Interim Consolidated Financial Statements of

CHANGFENG ENERGY INC.

For the three and six months ended June 30, 2010 and 2009

(Unaudited)

(Expressed in Canadian currency)

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CHANGFENG ENERGY INC.

Interim Consolidated Balance Sheet
As at

(Expressed in Canadian currency)	June 30, 2010 $	December 31, 2009 $
ASSETS		
CURRENT		
Cash and cash equivalents	4,048,569	3,782,250
Accounts and sundry receivables (Note 9)	1,544,598	1,305,244
Prepaid expenses, advances and deposits	472,257	299,660
Inventories (Note 4)	571,594	581,570
	6,637,018	5,968,724
PREPAID EXPENSES AND DEPOSITS (Note 6)	1,212,016	307,662
PLANT AND EQUIPMENT (Note 5)	34,917,272	29,213,765
INTANGIBLE ASSET	417,064	408,800
FUTURE INCOME TAX ASSETS	253,275	169,840
	43,436,645	36,068,791
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 9)	2,219,370	2,837,830
Deferred revenue	4,506,004	3,586,710
Interest payable (Note 7)	2,036,661	1,996,304
Current portion of long term debt (Note7)	1,345,032	1,931,580
	10,107,067	10,352,424
LONG TERM DEBT (Note 7)	16,217,958	9,535,260
DUE TO RELATED PARTIES (Note 9)	6,255,963	6,132,000
FUTURE INCOME TAX LIABILITY	46,114	74,600
	32,627,102	26,094,284
NON CONTROLLING INTERESTS	641,175	379,397
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 8(a) and (b))	12,121,808	12,121,808
CONTRIBUTED SURPLUS (Note 8(d))	1,714,953	1,190,509
WARRANTS (Note 8(c))	-	321,724
	13,836,761	13,634,041
ACCUMULATED OTHER COMPREHENSIVE (LOSS) (Note 14)	(523,210)	(778,791)
DEFICIT	(3,145,183)	(3,260,140)
	(3,668,393)	(4,038,931)
	10,168,368	9,595,110
	43,436,645	36,068,791

GOING CONCERN (Note 2)
ECONOMIC DEPENDENCE (Note 15)
COMMITMENTS AND CONTINGENCIES (Note 10)

APPROVED ON BEHALF OF THE BOARD:
Signed "Wencheng Zhang" Director

Signed "Peter Cheung" , Director

See accompanying notes to the interim unaudited consolidated financial statements.

CHANGFENG ENERGY INC.

Interim Consolidated Statements of Operations and Deficit
For the three and six months ended June 30, 2010 and 2009
(Unaudited)

(Expressed in Canadian currency)	3 months ended June 30		6 months ended June 30	
	2010	**2009**	**2010**	**2009**
REVENUE	4,495,484	3,742,368	9,584,940	8,079,228
COST OF SALES	2,382,637	1,420,310	4,300,252	2,879,155
GROSS MARGIN	**2,112,847**	**2,322,058**	**5,284,688**	**5,200,073**
EXPENSES				
General and administrative	1,069,616	1,191,900	2,498,584	2,406,249
Interest on long term debt (Note 7)	185,767	214,677	323,460	479,338
Travel and business development	798,735	354,578	1,651,336	807,329
Amortization	304,652	276,606	571,566	570,293
Stock based compensation	202,720	119,278	202,720	119,278
	2,561,490	2,157,039	5,247,666	4,382,487
Income (loss) before the under noted	(448,643)	165,019	37,022	817,586
Interest income	1,833	5,716	3,767	7,212
Income (loss) before tax	(446,810)	170,735	40,789	824,798
Income tax recovery (expense)	110,000	(42,431)	68,085	(73,810)
Non- controlling interest	6,083	-	6,083	-
NET INCOME (LOSS) FOR THE PERIOD	**(330,727)**	**128,304**	**114,957**	**750,988**
DEFICIT, BEGINNING OF PERIOD	(2,814,456)	(3,760,170)	(3,260,140)	(4,382,854)
DEFICIT, END OF PERIOD	(3,145,183)	(3,631,866)	(3,145,183)	(3,631,866)
NET INCOME PER SHARE - basic and diluted	(0.005)	0.002	0.002	0.011
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
- basic and diluted	66,025,000	66,025,000	66,025,000	66,025,000

