Dated August 26, 2010

Introduction

This management's discussion and analysis ("MD&A") provides an analysis of the financial condition and results of operations of Changfeng Energy Inc. ("Changfeng" or the "Company") and compares the financial results for the periods ended June 30, 2010 with those of the same period of the previous year. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements and related notes for the quarter ended June 30, 2010 and the audited consolidated financial statements and related notes and the MD&A for the year ended December 31, 2009, which have been prepared in accordance with generally accepted accounting principles in Canada. Additional information about the Company is available at www.sedar.com.

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 reported amounts of sales and expenses during the reporting period. Changfeng bases its estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Unless otherwise indicated, all references to "$" or "dollars" in this report refer to the Canadian dollar.

Caution Regarding Forward-Looking Information

Certain statements in this MD&A may constitute "forward looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiaries, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward looking statements. Such forward looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward looking statements, such as significant changes in market conditions, the inability of the Company to close sales and the inability of the Company to attract sufficient financing and including the risk factors summarized below under the heading "Risk Factors". New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward looking statements as a prediction of actual results. Although the forward looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. The forward looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

Corporate Overview

Changfeng is a Canadian public company currently trading on the TSX-V under the stock symbol "CFY". The Company's core business is the distribution of natural gas for industrial, commercial and residential users in China.

Prior to late 2009, the Company's natural gas distribution business was limited to distribution of urban pipeline natural gas in Sanya City Hainan Province, China, 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.

Since 2008, the Company has been actively pursuing CNG (Compressed Natural Gas) refueling station and pipeline natural gas businesses in selected cities in Jiangxi and Hunan provinces, mainland China. These fast growing emerging markets for natural gas are due to the construction of the second West-East Gas Pipeline, which is scheduled to supply natural gas for these regions in late 2011. During the first half of 2010, the following milestones have been achieved in these targeted markets:

(1) Changfeng's first CNG station commenced supply of gas in Changsha City, the capital city of Hunan province;
(2) Xiangdong District, one of the three administrative districts in Pingxiang City, Jiangxi province, has consented to grant Changfeng a 50-year exclusive concession right to operate a natural gas construction and distribution business in the region and it's Pingxiang Industrial Ceramic Park;
(3) Changfeng has entered into preliminary acquisition or joint venture agreements in these regions, and it is expected that final agreements will be entered into in late 2010.

Description of Operations

During the second quarter of 2010, the Company is organized for management reporting purposes into three principal business segments: gas connection, pipeline gas sales and CNG refueling sales, each of which is described in further detail below.

Distribution network design and construction and natural gas supply and distribution

On December 31, 2007, Changfeng was granted by the Sanya municipal government a 30-year exclusive concession right to operate a natural gas construction and distribution business in Sanya City. This concession right covers the existing Sanya City area, as well as any future geographical boundary expansion in Sanya City.

Changfeng has built and owns Sanya City's main pipeline network and branch pipeline networks, to which all of the Company's pipeline natural gas consumers, including residential, industrial and commercial, are directly connected through specialized connection equipment and natural gas usage monitoring systems which are owned and maintained by Changfeng. In addition, with the rapid regional expansion of Sanya City, the Company is expanding its pipeline to the towns of the Sanya region, a newly-developed business park as well as tourist and residential areas. These areas include Yacheng Town, Tiandu Town, Green Scientific Park districts and Haitang Bay region.

Currently, the Company's existing network in greater Sanya City includes 38-km of high pressure gas pipelines, over 100-km of medium to low pressure gas pipelines and over 600-km of branch/customer pipelines, together with one primary gas station, two gate gas processing stations and three gas pressure regulating stations. The primary gas station is mainly used for the connection with the state-owned natural gas processing plant, which is directly connected through high pressure sub-sea pipeline to the CNOOC (Hainan) Limited Ya13-1 gas field that is located approximately 100-km offshore in the South China Sea.

Upon completion of the natural gas pipeline networks, the Company will retain ownership of the networks and will continue to maintain its operations to ensure that natural gas can be securely and constantly delivered to our residential and commercial consumers. Normally, one-time initial connection fees are charged to consumers for their connection to the Company's pipeline networks.

CNG refueling stations

CNG is a fossil fuel substitute for gasoline. Although its combustion does produce greenhouse gases, it is a more environmentally clean alternative to gasoline fuel. CNG is starting to be used in traditional gasoline internal combustion engine vehicles that have been converted into bi-fuel vehicles (gasoline/CNG). CNG is considered less expensive than gasoline, cleaner than coal, and a cheaper alternative to electricity. In China, the central government has been increasing pressure to develop this industry due to the increasing urban air pollution problem.

