CHANGFENG ENERGY INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2010 AND 2009

(Unaudited)

(Expressed in Canadian currency)

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INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010 AND 2009

(Unaudited)

(Expressed in Canadian currency)

CHANGFENG ENERGY INC.
UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS
AS AT

(Expressed in Canadian currency)	March 31, 2010 $	December 31, 2009 $
ASSETS		
CURRENT		
Cash and cash equivalents	6,664,930	3,782,250
Accounts and sundry receivables	1,043,355	1,305,244
Prepaid expenses, advances and deposits	397,629	299,660
Inventories (Note 5)	555,270	581,570
	8,661,184	5,968,724
PREPAID EXPENSES AND DEPOSITS (Note 7)	986,207	307,662
PLANT AND EQUIPMENT (Note 6)	30,681,788	29,213,765
INTANGIBLE ASSET	396,800	408,800
FUTURE INCOME TAX ASSETS	164,856	169,840
	40,890,835	36,068,791
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 10)	1,915,522	2,837,830
Deferred revenue (Note 2)	3,527,534	3,586,710
Interest payable (Note 8)	1,937,704	1,996,304
Current portion of long term debt (Note 8)	1,726,080	1,931,580
	9,106,840	10,352,424
LONG TERM DEBT (Note 8)	15,638,582	9,535,260
DUE TO RELATED PARTIES (Note 10)	5,952,000	6,132,000
FUTURE INCOME TAX LIABILITY	72,416	74,600
	30,769,838	26,094,284
NON CONTROLLING INTERESTS	318,432	379,397
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 9(b))	12,121,808	12,121,808
CONTRIBUTED SURPLUS (Note 9(c))	1,512,233	1,190,509
WARRANTS (Note 9(c))	-	321,724
	13,634,041	13,634,041
ACCUMULATED OTHER COMPREHENSIVE (LOSS) (Note 12)	(1,017,021)	(778,791)
DEFICIT	(2,814,455)	(3,260,140)
	(3,831,476)	(4,038,931)
	9,802,565	9,595,110
	40,890,835	36,068,791

GOING CONCERN (Note 1)
ECONOMIC DEPENDENCE (Note 13)
COMMITMENTS AND CONTINGENCIES (Note 14)

APPROVED ON BEHALF OF THE BOARD:

Signed “Wencheng Zhang” Director

Signed “Peter Cheung” , Director

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

(Expressed in Canadian currency)	2010 $	2009 $
REVENUE	5,089,456	4,336,860
COST OF SALES	1,917,615	1,458,845
GROSS MARGIN	3,171,841	2,878,015
EXPENSES		
General and administrative	1,428,968	1,329,268
Interest on long term debt (Note 8)	137,693	264,661
Travel and business development	852,601	337,832
Amortization	266,914	293,687
	2,686,176	2,225,448
Income before the undernoted	485,665	652,567
Interest income	1,935	1,496
Income before tax	487,600	654,063
Income tax expense	41,915	31,379
NET INCOME FOR THE PERIOD	445,685	622,684
DEFICIT, BEGINNING OF PERIOD	(3,260,140)	(4,382,854)
DEFICIT, END OF PERIOD	(2,814,455)	(3,760,170)
NET INCOME PER SHARE - basic and diluted	0.007	0.009
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
- basic	66,025,000	66,025,000
- diluted	66,025,000	66,095,936

INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

(Expressed in Canadian currency)	2010 $	2009 $
NET INCOME FOR THE PERIOD	445,685	622,684
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD		
Currency translation adjustment	(238,230)	307,293
COMPREHENSIVE INCOME FOR THE PERIOD	207,455	929,977

See accompanying notes to the interim unaudited consolidated financial statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31,