Interim Consolidated Statements of Comprehensive Income (Loss)
For the three and six months ended June 30, 2010 and 2009
(Unaudited)

(Expressed in Canadian currency)	3 months ended June 30		6 months ended June 30	
	2010	**2009**	**2010**	**2009**
NET INCOME (LOSS) FOR THE PERIOD	(330,727)	128,304	114,957	750,988
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD				
Currency translation adjustment	493,811	(857,864)	255,581	(550,571)
COMPREHENSIVE INCOME FOR THE PERIOD	**163,084**	**(729,560)**	**370,538**	**200,417**

See accompanying notes to the interim unaudited consolidated financial statements.

CHANGFENG ENERGY INC.

Interim Consolidated Statements of Cash Flows
For the three and six months ended June 30, 2010 and 2009
(Unaudited)

(Expressed in Canadian currency)	3 months ended June 30		6 months ended June 30	
	2010	2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES	**$**	**$**	$	$
Net Income (loss) for the period	(330,727)	128,304	114,957	750,988
Adjustments for:				
Income taxes	(110,000)	42,431	(110,000)	73,810
Amortization	304,652	276,606	571,566	570,293
Stock based compensation	202,720	119,278	202,720	119,278
Long term debt accretion	7,588	-	15,349	-
Non-controlling interest	(6,083)	-	(6,083)	-
	68,150	566,619	788,509	1,514,369
Accounts and sundry receivables	(432,494)	(189,443)	(200,581)	(116,944)
Prepaid expenses, advances and deposits	299,279	(115,884)	139,613	(277,813)
Inventories	11,586	103,266	21,033	135,936
Accounts payable and accrued liabilities	(197,558)	(123,423)	(1,067,041)	(176,291)
Deferred revenue	768,722	883,432	815,916	627,151
Interest payable	-	101,057	-	216,342
Cash flows from operating activities	**517,685**	**1,225,624**	**497,449**	**1,922,750**
CASH FLOWS FROM INVESTING ACTIVITIES				
Plant and equipment	(2,471,014)	(333,498)	(5,111,034)	(1,570,582)
Prepaid expenses, advances and deposits	(521,531)	-	(1,174,364)	-
Cash flows from investing activities	**(2,992,545)**	**(333,498)**	**(6,285,398)**	**(1,570,582)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Long term debt	(677,700)	(777,150)	5,688,440	(1,323,750)
Minority Interest Contribution	301,200	-	301,200	-
Cash flows from financing activities	**(376,500)**	**(777,150)**	**5,989,640**	**(1,323,750)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,851,361)**	**114,976**	**201,691**	**(971,582)**
Effects of foreign exchange on cash balances	235,001	(214,839)	64,629	(173,119)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**6,664,930**	4,432,370	3,782,250	5,477,208
CASH AND CASH EQUIVALENTS, END OF PERIOD	**4,048,569**	**4,332,507**	**4,048,569**	**4,332,507**

SUPPLEMENTAL INFORMATION				
Interest paid	276,102	104,445	473,399	233,877
Taxes paid	41,439	42,431	451,822	73,810

See accompanying notes to the interim unaudited consolidated financial statements.

1. Nature of Operations

Changfeng Energy Inc. (the "Company" or "Changfeng") was incorporated under the Canada Business Corporation Act on May 4, 2006. A reorganization was completed on January 29, 2008. The Company's core business is the distribution of natural gas for industrial, commercial and residential users in China.

Prior to the end of 2009, the Company's natural gas distribution business was limited to distribution of urban pipelin 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. In early 2010, the Company, through its newly incorporated majority-owned subsidiary in mainland China, pursued compressed natural gas "CNG" refuelling station and pipeline gas distribution businesses in selected cities of mainland China. In the second quarter of 2010, the Company's first CNG retail refuelling station in Changsha City, Hunan province commenced full operation. On May 26, 2010, the Company established an 80%-owned subsidiary in Jiangxi Province, which will primarily engage in the construction and distribution of urban pipeline natural gas in XiangDong District, PingXiang, City, Jiangxi Province.