Changfeng started construction of its first CNG refueling station in June 2009 in Changsha City, Hunan Province. During the second quarter of 2010, the first CNG refueling station commenced supply of natural gas. In addition, the Company had obtained land use rights for construction of another two stations from the local government. It is expected that construction could start in the second half of 2010.

Business Developments

As a result of the rapid growth of natural gas market in China, the Company has entered into the following preliminary acquisition or joint venture agreements during the first half of 2010:

(a) During the first half of 2010, the Company paid a good faith deposit to the existing shareholder of Hunan CNPC Guangda Gas Co., Ltd. ("Guangda Gas"). Guangda Gas owns a CNG primary filling station in Changsha City. The final purchase price is being negotiated.

(b) During the first half of 2010, the Company paid a good faith deposit to the existing shareholders of Jiangxi Pingxiang Huaneng Energy Co. Ltd. ("Pingxiang Huaneng"). Pingxiang Huaneng is a natural gas distributor in Xiangdong district, Pingxiang City, Jiangxi Province. The final purchase price is being negotiated.

$674,832 (RMB 4,314,796) of advance payments were made during the first half of 2010. These payments are included in long term prepaid expenses and deposits.

Results of Operations

The table below sets out the selected consolidated financial data as at and for the three and six months periods ended June 30, 2010 and 2009.

In thousands of Canadian dollars (except for % figures)	**Q2 2010**	**Q2 2009**	**Change**	**YTD 2010**	**YTD 2009**	**Change**
Revenue	4,495	3,742	20%	9,585	8,079	19%
Gross profit	2,113	2,322	-9%	5,285	5,200	2%
% of revenue	47%	62%	-24%	55%	64%	-14%
General and administrative	1,070	1,192	-10%	2,499	2,406	4%
% of revenue	24%	32%	-25%	26%	30%	-12%
Interest on long term debt	186	215	-13%	323	479	-33%
% of revenue	4%	6%	-28%	3%	6%	-43%
Travel and business development	799	355	125%	1,651	807	105%
% of revenue	18%	9%	88%	17%	10%	72%
Amortization	305	277	10%	572	570	0%
% of revenue	7%	7%	-8%	6%	7%	-16%
Stock based compensation	203	119	70%	203	119	70%
% of revenue	5%	3%	41%	2%	1%	43%
Interest income	2	6	-68%	4	7	-48%
% of revenue	0.04%	0.15%	-73%	0.04%	0.09%	-56%
Income tax expense (recovery)	(110)	42		(68)	74	
% of revenue	-2%	1%		-1%	1%	
EBITDA (Note a)	244	776	-68%	1,135	1,986	-43%
% of revenue	5%	21%	-74%	12%	25%	-52%
Non-controlling interest	6	0		6	0	
% of revenue						
Net income(loss)	(331)	128		115	751	-85%
% of revenue	-7%	3%		1%	9%	-87%
Basic and diluted EPS	(0.005)	0.002		0.002	0.011	
Weighted average number of common shares outstanding						
Basic	66,025	66,025		66,025	66,025	
Diluted	66,025	66,025		66,096	66,025	

Note a: For the second quarter of 2010, as well as the comparative periods in 2009, the Company disclosed EBITDA, a non-GAAP financial measure, as a supplementary indicator of operating performance. We define EBITDA as net income (loss) plus income tax benefit (expense), (loss) gain on sale of assets, interest income (expense), depreciation and amortization, non-controlling interest and non-cash stock-based compensation expense. EBITDA is a non-GAAP measure and it is not intended as a substitute for GAAP measures. Our definition may not be the same definition used by other companies.

Revenue
Revenue for the quarter ended June 30, 2010, was $4.5 million compared to $3.7 million for the same quarter in 2009, an increase of 20%. For the six-month period ended June 30, 2010, revenue amounted to $9.6 million compared to $8.1 million for the same period in 2009, an increase of 19%. This increase is mainly attributable to continued growth of piped gas sales from Sanya City as more customers were connected, and new sales from CNG retail refueling station. The table below illustrates the increase in customers connected during the periods and presents the volume of natural gas sold for the quarter and six-month period ended June 30, 2010 and 2009.