(Expressed in Canadian currency)	2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for the period	445,685	622,684
Adjustments for:		
Income taxes	-	31,379
Amortization	266,914	293,687
Long term debt accretion	7,761	-
	720,360	947,750
Accounts and sundry receivables	231,913	72,499
Prepaid expenses, advances and deposits	(159,667)	(161,929)
Inventories	9,448	32,670
Accounts payable and accrued liabilities	(869,483)	(52,868)
Deferred revenue	47,194	(256,281)
Interest payable	-	115,285
Cash flows from operating activities	(20,235)	697,126
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant and equipment	(2,640,020)	(1,237,084)
Prepaid expenses, advances and deposits	(652,833)	-
Cash flows from investing activities	(3,292,853)	(1,237,084)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term debt	6,366,140	(546,600)
Cash flows from financing activities	6,366,140	(546,600)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,053,053	(1,086,558)
Effects of foreign exchange on cash balances	(170,372)	41,720
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,782,250	5,477,208
CASH AND CASH EQUIVALENTS, END OF PERIOD	6,664,930	4,432,370

SUPPLEMENTAL INFORMATION		
Interest paid	197,297	129,432
Taxes paid	410,383	31,379
Change in accrued plant and equipment expenditures	-	(54,611)

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, 2009. 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, 2009, 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 holds a 58% equity interest in Hunan CF CNPC through its newly incorporated, 99.99% 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, 2010, 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. Hunan CF CNPC's business license expires December 24, 2038.

In January 2009, the Company acquired a 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 per 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. Hunan CNPC NEI's business license expires July 22, 2058.

Substantially all of the assets of the Company which are located in the 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") for interim financial statements 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, 2009. The consolidated balance sheet at March 31, 2010 has been derived from the audited financial statements at that date but 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, 2010 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2010. For further information, see the Company's audited consolidated financial statements including the notes thereto for the year ended December 31, 2009.

As at March 31, 2010, the Company had a working capital deficiency of $445,656 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. 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. FUTURE ACCOUNTING POLICIES

Basis of Consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries HEL, CF China, its 99.4% interest in Sanya Changfeng Offshore Natural Gas Engineering Construction Co. Ltd. (“CF Engineering”), its 99.99% 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 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.

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.

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 expects to adopt this standard on January 1, 2011. Early adoption is permitted.

Consolidations
CICA Handbook Section 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 expects to adopt this standard on January 1, 2011. Early adoption is permitted.

Multiple Deliverable Revenue Arrangements
In December 2009, the CICA issued EIC 175 – “Multiple Deliverable Revenue Arrangements” replacing EIC 142 – “Revenue Arrangements with Multiple Deliverables”. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence (“VSOE”) or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal periods beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity’s fiscal period, it must be applied retrospectively from the beginning of the Company’s fiscal period of adoption. The Company expects to adopt EIC 175 effective January 1, 2011. The Company does not believe the standard will have a material impact on its consolidated financial statements.

2. FUTURE ACCOUNTING POLICIES (Continued)

International Financial Reporting Standards ("IFRS")
In February 2009, 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 PERIODs beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS with comments due by July 31, 2009, 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.

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 8 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.

At March 31, 2010, the Company's financial instruments that are carried at fair value, consisting of cash and cash equivalents, have been classified as Level 1 within the fair value hierarchy.

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, 2010, the Company held foreign currency cash and cash equivalents of RMB 43,453,892 ($6,465,939) (December 31, 2009 – RMB 21,111,585 ($3,236,406)) and US $33,310 ($33,836) (December 31, 2009 – US $33,310 ($35,009)).

3. FINANCIAL INSTRUMENTS (Continued)

(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.

(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, 2010, the Company had variable interest rate term loan facilities in the aggregate of $17,796,480 (December 31, 2009 - $11,466,840) as described in Note 8.

(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 sales 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 accounts and sundry receivables 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 8 and the remaining financial liabilities consisting of accounts payable are expected to be realized within one year. As at March 31, 2010, the Company had a cash and cash equivalents balance of $6,664,930 (December 31, 2009 - $3,782,250), to settle current liabilities of $9,106,840 (December 31, 2009 - $10,352,424). The cash and cash equivalents balance consisted solely of cash.