During the second quarter of 2010, the Company is organized for management reporting purposes into three principal business segments: gas connections, pipeline gas sales and CNG refueling sales.

The Company is a rate regulated natural gas distribution utility. The rights of operation of a gas pipeline infrastructure and provision of piped gas business in China are established by concession rights obtained from the city and provincial governments. The plant and equipment of the Company consists primarily of pipeline, storage and compression facilities used in the transportation, storage and distribution of natural gas. 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 also subject to government legislation, policies and controls relating to transportation, storage, distribution, pricing, environmental protection, taxes and labour standards.

2. Basis of Presentation and Going Concern

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 June 30, 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, and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended December 31, 2009. Interim results are not necessarily indicative of the results expected for the fiscal year. Certain comparative figures have been reclassified to conform to the current period's presentation.

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, its 60% interest in Hunan CNPC NEI and its 80% interest in Pingxiang Changfeng Natrual Gas Co. Ltd.("Pingxiang CF"). All material intercompany balances and transactions have been eliminated.

As at June 30, 2010, the Company had a working capital deficiency of $ 3.5 million. 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.

3. 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”)
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.

(Expressed in Canadian dollars, unless otherwise indicated)

4. Inventories

	June 30, 2010 $	December 31, 2009 $
Construction materials	346,853	410,682
Gas appliances, meters, and spare parts	224,741	170,888
	571,594	581,570

The amount of inventory recognized as an expense during the six-month period ended June 30, 2010 was $1,168,446 (2009 - $1,102,541). As at June 30, 2010 and December 31, 2009, all inventories were recorded at cost.

5. Plant and Equipment

	June 30, 2010 Cost $	Accumulated Amortization $	June 30, 2010 Net $
Pipelines	29,904,057	6,187,757	23,716,300
Land use rights	1,159,230	281,657	877,573
Motor vehicles	1,272,649	279,161	993,488
Furniture and equipment	400,479	97,617	302,862
Computer equipment	116,365	62,839	53,526
CNG station	497,816	3,278	494,537
	33,350,596	6,912,309	26,438,287
Construction in progress	8,478,985	-	8,478,985
	41,829,581	6,912,309	34,917,272

	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 June 30, 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 June 30, 2010 is cumulative capitalized interest of $285,135 (RMB 1,823,115) (December 31, 2009 - $87,800; RMB 572,715).

(Expressed in Canadian dollars, unless otherwise indicated)

6. Long-term Prepaid Expenses and Deposits

Activities regarding long-term prepaid expenses and deposits are summarized below:

	RMB	$
Deposits towards the purchase of natural gas (Note 10 (b))	1,380,000	215,830
Advance on natural gas quote fee(Note 10 (b))	1,421,053	222,251
Good faith deposits towards pending business acquisitions	4,314,796	674,832
Advance on long term lease of land(Note 10 (b))	633,667	99,103
Total	7,749,516	1,212,016

Good faith deposits towards pending business acquisitions

Included in prepaid expenses and deposits were approximately $674,832 (RMB 4,314,796) advance payments made during the period ended June 30, 2010 for potential transactions, as described below:

a) For the first half year 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) For the first half year 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 the Xiangdong district, Pingxiang City, Jiangxi Province. The final purchase price is being negotiated.

7. Long-term Debt

Long-term loan principal payments over successive periods ending June 30 are as follows:

	RMB	$
2011	8,600,000	1,345,032
2012	10,000,000	1,563,991
2013	6,500,000	1,016,594
2014	10,000,000	1,563,991
2015 and thereafter	80,000,000	12,511,925
	115,100,000	18,001,533
Long term debt discount net of six months accretion	(2,804,000)	(438,543)
	112,296,000	17,562,990

As at June 30, 2010, the Company had accrued interest of $2,036,661 (RMB 13,022,204) (December 31, 2009 - $1,996,304; RMB 13,022,204) in connection with the bank loan as described in Notes 7(a) and 7(b).