	Q2 2010	Q2 2009	Change	YTD 2010	YTD 2009	Change
Residential customers						
Customers connected during the period	2,982	2,550	17%	10,028	4,730	112%
Total customers at the end of period				60,483	42,531	42%
Gas volume sold (mm3) during the period	0.628	0.569	10%	2.225	1.450	53%
Commercial customers						
Customers connected during the period	16	18	-11%	43	33	30%
Total customers at the end of period				483	408	18%
Gas volume sold (mm3) during the period	5.879	5.159	14%	12.507	10.550	19%

During this quarter, the Company's first CNG refueling station at Changsha City formally commenced supply of gas after a six-month trial operation that started in early 2010, with an average daily volume of around 7,000-8,000 m3. Revenue generated from this station for this quarter was $194,858, representing 4% of consolidated revenue.

Foreign exchange rates
Changfeng reports in Canadian dollars but earns all of its revenues and incurs most of its expenses in Chinese RMB. Accordingly, any fluctuation in the exchange rate between these two currencies will affect the Company's reported financial information. All of the Company's subsidiaries in China are considered to be self sustaining; therefore, any impact of the changes in foreign exchange rates has been recognized as other comprehensive income, and not in net income. The exchange rate between Chinese RMB and the Canadian dollar is summarized below.

One Canadian dollar to Chinese RMB	Q2 2010	Q2 2009	% change
Average rate for the reporting period	6.64	5.85	14%
Spot rate at June 30	6.39	5.88	9%

Natural gas retail price increase

As a response to gas wholesale price increases made in June 2010 by the National Development and Reform Commission (NDRC), China's top economic policy planning agency, a natural gas retail price adjustment by local price authorities in individual provinces was accordingly made in Sanya city, Hainan province and Changsha City, Huanan province. Effective July 1, 2010, gas retail prices will increase to RMB 2.60 per cubic meter to residential customers and RMB 3.80 per cubic meter to commercial customers in Sanya City, Hainan Province, and to RMB 3.75 per cubic meter at CNG refueling station, in Changsha City, Hunan province, representing increases of 8%, 22% and 14%, respectively.

The financial impact of these price increases will be realized in the third quarter of 2010.

Gross margin
Gross margin for the quarter ended June 30, 2010 decreased by $0.21 million (or 9%) compared to the same quarter a year ago. Gross margin as a percentage of sales for the quarter decreased by 24% to 47% compared to 62% for the comparative quarter in 2009. The decrease in gross margin percentage for the quarter is mainly due to a relatively higher procurement price for purchases of additional volume of natural gas in Sanya City, and relatively lower margins on new sales from the Company's CNG retail refueling station.

Changfeng's annual natural gas quota in Sanya city is 24 million cubic meters, which was originally set in 2006 with CNOOC at fixed purchase price. This annual quota is now insufficient to meet strong market demand due to both urban expansion and rapid development of coastal tourism in Sanya City. As a result, the Company needs to purchase additional volumes of gas in the form of CNG or LNG (Liquefied Natural Gas) from time to time to fill its pipeline to keep an even monthly supply from the annual contract volume, and most importantly, to avoid gas shortages in peak seasons. All of the CNG or LNG purchased is at current market price through two long term natural gas contracts that were entered into in early 2010. During the quarter, 1.28 million m3 of LNG and 10,000 m3 of CNG were purchased, respectively.

Gross margin on gas sales from CNG refueling station is normally much lower than the gross margin on piped natural gas sales. For this quarter, a negative gross margin of 4% was realized mainly due to lower revenue during trial operation periods.

Gross margin for the six months ended June 30, 2010 increased by $0.09 million (or 2%) compared with the same period in 2009. Gross margin as a percentage of sales for six months ended June 30, 2010 decreased by 14% to 55% compared with 64% for the same period in 2009.

Operating expenses
General and administrative expenses decreased to $1.07 million for the quarter ended June 30, 2010, compared to $1.19 million for the comparable period in 2009, General and administrative expenses as a percentage of sales for the quarter decreased by 25% to 24% compared with 32% of sales for the comparative quarter in 2009, as a result of increases in revenue.

Travel and business development expenses for the quarter ended June 30, 2010 were $0.80 million, an increase of $0.44 million or 125% compared to $0.36 million for the comparable period in 2009. This significant increase is primarily attributable to business development activities in Hunan and Jiangxi provinces in mainland China.

Amortization for the quarter ended June 30, 2010 was $0.31 million as compared to $0.28 million for the comparable period in 2009.

Interest on long term debt for the quarter ended June 30, 2010 was $0.19 million as compared to $0.21million for the comparable period in 2009.