(Expressed in Canadian currency)

3. FINANCIAL INSTRUMENTS (Continued)

(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 accounts and sundry receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, interest payable and long-term debt are classified as other financial liabilities, which are measured at amortized cost. As at March 31, 2010, 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 8 for the period ended March 31, 2010 would have had the following impact on the Company's net income.

	Impact on Net Income
Interest rate +1%	$ 148,000
Interest rate -1%	($148,000)

4. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of share capital, contributed surplus, warrants, and long-term debt. 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. The Company is currently in compliance with all capital requirements including requirements relating to its bank loans.

There were no changes in the Company's approach to capital management during the period ended March 31, 2010.

5. INVENTORIES

	March 31, 2010 $	December 31, 2009 $
Construction materials	363,344	410,682
Gas appliances, meters, and spare parts	191,926	170,888
	555,270	581,570

The amount of inventory recognized as an expense during the period ended March 31, 2010 was $576,619 (2009 - $544,979). As at March 31, 2010 and December 31, 2009, all inventories were recorded at cost.

(Expressed in Canadian currency)

6. PLANT AND EQUIPMENT

	March 31, 2010 Cost $	Accumulated Amortization $	March 31, 2010 Net $
Pipelines	28,412,869	5,680,127	22,732,742
Land use rights	1,102,906	260,648	842,258
Motor vehicles	1,036,737	232,558	804,179
Furniture and equipment	366,243	81,755	284,488
Computer equipment	104,902	52,855	52,047
CNG station	408,715	-	408,715
	31,432,372	6,307,943	25,124,429
Construction in progress	5,557,359	-	5,557,359
	36,989,731	6,307,943	30,681,788

	December 31, 2009 Cost $	Accumulated Amortization $	December 31, 2009 Net $
Pipelines	28,847,022	5,635,309	23,211,713
Land use rights	1,136,260	260,985	875,275
Motor vehicles	818,958	212,430	606,528
Furniture and equipment	370,345	74,606	295,739
Computer equipment	100,418	49,028	51,390
	31,273,003	6,232,358	25,040,645
Construction in progress	4,173,120	-	4,173,120
	35,446,123	6,232,358	29,213,765

As at March 31, 2010, the Company held four land use rights certificates. They all have a 50 year term and expire February 28, 2051. No new land use rights were acquired in 2010.

Included in plant and equipment as at March 31, 2010 is cumulative capitalized interest of $177,653 (RMB 1,193,907) (December 31, 2009 - $87,800; RMB 572,715).

7. LONG-TERM PREPAID EXPENSE, ADVANCES AND DEPOSITS

Included in prepaid expenses and deposits were approximately $650,000 (4,290,000 RMB) advance payments made during this quarter ended March 31, 2010 for potential transactions, as described below:

(a) During this quarter, the Company paid a good faith deposit to the existing shareholder of Hunan CNPC Guangda Gas Co., Ltd. (“Guangda Gas”). Pursuant to a preliminary intention to purchase agreement, the Company expects to acquire a majority equity interest in Guangda Gas, which owns a CNG primary filling station in Changsha City. The final purchase price is being negotiated.

(b) During this quarter, the Company paid a good faith deposit to the existing shareholders Jiangxi Pingxiang Huaneng Energy Co. Ltd. (“Pingxiang Huaneng”). Pursuant to a preliminary intention to purchase agreement, the Company expects to acquire a majority equity interest in Pingxiang Huaneng, a natural gas distributor in Xiangdong district, Pingxiang City, Jiangxi Province. The final purchase price is being negotiated.