(Expressed in Canadian dollars, unless otherwise indicated)

7. Long-term Debt (Continued)

	June 30 2010 $	December 31, 2009 $
a) Term Loan Facility – China Development Bank RMB 15,100,000 (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 7(b), and loaned to the Company, bearing interest at the floating prescribed rate of the People's Bank of China (5.76% as at June 30, 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 June 30, 2010 of $24,593,873 (December 31, 2009 - $24,086,988) and gas distribution rights.	2,361,626	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 7(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 7 (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 7 (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 June 30, 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 7(b) and 7(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 accreted to plant and equipment over the term of the facility.	15,639,907	-
	(438,543)	
Sub-total	17,562,990	11,466,840
Less: current portion	(1,345,032)	(1,931,580)
Total	16,217,958	9,535,260

(Expressed in Canadian dollars, unless otherwise indicated)

8. Capital Stock

a) Authorized
Unlimited number of common shares.

b) Issued common shares:

	Number of Shares		Amount
Balance – December 31, 2008, and 2009	66,025,000	$	12,121,808
Balance – June 30, 2010	66,025,000	$	12,121,808

c) Warrants
As at December 31, 2009, the following warrants were outstanding. Each warrant entitled the holder to acquire one common share. They expired on January 29, 2010.

	Number of Warrants	Weighted Average Exercise Price	Expiry Date
Balance – December 31, 2008, and 2009	1,000,000	$0.60	January 29,2010
Balance – June 30, 2010	-	-	-

d) 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
Options granted		202,720
Balance, June 30, 2010	$	1,714,953

Stock-based Compensation
Under the Company's stock option plan, the Company may grant stock options to directors, senior officers, employees and advisors and is authorized to issue up to 10% of the issued and outstanding shares of the Company. The Board of Directors or such other persons designated by the Board administers the plan and determines the vesting and terms of each award.

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
Options granted	1,200,000	$ 0.60
Balance, June 30, 2010	4,650,000	$ 0.60

(Expressed in Canadian dollars, unless otherwise indicated)

8. Capital Stock (Continued)

The following table summarizes information about the options outstanding and exercisable at June 30, 2010.

Number outstanding	Number outstanding and exercisable	Weighted average remaining contractual life (in years)	Expiry date
3,000,000	3,000,000	2.57	22/01/2013
50,000	50,000	3.16	25/08/2013
400,000	400,000	4.00	28/06/2014
1,200,000	800,000	4.91	29/05/2015
4,650,000	4,250,000	3.15	

On May 28, 2010, the Company granted options to directors, senior officers, employees and advisors of the Company to acquire 1,200,000 common shares of the Company at an exercise price of $0.60 per share on or before May 29, 2015, of which 800,000 vested immediately, and the remaining balance will vest within a year. The fair value of the options has been estimated at $256,725 using the Black-Scholes option pricing mode.

Assumptions used to determine the value of the options were: dividend yield 0%; risk-free interest rate 2.64%; expected volatility 69%; and expected life 5 years.

For the periods ended June 30, 2010, $202,720 (June 30, 2009 - $119,278) of stock-based compensation expenses was recorded due to the granting and vesting of options.

9. Related Party 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 ($6,256,000) (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 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.

10. 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 long term 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 60% equity interest in Hunan CNPC NEI in 2009, the Company is required to pay a one time 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.

(Expressed in Canadian dollars, unless otherwise indicated)

10. Commitments and Contingencies (Continued)

(c) Lease Commitment

On September 8, 2008, the Company signed a lease agreement for 3,000 M2 of land for construction of a CNG refuelling 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

11. 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 periods ended June 30, 2010.

12. Financial Instruments

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

The Company has designated its cash and cash equivalents as held for trading, which are measured at fair value. 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.

12. Financial Instruments (Continued)

As at June 30, 2010, 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. The fair value of long-term debt described in Note 7 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. It is not practicable to estimate the fair value of the amounts due to related parties. 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 June 30, 2010, the Company held foreign currency cash and cash equivalents of RMB 25,350,593 ($3,964,809) (December 31, 2009 – RMB 21,111,585 ($3,236,406)) and US $33,310 ($35,329) (December 31, 2009 – US $33,310 ($35,009)).