Income tax recovery for the quarter ended June 30, 2010 was $0.11 million as compared to income tax expense $0.04 million for the comparable period in 2009, mainly resulting from the net loss during the quarter.

Stock based compensation expenses for the quarter ended June 30, 2010 was $0.20 million as compared to $0.12 million for the comparable period in 2009 due to more options being granted and vested during this quarter.

EBITDA for the quarter ended June 30, 2010 decreased to $0.24 million from $0.78 million for the comparable period in 2009, primarily due to lower gross margin, and increased in business development expenses, partially offset by reduced general and administrative expenses. EBITDA for the six months ended June 30, 2010 was $1.13 million or 12% of sales compared to $1.99 million or 25% of sales for the same period in 2009, primarily for the same reason.

Net income (loss)
The net loss for the quarter ended June 30, 2010 was $0.33 million or $0.005 loss per share compared to a net income of $0.12 million or $0.002 income per share for the comparable period in 2009. This decrease in net income was mainly attributable to the increase in business development expenses, lower gross margin and higher stock based compensation expenses, as well as unfavorable foreign exchange impacts, partially offset by a growth in sales.

Expansion Projects

Changfeng is developing three projects in three cities in China:

Haitang Bay pipeline gas project
Haitang Bay, one of the five major bays in Sanya City, Hainan province, is a flagship project being promoted by the central government. China is planning to develop this southern-most island province into a top international tourism destination by 2020. The Hainan provincial government proposed that in the Haitang Bay area, a total of 16 hotels will be open by 2012, 30 hotels by 2015 and 72 hotels by 2020, which include many world-class 5 star hotels and a world-class 7 star hotel. The size of Haitang Bay is estimated at 98.7 square kilometer, including a 24 km-long beach. Changfeng has a 30- year (2007-2037) exclusive concession right in the Greater Sanya region.

During the second quarter of 2010, the Company has completed construction of a 21.2 km long low pressure pipeline and the majority of a LNG/CNG storage facility, as well as a gasification processing station. Construction of a total length of 26.6 km of high-to-medium pressure pipeline linking Sanya city with Haitang Bay region is nearly complete. It is expected that the Haitang Bay project will commence supply of natural gas in the fourth quarter of 2010.

Changsha CNG refueling stations project
Changsha is the capital of Hunan Province, China with a population of 6.5 million. It is the most important commercial and trade center in central-south China. In 2006, the Changsha municipal government mandated that all new taxicab and public bus vehicles either purchased or replaced must be dual-fuel natural gas vehicles, and gradually by 2015, all existing taxicab and public bus vehicles must be converted into natural gas vehicles. The purpose of this measure is to alleviate a serious air pollution problem. It is proposed that a total of 25 CNG refueling stations will be constructed in Changsha City by 2015, of which 7 stations are expected to be owned and operated by Changfeng.

Changfeng entered the Changsha CNG market in late 2008 through the acquisition of a 58% equity interest in Hunan Changfeng CNPC Energy Co. Ltd., which operates CNG refueling stations and holds a 20-year natural gas long term supply agreement. This agreement allows the Company to purchase up to 11 million m3 annually until September 2027.

During this quarter, the Company's first CNG refueling station commenced supply of gas after a six-month trial operation starting in early 2010. Construction of another two stations is planned to commence in the second half of 2010.

Pingxiang CNG and pipelined gas project
Pingxiang city is located in the west of Jiangxi Province. It is about 95 km southwest of Nanchang, the capital city of Jiangxi province, and approximately 50 km from Changsha city. Pingxiang city is the largest coal producing base in Jiangxi province, and its coal production accounts for 40% of the province's coal production. It is also an important industrial ceramic producing base in China with its chemical filler and low-voltage electric porcelain accounting for 70% and 60% of China's market share, respectively.

During this quarter, the Xiangdong District government, one of the three administrative districts in Pingxiang City, and well known as the Ceramic city, has consented to grant Changfeng a 50-year exclusive concession right to operate a natural gas construction and distribution business (including liquefied natural gas (LNG), liquefied petroleum gas (LPG), pipeline gas, and CNG refueling stations) in its existing administrative region and its Pingxiang Industrial Ceramic Park. The Xiangdong District government started construction of this park in 2006 in order to strengthen the competitiveness of its ceramic industry, as well as to alleviate environmental problems. Currently, coal and coal methane gas, a by-product that is produced by two local metallurgy manufacturers, are the main source of energy for ceramic manufacturing companies in this region. The reliance on coal and coal methane gas not only contributes to serious air pollution problems, but also affects the quality of ceramics due to the low temperature and unstable supply of coal methane gas.

