 (December 31, 2008 - $102,084) held in Canada.

(Expressed in Canadian currency)

12. SEGMENTED INFORMATION (Continued)

FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2009

	Gas Connection	Piped Gas Sales	Consolidated
	$	$	$
REVENUE	1,256,804	2,485,564	3,742,368
COST OF SALES	788,186	632,124	1,420,310
	468,618	1,853,440	2,322,058
EXPENSES			
General and administrative	524,977	792,143	1,317,120
Interest on long-term debt	-	214,677	214,677
Travel and promotion	91,428	137,930	229,358
Amortization	8,644	267,962	276,606
Stock based compensation	39,596	79,682	119,278
	664,645	1,492,394	2,157,039
(Loss) Income before the under-noted	(196,027)	361,046	165,019
Interest income	1,902	3,814	5,716
	(194,125)	364,860	170,735
Income tax expenses	(42,431)	-	(42,431)
NET (LOSS) INCOME FOR THE PERIOD	(236,556)	364,860	128,304
ACQUISITION OF PLANT AND EQUIPMENT DURING THE PERIOD	20,234	313,264	333,498

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2008

	Gas Connection	Piped Gas Sales	Consolidated
	$	$	$
REVENUE	2,593,734	3,339,915	5,933,649
COST OF SALES	1,752,866	810,014	2,562,880
	840,868	2,529,901	3,370,769
EXPENSES			
General and administrative	575,113	1,073,568	1,648,681
Interest on long-term debt	-	501,657	501,657
Travel and promotion	213,928	318,308	532,236
Amortization	13,079	419,256	432,335
	802,120	2,312,789	3,114,909
Income before the under-noted	38,748	217,112	255,860
Interest income	24,469	31,523	55,992
	63,217	248,635	311,852
Income tax expenses	(9,800)	(57,800)	(67,600)
NET INCOME FOR THE PERIOD	53,417	190,835	244,252
ACQUISITION OF PLANT AND EQUIPMENT DURING THE PERIOD	19,147	1,610,815	1,629,962
AS AT JUNE 30, 2008 ASSETS	2,167,724	31,145,917	33,313,641

Substantially all of the Company’s assets were located in the PRC as of June 30, 2008.

12. SEGMENTED INFORMATION (Continued)

FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2008

	Gas Connection	Piped Gas Sales	Consolidated
	$	$	$
REVENUE	1,392,254	1,575,304	2,967,558
COST OF SALES	986,171	375,293	1,361,464
	406,083	1,200,011	1,606,094
EXPENSES			
General and administrative	269,511	641,769	911,280
Interest on long-term debt	-	212,460	212,460
Travel and promotion	81,671	180,963	262,634
Amortization	9,060	183,309	192,369
	360,242	1,218,501	1,578,743
Income before the under-noted	45,842	(18,491)	27,351
Interest income	1,072	1,214	2,286
	46,914	(17,277)	29,637
Income tax expenses	(9,485)	(18,615)	(28,100)
NET INCOME FOR THE PERIOD	37,429	(35,892)	1,537
ACQUISITION OF PLANT AND EQUIPMENT DURING THE PERIOD	2,482	489,735	492,217

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

	June 30, 2009	December 31, 2008
	$	$
Balance, at the beginning of the period	727,220	(460,613)
Currency translation adjustment during the period	(550,571)	1,187,833
Balance, at the end of the period	176,649	727,220

14. 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 June 30, 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.

15. 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 June 30, 2009.

16. 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 designate 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 June 30, 2009, CF China had not designated 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 ($3,556,062), of which RMB 16,690,262 ($2,840,683) was incurred as at June 30, 2009 and included in construction in progress.

Purchase Commitments

See Note 14.

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 ($510,600) in addition to the price of the gas. As of June 30, 2009, RMB 500,000 ($85,100) has been paid with the balance payable at the time the gas is first supplied.

In addition, the Company has acquired a gas purchase contract from a third party to purchase 10,000 M^3 of CNG per day (365,000,000 M^3 per year) until September 12, 2027. As consideration for the rights to this contract, the Company made a deposit of RMB100,000 ($17,020) and a cash payment of RMB 500,000 ($85,100) and will be required to pay a further one-time payment of RMB400,000 ($68,080) at the time the gas is first supplied.

Lease Commitment

The Company signed a lease agreement for 3,000 M^2 of land for construction of the CNG gas station. The lease term is for 20 years until October 2028. The annual rent is RMB 470,000 ($79,994) of which a deposit of RMB 100,000 ($17,020) and four years' rent (RMB 1,880,000 or $319,976) need to be made in advance. As at June 30, 2009, the Company has paid RMB 700,000 ($119,140).

17. COMPARATIVE FIGURES

Certain 2008 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2009.

18. SUBSEQUENT EVENTS

Subsequent to June 30, 2009, all remaining shares and options held in Escrow (Note 10(d)) were released.

19. SEASONALITY OF OPERATIONS

Seasonality can impact the Company's piped gas sales. The Company's current operations are located mainly in Sanya City, a tourist city in the PRC's only tropical province that attracts more tourists in winter and spring than the rest of the year. As a large portion of the Company's gas sales are made to hotels, the Company's sales are affected by the tourism season. The city is also a popular tourist destination for short stays so that during the days when the country has long public holidays gas sales are usually higher.