(b) Regulatory Risks and Uncertainties
The price of natural gas charged by CF China for the supply of natural gas to its customers is regulated 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 both 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.

(Expressed in Canadian dollars, unless otherwise indicated)

12. Financial Instruments (Continued)

(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 7 and the remaining financial liabilities consisting of accounts payable are expected to be realized within one year.

As at June 30, 2010, the Company had a cash and cash equivalents balance of $4,048,569 (December 31, 2009 - $3,782,250), to settle current liabilities of $10,107,067 (December 31, 2009 - $10,352,424). The cash and cash equivalents balance consisted solely of cash.

(f) Sensitivity Analysis

As at June 30, 2010, the Company had variable interest rate term loan facilities in the aggregate of $17,562,990 (December 31, 2009 – $11,466,840) as described in Note 7. A 1% increase or decrease in the average interest rate charged on the term loan facilities described in Note 7 for the six months ended June 30, 2010 would have had the following impact on the Company's net income.

	Impact on Net Income
Interest rate +1%	$ 72,000
Interest rate -1%	($72,000)

13. Segmented Information

The Company's operating segments are identified by grouping together businesses that deliver similar products and provide similar service, as this is the basis for assessing the financial performance of the business segments and for allocating resources to the business segments.

Prior to the first quarter of 2010, the Company had two principal businesses: gas connection and pipeline gas sales in Sanya City, Hainan province, China. During the second quarter of 2010, the Company completed construction of its first CNG retail station in Changsha City, Hunan province, China, and had commenced full operation. As a result, the Company is organized for management reporting purposes into three principal business segments: gas connection, pipeline gas sales and CNG refuelling sales. Expenses and assets of non-operational divisions are allocated to the gas connection, pipeline gas sales and CNG refuelling sales 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.

Comparative information for 2009 has been represented to reflect these changes.

Substantially, all of Company's assets and operations are located in China.

(Expressed in Canadian dollars, unless otherwise indicated)

13. Segmented Information (Continued)

Three months ended June 30, 2010

	Gas Connection $	Pipeline Gas Sales $	CNG Refueling Sales $	Consolidated $
Revenue	1,545,295	2,755,331	194,858	4,495,484
Cost of sales	1,026,191	1,154,258	202,188	2,382,637
	519,104	1,601,073	(7,330)	2,112,847
Expenses				
General and administrative	358,861	695,074	15,681	1,069,616
Interest expense	347	185,320	100	185,767
Travel and business development	313,745	481,879	3,111	798,735
Stock-based compensation	69,684	124,249	8,787	202,720
Amortization	23,817	255,036	25,799	304,652
	766,454	1,741,558	53,478	2,561,490
Loss before the under-noted	(247,350)	(140,485)	(60,808)	(448,643)
Interest income	1,600	153	80	1,833
Income tax recovery	37,812	67,420	4,768	110,000
Non-controlling interest	2,074	2,869	1,140	6,083
Net loss for the period	(205,864)	(70,043)	(54,820)	(330,727)
Acquisition of plant and equipment during the period	129,985	2,812,748	83,921	3,026,654

As at June 30, 2010, there was cash of $48,431 (December 31, 2009 - $363,582) and other current assets of $113,639 (December 31, 2009 - $135,946) held in Canada.