Currently, this industrial park has a total of 22 ceramic manufacturing plants in operation and 34 manufacturing plants under construction, and it is projected that a total of up to 77 ceramic manufacturing companies will reside in this park by 2012, when the second West-East Gas Pipeline commences commercial supply of natural gas for the region.

In May 2010, Changfeng registered an 80%-owned subsidiary in Pingxiang City. This establishment is a major step forward for Changfeng in the construction and operation of a gas distribution business in this area. Pingxiang CF will build a 14.5km high pressure pipeline linking the city gate station in Xiangdong District with the gas transmission substation of the branch of the second West-East Gas Pipeline, a gate station, pressure regulators and a 40.4km medium pressure pipeline network in this area.

Natural Gas Supplies Contracts

In response to the natural gas shortage in China, gas rationing measures have been introduced for downstream gas distributors and large industrial users. Currently, Changfeng's gas supply is secured through the following long-term contracts with CNPC and CNOOC.

Sanya City, Hainan province
The table below sets out the gas purchase contract secured for Sanya operation:

Year	Gas source supplier	Gas volume quota
2006-2015	Ya13-1 Gas Well (CNOOC)	24 million m3 a year
2010-2015	Shennan LNG (CNPC)	LNG unlimited supply is variable within Changfeng's forecast demand
2010-2014	Xinxing CNG (CNPC)	CNG unlimited supply is variable within Changfeng's forecast demand
2015 and beyond	Yangpu LNG Receiving terminal (CNOOC)	150 million m3 a year

In 2006, the Company entered into two natural gas supply agreements with CNOOC (Hainan) Limited. One is a 10-year natural gas long term supply agreement, by which CNOOC is committed to supply a total of 24 million m3 natural gas a year until 2015 with a fixed contractual price. The other one is a principal natural gas supply agreement regarding gas supply when that 10-year agreement expires in 2015. CNOOC is committed to continuing to supply natural gas through its new LNG receiving terminals in Hainan Island, which is now under construction and is expected to commence supply of natural gas in 2015, and raising natural gas quota for Changfeng up to 150 million m3 a year.

During the first half of 2010, in an effort to cope with the shortage of gas in Sanya City, the Company entered into two 5-year natural gas long term supply agreements with two natural gas companies. One agreement was entered into on March 8, 2010 with Hainan CNPC Shennan Oil Serving Co., Ltd. a wholly-owned subsidiary of CNPC, to purchase LNG. Pursuant to the 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 other one was entered into on April 7, 2010 with Hainan Xinxing Oil Serving Co., Ltd. to purchase CNG. Pursuant to the agreement, CNG will be supplied up to 3.65 million m3 in the first year of 2010, and in the subsequent four years, the annual gas volume will be supplied based on Changfeng's projected demand.

Changfeng does not expect any difficulty in securing its natural gas supply in Sanya region for the next five years, and the Company believes that natural gas supply in Hainan province will be better secured with CNOOC's completion of its new LNG terminal in 2015.

Changsha City, Hunan province
The table below sets out the gas purchase contract secured for our CNG refueling station business:

Year	Gas source supplier	Gas volume quotation
2008-2027	CNPC	11 million m3 a year

In connection with acquisition of 60% equity interest in Hunan CNPC NEI in early 2009, the Company also acquired its long term CNG purchase contract, which allows the Company to purchase up to 11 million m3 gas a year for a period of 19 years ending September 12, 2027.

Selected Quarterly Results

The following sets out the Company's consolidated quarterly results for the most recently completed quarters:
In thousands of Canadian dollars, except per share amounts:

Quarterly data ($000's)	2010		2009				2008	
except per share amounts	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Foreign exchange rate RMB	6.64	6.57	6.46	6.22	5.85	5.49	5.64	6.57
Revenue	4,495	5,089	5,696	4,101	3,742	4,337	4,184	2,896
Gross profit	2,113	3,172	3,093	2,420	2,322	2,878	2,710	1,708
Interest on long term debt	(186)	(138)	230	-197	(215)	-265	27	-257
Net income (loss)	(330)	446	606	93	(199)	623	590	83
Net income (loss) per share	(0.005)	0.007	0.009	0.002	(0.003)	0.009	0.009	0.001

Liquidity and Capital Resources

Key Financial Data and Comparative Figures	June 30, 2010	December 31, 2009
($000's)		
Cash and cash equivalents	4,049	3,782
Working capital (deficit)	(3,470)	(4,383)
Plant and equipment	34,917	29,214
Total assets	43,437	36,069
Long term liabilities	22,520	15,742
Shareholders' equity	10,168	9,595

Cash and cash equivalents as at June 30, 2010 totaled $4.05 million compared to $3.78 million as at December 31, 2009, an increase of $2.89 million as a result of proceeds from the long term bank loan.