(Expressed in Canadian currency)

8. LONG-TERM DEBT

	March 31, 2010 $	December 31, 2009 $
a) Term Loan Facility – China Development Bank RMB 19,600,000 (December 31, 2009 – RMB 22,600,000), advanced from the China Development Bank to Sanya State Assets Management Corporation (an intermediary company controlled by the municipality of Sanya City, see Note 8(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, 2010 and December 31, 2009) due quarterly, principal repayments commencing February 2009, due November 2012, secured by all pipelines and land use rights of the Company with a net book value as at March 31, 2010 of $23,575,000 (December 31, 2009 - $24,086,988) and gas distribution rights.	2,916,480	3,464,580
b) Term Loan Facility – Sanya State Assets Management Corporation RMB 42,200,000 as of December 31, 2009, representing principal repayments of the term loan facility described in Note 8(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% as at December 31, 2009). The loan was repaid in January 2010 using the proceeds from Bank of China loan described in Note 8 (d) below.	-	6,469,260
c) Term Loan Facility – Bank of China RMB 10,000,000 as of December 31, 2009, bearing interest at a rate of 110% of the floating prescribed rate of the People's Bank of China prime lending rate (6.34% as at December 31, 2009). The loan was repaid in January 2010 using the proceeds from Bank of China loan described in Note 8 (d) below.	-	1,533,000
d) Term Loan Facility – Bank of China RMB 100,000,000, bearing interest at the prescribed lending rate of the People's Bank of China (5.94% as of March 31, 2010), due monthly with principal repayments commencing in 2012, due January 2019. The loan is secured by 60% of the interest in CF China held by HEL and certain gas connection rights. The proceeds of the loan will be used to advance the Company's Haitang Bay Project and to retire existing loans described in Notes 8(b) and 8(c) above. The Company paid to Bank of China a fee of RMB 3,000,000, of which a portion is being accreted to operations and the balance being accreted to plant and equipment over the term of the facility.	14,880,000	-
	(431,818)	
Sub-total	17,364,662	11,466,840
Less: current portion	(1,726,080)	(1,931,580)
Total	15,638,582	9,535,260

(Expressed in Canadian currency)

8. LONG-TERM DEBT (Continued)

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

	RMB	$
2011	11,600,000	1,726,080
2012	10,000,000	1,488,000
2013	8,000,000	1,190,400
2014	10,000,000	1,488,000
2015 and thereafter	80,000,000	11,904,000
	119,600,000	17,796,480

As at March 31, 2010, the Company had accrued interest of $1,937,704 (RMB 13,022,204) (December 31, 2009 - $1,996,304; RMB 13,022,204) with respect to the loan facilities described in Notes 8(a) and 8(b).

9. CAPITAL STOCK

a) Authorized
Unlimited number of common shares.

b) Issued
66,025,000 common shares as at March 31, 2010 and December 31, 2009.

c) Stock Options and Contributed Surplus

Contributed surplus

Balance, December 31, 2008	$	1,071,231
Options granted		119,278
Balance, December 31, 2009		1,190,509
Warrants expired		321,724
Balance, March 31, 2010	$	1,512,233

The maximum number of shares reserved for issuance under the stock option plan was increased to 6,600,000 in 2008. The options are not 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 grant date fair value of the options was estimated to be $119,278.

The weighted average grant date fair value of options granted during the year ended December 31, 2009 of $0.30 (2009 - $0.28) was estimated using the Black-Scholes option pricing model. Assumptions used to determine the value of the options issued were: dividend yield 0%; risk-free interest rate 2.5%; expected volatility 74%; expected life 60 months.

(Expressed in Canadian currency)

9. CAPITAL STOCK (Continued)

A summary of the Company's options granted and exercised is presented below:

	Options Outstanding		Weighted average exercise price
Balance, December 31, 2008	3,800,000	$	0.60
Granted	400,000	$	0.55
Expired	(750,000)	$	0.60
Balance, December 31, 2009	3,450,000	$	0.60
Balance, March 31, 2010	3,450,000	$	0.60

The following table summarizes information about the options outstanding and exercisable at March 31, 2010.