Three months ended June 30, 2009

	Gas Connection $	**Pipeline Gas Sales $**	**Consolidated $**
Revenue	1,256,804	2,485,564	3,742,368
Cost of sales	788,186	632,124	1,420,310
	468,618	1,853,440	2,322,058
Expenses			
General and administrative	517,761	684,441	1,202,202
Interest on long-term debt	-	214,677	214,677
Travel and promotion	98,644	245,632	344,276
Amortization	8,644	267,962	276,606
Stock based compensation	39,596	79,682	119,278
	664,645	1,492,394	2,157,039
(Loss) Income before the under-noted	(196,027)	361,046	165,019
Interest income	1,902	3,814	5,716
Income tax expenses	(42,431)	-	(42,431)
Net income(loss) for the period	**(236,556)**	**364,860**	**128,304**
Acquisition of plant and equipment during the period	20,234	313,264	333,498

(Expressed in Canadian dollars, unless otherwise indicated)

13. Segmented Information (Continued)

Six months ended June 30, 2010

	Gas Connection $	Pipeline Gas Sales $	CNG Refueling Sales $	Consolidated $
Revenue	3,381,182	6,008,900	194,858	9,584,940
Cost of sales	2,002,752	2,095,312	202,188	4,300,252
	1,378,430	3,913,588	(7,330)	5,284,688
Expenses				
General and administrative	869,619	1,613,284	15,681	2,498,584
Interest expense	347	323,013	100	323,460
Travel and business development	585,510	1,062,715	3,111	1,651,336
Stock-based compensation	69,684	124,249	8,787	202,720
Amortization	37,643	508,124	25,799	571,566
	1,562,803	3,631,385	53,478	5,247,666
Income(Loss) before the under-noted	(184,373)	282,203	(60,808)	37,022
Interest income	2,299	1,388	80	3,767
Income tax recovery (expense)	(4,103)	67,420	4,768	68,085
Non-controlling interest	2,074	2,869	1,140	6,083
Net income(loss) for the period	(184,103)	353,880	(54,820)	114,957
Acquisition of plant and equipment during the period	316,236	5,195,018	155,420	5,666,674
Assets as at June 30,2010	3,114,734	38,909,489	1,412,422	43,436,645

Six months ended June 30, 2009

	Gas Connection $	Pipeline Gas Sales $	Consolidated $
Revenue	2,682,019	5,397,209	8,079,228
Cost of sales	1,515,210	1,363,945	2,879,155
	1,166,809	4,033,264	5,200,073
Expenses			
General and administrative	929,043	1,477,205	2,406,249
Interest on long-term debt	-	479,338	479,338
Travel and promotion	283,538	523,792	807,329
Amortization	18,086	552,207	570,293
Stock based compensation	39,596	79,682	119,278
	1,270,263	3,112,224	4,382,487
(Loss) Income before the under-noted	(103,454)	921,040	817,586
Interest income	2,394	4,818	7,212
Income tax expenses	(73,810)	-	(73,810)
Net income(loss) for the period	**(174,870)**	**925,858**	**750,988**
Acquisition of plant and equipment during the period	76,460	1,494,122	1,570,582
Assets as at June 30,2009	3,265,718	35,558,396	38,824,114

14. Accumulated Other Comprehensive (Loss) Income

(Expressed in Canadian dollars, unless otherwise indicated)

	June 30, 2010 $	December 31, 2009 $
Balance, at the beginning of the period	(778,791)	727,220
Currency translation adjustment during the period	255,581	(1,506,011)
Balance, at the end of the period	(523,210)	(778,791)

15. Economic Dependence

Currently, one gas field in the South China Sea supplies the majority of the Company's natural gas in Sanya City. Interruption of this gas field could materially affect the Company's ability to operate. Currently, the Company has a contract to purchase up to 24 million M3 gas a year (which represents less than 1% of the field's total capacity) from this supplier until June 30, 2015.

16. 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.

17. 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 a 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 $ 0.08million), 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.

b) Subsequent to June 30, 2010, Pingxiang Changfeng Natrual 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) of 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.

17. Subsequent Events (Continued)

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. The 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.

The Xiangdong District, one of the three administrative districts in Pingxiang City, has consented to grant Changfeng a 50-year exclusive concession right to operate natural gas pipeline construction and gas distribution business (including liquefied natural gas (LNG), liquefied petroleum gas (LPG), natural gas pipeline, and CNG refueling stations) in its urban district and its Xiangdong Industrial Ceramic Park.

18. COMPARATIVE FIGURES

Certain 2009 comparative figures have been reclassified to conform to the presentation of the consolidated financial statements adopted for 2010. The changes do not affect prior period's earnings.