The Company's working capital deficit as at June 30, 2010 was $3.5 million (December 31, 2009 – $4.4 million working capital deficit), including $4.5 million of deferred revenue ((December 31, 2009 – $3.6 million). Gas connection revenue is deferred when the Company receives the payments from customers, and is recognized on the percentage of completion method, measured by reference to the value of work carried out during the period. Excluding deferred revenue, the Company's working capital as at June 30, 2010 was $1 million (December 31, 2009 – $0.8 million working capital deficit).

Cash provided by operating activities for the quarter ended June 30, 2010 was $ 0.52 million, a decrease of $0.70 million, compared to $1.22 million for the same period in 2009.

Cash used in financing activities for the quarter ended June 30, 2010 consists of $0.68 million repayment of long term bank loan and $0.30 million proceeds from subsidiary's share issuance.

Cash used in investing activities for the quarter ended June 30, 2010 consists of $2.45 million of capital expenditures mainly related to the construction of new pipelines in the Great Sanya region, including a CNG / LNG degasification processing station in Haitang Bay, and $0.52 million lease payment and advance payments for potential business acquisitions or joint ventures.

The Company continuously reviews acquisition and investment opportunities in selected cities in Jiangxi and Hunan province, mainland China, fast growing emerging markets as a result of impending full commercial supply of natural gas by the second West-East Gas Pipeline in late 2011, to make focused acquisitions or investments to implement our business growth strategies. We expect that the funding for any such acquisitions would be funded from cash from operations, bank debt and equity financing.

Subsequent Events

a) Subsequent to June 30, 2010, the Company acquired a 60% equity interest in Jiangxi Gaoan Huaneng Pipeline Gas Co. Ltd.("Gaoan Huaneng") for a purchase price of RMB 9 million (approximately $1.35 million) in cash.

Pursuant to the agreement, Gaoan Huaneng will set up a joint venture company with a wholly-owned subsidiary of PetroChina to collectively develop gas distribution business in Bajing Town of Gaoan City, in order to secure gas supply from the branch of second West-East Pipeline, which is scheduled to supply natural gas in late 2011. The purchase price consists of an initial payment of RMB 500,000 (approximately $0.08 million), with the remaining balance being paid in installments with the progressing of the project not later than when the JV Company commences the supply of natural gas in late 2011.

Gaoan Huaneng, established in 2008, is a natural gas distribution company. It owns a 30-year concession right from 2009 to 2039 to operate natural gas pipeline construction and gas distribution in the specified administrative region at Bajing Town of Gao'an City, Jiangxi province. Currently, no pipeline is laid in this area. Gaoan city is a county level city located about 32 miles southwest of Nanchang, the capital city of Jiangxi province. This city is famous for its architectural ceramic production in China.

b) Subsequent to June 30, 2010, Pingxiang Changfeng Natural Gas Co. Ltd. ("Pingxiang CF"), an 80%-owned subsidiary of the Company, entered into an agreement with Pingxiang Ceramic Industry Park Management Committee to purchase a 20 mu (approximately 1.33 hectare) land. This land will be used for construction of one gas gate station to link Xiangdong District with a branch of second West-East Pipeline through a 14.5 km-long high pressure pipeline that is expected to be constructed by Pingxiang CF in 2011

Pursuant to the agreement, the total purchase price is RMB 1.92 million (approximately $0.29 million) in cash, of which RMB1.32 million (approximately $0.2 million) will be refunded by the local government when the construction of the gate station is completed. RMB 200,000 (approximately $0.03 million) will be paid as a deposit upon signing the agreement, with the remaining balance to be paid when the ownership of land use right is transferred to Pingxiang CF.

Commitments and Contingencies

(a) Pipeline Construction and Equipment

The Company has signed contracts with several equipment suppliers and construction supervisors for a total amount of RMB 50,300,000 ($7,867,000) (December 31, 2009 – RMB 13,831,359 ($2,163,000)), of which RMB 40,050,000 ($6,264,000) has been paid as at June 30, 2010.