Number outstanding and exercisable	Weighted average remaining contractual life (in years)	Expiry date
3,000,000	2.82	22/01/2013
50,000	3.41	25/08/2013
400,000	4.25	29/06/2014
3,450,000		

10. RELATED PARTY TRANSACTIONS

A corporation controlled by a significant shareholder who is also an officer and director of the Company owed the Company a total of US $78,928 ($80,175) as at March 31, 2010 (December 31, 2009 – US $76,822 ($80,740) for various expenditures paid by the Company on behalf of this corporation. This amount, included in accounts and sundry receivables on the consolidated balance sheet, is unsecured, non-interest bearing with no fixed terms of repayment.

In addition, the Company owed this individual $227,953 (December 31, 2009 - $200,510) for unpaid salary which amount is included in accounts payable and accrued liabilities as at March 31, 2010. The Company also had unpaid directors' fees of $48,000 (December 31, 2009 - $33,000) included in accounts payable and accrued liabilities. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

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, 2010 - $5,952,000) (December 31, 2009 – RMB40,000,000; $6,132,000) 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. (See Note 16 subsequent e vents for renewal term).

(Expressed in Canadian currency)

10. RELATED PARTY TRANSACTIONS (Continued)

A significant shareholder of the Company, who is also an officer and director of the Company, owns 0.6% of the equity in CF Engineering, a subsidiary of CF China, through a corporation which the individual controls.

11. 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. As at March 31, 2010, the Company had commenced the sale of CNG through commercial vehicle filling stations in Changsha City, Hunan but had not earned significant revenues. 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 connections and piped gas sales operating divisions are based in the PRC.

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2010

	Gas Connections $	Piped Gas Sales $	Consolidated $
REVENUE	1,835,887	3,253,569	5,089,456
COST OF SALES	976,561	941,054	1,917,615
	859,326	2,312,515	3,171,841
EXPENSES			
General and administrative	510,758	918,210	1,428,968
Interest on long-term debt	-	137,693	137,693
Travel and business development	271,766	580,835	852,601
Amortization	13,826	253,088	266,914
	796,350	1,889,826	2,686,176
Income before the under-noted	62,976	422,689	485,665
Interest income	698	1,237	1,935
Income before tax	63,674	423,926	487,600
Income tax expense	(41,915)	-	(41,915)
NET INCOME FOR THE PERIOD	21,759	423,926	445,685
ACQUISITION OF PLANT AND EQUIPMENT DURING THE PERIOD	214,851	2,425,169	2,640,020
AS AT MARCH 31, 2010			
ASSETS	4,744,100	36,146,735	40,890,835

Substantially all of the Company's assets are located in the PRC. As at March 31, 2010, there was cash of $170,111 (December 31, 2009 - $363,582) and other current assets of $115,534 (December 31, 2009 - $135,946) held in Canada.

11. SEGMENTED INFORMATION (Continued)

FOR THE THREE MONTHS 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 business development	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
Income before tax	93,066	560,997	654,063
Income tax expense	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	38,254,227	41,314,021

Substantially all of the Company's assets were located in the PRC as at March 31, 2009.

12. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

	March 31, 2010 $	December 31, 2009 $
Balance, at the beginning of the period	(778,791)	727,220
Currency translation adjustment during the period	(238,230)	(1,506,011)
Balance, at the end of the period	(1,017,021)	(778,791)

13. 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. The Company is currently exploring other possible sources of natural gas. See note 14 and note 16.

14. COMMITMENTS AND CONTINGENCIES

Statutory Reserves

In accordance with PRC Company Law, CF China is required to provide for certain statutory reserves commencing from the period 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 period. 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, 2010, CF China had not designated amounts to the above statutory reserve funds.