(b) Natural Gas Purchase Commitments

In 2006, the Company entered into a 10-year natural gas supply agreement with CNOOC (Hainan) Limited ("CNOOC"). Pursuant to the agreement, CNOOC is committed to supply up to 24 million m3 of natural gas annually until 2015 with a fixed contractual price. In late 2006, the Company further entered into a supplementary natural gas supply agreement with CNOOC. Pursuant to the supplementary principal agreement, CNOOC is committed to continuously supply natural gas to Changfeng from its new liquefied natural gas ("LNG") receiver terminal in Hainan Island, which is now under construction and is expected to be completed and commence operation in 2015. As at June 30, 2010, RMB 280,000 ($43,791) was paid as a deposit on the contract that was recorded in long term prepaid expenses and deposits and is expected to be refunded when the agreement expires.

In connection with the acquisition of a 60% equity interest in Hunan CNPC NEI in 2009, the Company is required to pay a onetime charge of RMB 3,000,000 ($469,200) for its long term compressed natural gas ("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 June 30, 2010, RMB 1,000,000 ($156,400) was paid and recorded in long term prepaid expenses and deposits with the balance payable at time the gas is first supplied. As at June 30, 2010, the Company has not purchased any CNG pursuant to this agreement.

In 2008, the Company 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 ($78,200) that was recorded in long term prepaid expenses and deposits and will be required to pay a further one-time payment of RMB 500,000 ($78,200) at the time the gas is first supplied. As at June 30, 2010, the Company has not purchased any CNG pursuant to this agreement.

On March 8, 2010, the Company entered into a 5-year long term 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 June 30, 2010, RMB 500,000 ($78,199) was paid as a deposit of the contract that was recorded in long term prepaid expenses and deposits and is expected to be refunded when the agreement expires.

On April 7, 2010, the Company entered into a 4-year long term CNG supply agreement from an arm's length party to purchase compressed natural gas up to 3.65 million m3 until 2014 with the annual volume of CNG to be based on Changfeng's annual demand forecast. As at June 30, 2010, RMB 400,000 ($62,560) was paid as a deposit of the contract that was recorded in long term prepaid expenses and deposits and is expected to be refunded when the agreement expires.

(c) Lease Commitment

On September 8, 2008, the Company signed a lease agreement for 3,000 M2 of land for construction of a CNG refueling retail station in Hunan Province. The lease term is for 20 years until October 2028. A deposit of RMB 100,000 ($15,640) and four years' rent (RMB 1,880,000 or $294,032) are required to be made in advance. As at June 30, 2010, the Company has paid RMB 1,870,000 ($292,466). If the Company decides to terminate this agreement, a termination payment of RMB 1,000,000 ($156,400) will be payable. The minimum lease payments in successive years are as follows:

	RMB	$
2010 year end	10,000	1,564
2012 year end	82,250	12,864
2013 year end	493,500	77,183
2014 year end	493,500	77,183
Thereafter	7,438,937	1,163,450
Total	8,518,187	1,330,244

Related Parties Transactions

a) 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 ($83,711) as at June 30, 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 $247,953(December 31, 2009 - $200,510) for unpaid salary which amount is included in accounts payable and accrued liabilities as at June 30, 2010. These amounts are unsecured, non-interesting bearing with no fixed terms of repayment.

b) In 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, 2010 - $6,255,963) (December 31, 2009 – RMB 40,000,000; $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 per original agreement. 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. On April 27, 2010, these loans were renewed for another three years with the same term and conditions.

c) 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.

Share Capital

As at the date of this report, the Company has 66,025,000 common shares outstanding, 4,650,000 stock options outstanding and 4,250,000 stock options outstanding and exercisable at a weighted average exercise price of $0.60 per share. The Company has no warrants outstanding.

Off-Balance Sheet Items

As a policy, Changfeng does not enter into off-balance sheet arrangements with special purpose entities in the normal course of its business, nor does it have any unconsolidated affiliates.

Seasonality of Operations

Seasonality can impact the Company's pipeline 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.

Accounting Policies

The Company prepares its financial statements in conformity with generally accepted accounting principles in Canada. The accounting policies used in the preparation of the unaudited consolidated interim financial statements conform to those in the Company's audited annual Consolidated Financial Statements for the year ended December 31, 2009. The Company lists its significant accounting policies in Note 2 to the Company's audited annual financial statements for the year ended December 31, 2009, of which the Company has identified the accounting policies, which are believed to be the most critical in fully understanding and evaluating the reported financial results.