Pipeline Construction and Equipment

The Company also has signed seven contracts with several equipment suppliers and construction supervisors for a total amount of RMB 5,940,639 ($883,967) (December 31, 2009 – RMB 5,940,639 ($910,700)), of which RMB 5,866,755 ($872,973) was incurred as at March 31, 2010.

Natural gas purchase commitments

In connection with acquisition of 60% equity interest in Hunan CNPC NEI in 2009, the Company is required to pay a one time charge of RMB 3,000,000 ($446,400) for its long term CNG purchase contract. This CNG purchase contract gives the Company the right to acquire up to 11 million M3 per year for a period of 19 years ending September 12, 2027. As of March 31, 2010, RMB 1,000,000 ($148,800) has been paid and recorded in long term prepaid with the balance payable at the time the gas is first supplied. As at March 31, 2010, the Company has not purchased any CNG pursuant to this agreement.

In addition, the Company has acquired the rights to a gas purchase contract from a third party to purchase 10,000 M3 of CNG per day (3,650,000 M3 per year) until September 12, 2027. As consideration for the rights to this contract, the Company made a cash payment of RMB 500,000 ($74,400) that was recorded in long term prepaid and will be required to pay a further one-time payment of RMB 500,000 ($74,400) at the time the gas is first supplied. As at March 31, 2010, the Company has not purchased any CNG pursuant to this agreement.

On March 8, 2010, the Company entered into an agreement to purchase liquid natural gas (“LNG”) from an arm’s length party for a period of five years. Pursuant to this agreement, LNG will be supplied 24 hours a day, and the daily volume of LNG delivered will depend on the Company’s forecast demand for the next day. The Company is not permitted to acquire liquid natural gas from outside suppliers without the consent of the other party to this agreement. As at March 31, 2010, RMB 500,000 ($74,400) has been paid as a deposit of the contract and will be refunded at the end of the agreement term.

14. COMMITMENTS AND CONTINGENCIES (Continued)

Lease Commitment

On September 8, 2008, the Company signed a lease agreement for 3,000 M^2 of land for construction of a CNG gas station in Hunan Province. The lease term is for 20 years until October 2028. A deposit of RMB 100,000 ($14,880) and four years' rent (RMB 1,880,000 or $279,744) are required to be made in advance. As at March 31, 2010, the Company has paid RMB 1,300,000 ($193,440). If the Company decides to terminate this agreement, a termination payment of RMB 1,000,000 ($148,800) will be payable. The minimum lease payments in successive years are as follows:

	RMB	$
2010 year end	580,000	86,300
2013 year end	205,625	30,600
2014 year end	493,500	73,430
Thereafter	7,809,025	1,161,980
Total	9,088,150	1,352,310

Environmental Contingencies

All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist in connection with the pipelines and distribution networks in which the Company holds interests which are unknown to the Company at present.

The Company is subject to the PRC environmental protection laws and regulations which impose fines for violations of laws, regulations or decrees and provide for the shutdown by the central, provisional or municipal governments of any facility not in compliance with governmental orders requiring the cessation or cure of certain activities causing environmental damage. Since natural gas is an environmentally friendly form of fuel, the Company has not adopted any special environmental protection measures other than the measures taken in the ordinary course of business by companies in the industry.

15. SEASONALITY OF OPERATIONS

Seasonality can impact the Company's piped line natural 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 natural 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.

16. SUBSEQUENT EVENTS

a) On April 7, 2010, the Company entered into a 5-year long term compressed natural gas ("CNG") supply agreement with Hainan Xinxing Oil Serving Co., Ltd. to purchase compressed natural gas up to 3.65 million m3 until 2015 with the annual volume of CNG to be based on Changfeng's annual forecast demand.

b) On April 27, 2010, due to related party loan of RMB 40,000,000 (March 31, 2010 - $5,952,000) (December 31, 2009 – RMB40, 000,000; $6,132,000) as described in Note 10 was renewed for another three years with the same term and conditions.