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.

International Financial Reporting Standards ("IFRS")

The CICA Accounting Standards Board has announced that Generally Accepted Accounting Principles ("GAAP") in Canada will cease to apply and will be replaced by International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board. Publicly accountable enterprises will be required to adopt IFRS on or by January 1, 2011. The Company will issue its initial consolidated financial statements under IFRS, including comparative information, for the quarter ended March 31, 2011.

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 has commenced the development of an IFRS implementation plan to prepare for this transition, 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.

The Company is in the process of analyzing the key areas where changes to current accounting policies may be required, and regular progress reporting to senior management and to the Audit Committee on the status of the IFRS conversion project has been established.

While an analysis will be required for all accounting policies, the initial key areas of assessment will include:

- Plant and equipment
- Intangible assets
- Stock-based compensation;
- Accounting for income taxes; and
- First-time adoption of International Financial Reporting Standards (IFRS 1).

As the analysis of each of the key areas progresses, other elements of the Company's IFRS implementation plan will also be addressed, including: the implication of changes to accounting policies and processes; financial statement note disclosures on information technology; internal controls; contractual arrangements; and employee training. The table below summarizes the expected timing of activities related to the Company's transition to IFRS.

Initial analysis of key areas for which changes to accounting policies may be required	Completed December 31, 2009
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives	October 31,2010
Assessment of first-time adoption (IFRS 1) requirements and alternatives	Throughout fiscal 2010
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	Q3 (September 30, 2010)
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements	Q3 (September 30, 2010)
Management and employee education and training	Throughout the transition process
Quantification of the Financial Statement impact of changes in accounting policies	November 30, 2010

Financial Instruments and Other Instruments

The Company does not have complex financial instruments, and the various risks related to these financial instruments, including foreign currency risk, commodity price risk, interest rate risk, concentration of credit risk and liquidity risk have been disclosed in details in the notes to the consolidated financial statements.

Risk Factors

The Company is exposed to a variety of risks in the normal course of operations that could significantly affect its performance and could cause our actual results to differ in material respects from our anticipated results. In our audited Consolidated Financial Statements for the year ended December 31, 2009 and the notes thereto that are available at www.sedar.com, Changfeng provided a detailed review of the risks that could affect its financial condition, results of operations or business and that could cause actual results to differ materially from those expressed in our forward-looking statements. In management's opinion, there has been no material change in the nature or magnitude of the risks faced by the Company.

Outlook

The Company continues to add both residential and commercial customers to its existing networks in the Greater Sanya region, including the Haitang Bay district, which is expected to commence supplying gas in the fourth quarter of 2010.

In addition to strong organic growth, Changfeng is continuing to expand its natural gas distribution business in mainland China through alliances with local gas operators. Our strategic growth priorities focus on selected cities in Jiangxi and Hunan province, mainland China, fast emerging markets as a result of impending full commercial supply of natural gas by the second West-East Gas Pipeline in late 2011. Based on its existing gas distribution projects under development, Changfeng expects strong growth in its gas distribution over the next five years.

Our gross margin on sales of piped gas is expected to increase in the second half of 2010 due to the increase in the gas retail price, as well as improved efficiency on LNG/CNG storage and gasification processing when our LNG/CNG gasification processing facilities in Sanya city commence operations in late 2010.

The Company has also entered into letters of intent to form joint ventures with local gas operators-one in Changsha city, Hunan province, and the others in Pingxiang City, Jiangxi province. It is expected that agreements could be finalized in late 2010. These joint ventures will further solidify the foundation for the Company to develop natural gas distribution in these targeted markets in mainland China and also support securing natural gas supply for future projects.

Changfeng will continue to expand its gas business into adjacent selected cities in Jiangxi, Hunan and Hubei provinces, and other emerging markets concurrent with the construction of the national gas pipelines.

Changfeng's existing development projects are as follows:

Projects	Location	Phases	2010			2011				2012	2013
			Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Haitang Bay project	Sanya city, Hainan province	Construction									
		Commence supply of gas									
CNG Refueling stations	Changsha city, Hunan province	First retail refueling station									
		Commence supply of gas									
		Other 2 retail refueling stations									
		Commence Construction									
		Commence supply of gas									
		Other 4 retail refueling stations									
		Commence Construction									
		Commence supply of gas									
Xiangdong project	Pingxiang city, Jiangxi province	Commence Construction									
		Commence supply of gas									