Changfeng Energy Inc.

Management's Discussion and Analysis
For three and nine months ended
September 30, 2010 and 2009

-- unaudited --

Dated November 24, 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 its subsidiaries for the three and nine months ended September 30, 2010 and compares its financial results with those of the same period of the previous year. This information has been prepared by management in accordance with Canadian generally accepted accounting principles ('GAAP') and should be read in conjunction with the unaudited consolidated financial statements and notes thereto for the three and nine months ended September 30, 2010 and our audited annual consolidated financial statements and notes and MD&A for the year ended December 31, 2009. Additional information relating to Changfeng 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 is a natural gas utility in the People's Republic of China ("China"). The Company is mainly engaged in the design, construction, ownership and operation of natural gas pipelines and related gas distribution activities such as ownership and operation of CNG (compressed natural gas) refueling stations. The Company markets and distributes natural gas to residential, commercial and industrial users as well as vehicle users.

Pipeline gas business in Sanya City, Hainan province, China
The Company currently derives the majority of its revenue from the distribution of natural gas through a pipeline network in Sanya City, Hainan Province, China. The Company holds a 30-year exclusive concession right (until 2037) to operate a natural gas construction and distribution business in Sanya City.

Since 2003, the Company has been building an extensive pipeline network in the main district of Sanya City. Over the last two years, the Company has committed significant resources to extend its gas pipeline network from the main district of Sanya City to the Haitang Bay district, a newly developing, high growth tourist district in Sanya City. The rapid growth of the Haitang Bay district is mainly attributable to China Central Government's determination made in late 2009, to build Hainan province into an international tourism destination by 2020. The Company expects that as more hotels and other customers are constructed and connected to the Company's pipeline network in this region, revenue growth will take place in the form of increased connection fees and gas consumption.

CNG refueling station and pipeline businesses on mainland China
Since 2008, the Company has been actively pursuing concession rights for pipeline natural gas businesses and CNG refueling stations business in selected cities in Jiangxi and Hunan provinces in mainland China. These provinces represent large, rapidly growing emerging markets for the Company due to the construction of the second West-East Gas Pipeline, which will supply a significant volume of natural gas to new markets in Hunan, Jiangxi and Hubei provinces.

CNG refueling stations, in Changsha City, Hunan province, China
Changsha is the capital of Hunan Province, China with a population of approximately 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 should be dual-fuel natural gas vehicles. Further, gradually by 2015, all existing taxicab and public bus vehicles should be converted into natural gas vehicles. The purpose of this measure is to alleviate a serious air pollution problem.

The Company owns a business certificate to operate CNG refueling stations in Changsha City. The construction of the Company's first CNG refueling station was completed in Changsha City and commenced supply of gas in April 2010. The construction of another six CNG refueling stations is in the planning stage in this region.

Other pipeline business in Pingxiang City, Jiangxi province, China
In May 2010, the Xiangdong District government, one of the three administrative districts in Pingxiang City, granted Changfeng a 50-year exclusive concession right to operate a natural gas construction and distribution business (including LNG, liquefied petroleum gas (LPG), pipeline gas, and CNG refueling stations) in its existing administrative region and its Pingxiang Industrial Ceramic Park. Pinxiang City is well known as the "Ceramic city" and is the industrial ceramic capital of China.

In 2006, the Xiangdong District government started construction of the Pingxiang Industrial Ceramic Park (the "Park") in order to strengthen the competitiveness of its ceramic industry, as well as to alleviate environmental problems. Many ceramic manufacturing plants in the Park are expected to convert to use natural gas as their heating energy when the second West-East Gas Pipeline begins to commence supply of natural gas.

Changfeng will continue its efforts to expand its gas business into selected cities in Jiangxi, Hunan and Hubei provinces, and other emerging markets in proximity to the new national gas pipelines.

Description of the Nature of Operations

Pipeline business

Concession operating rights

China's natural gas distribution has been operated mainly by local distribution companies which are awarded exclusive concession rights by local governments to design, construct, own and operate natural gas pipelines which distribute natural gas in a specified geographic area. These distribution companies also perform services such as billing, safety inspection, and providing natural gas hookups for new customers. Currently, the Company holds two concession operating rights in two cities in China. One is a 30-year exclusive concession right in Sanya City, Hainan province, and the other one is a 50-year exclusive concession right in Xiangdong District, Pingxiang City, Jiangxi province.

Regulated retail selling price

As a regulated utility, China's natural gas retail prices are regulated by government based on regional pipeline infrastructure and the type of customer, being residential, commercial or industrial. They remain below international market prices. In June 2010, the National Development and Reform Commission (NDRC), the top policymaker in China, raised wholesale domestic onshore natural gas prices by 24.9%, the first increase in more than two years. In order to encourage the development of the urban natural gas distribution industry and to curb wasteful consumption, the central government has allowed passing this increased cost through the gas supply chain to the retail customer. Accordingly, natural gas retail price adjustments by local price authorities in individual provinces and major cities have been made since June, 2010. Natural gas retail prices in China may continue to increase because of the higher expected costs for China to purchase either liquefied natural gas or piped gas in the future.

Natural gas quota

Most natural gas distributors have a gas quota. A gas quota is the maximum volume of natural gas a city or a local gas distributor can purchase from one of three state-owned gas suppliers in China: (i) PetroChina, a subsidiary of CNPC, China's largest state-owned onshore natural gas supplier; (ii) CNOOC, the largest offshore natural gas supplier in China; and (iii) Sinopec, the second largest onshore natural gas supplier. PetroChina and Sinopec own and operate mostly onshore pipelines, and CNOOC owns and operates virtually all off shore pipelines. Normally, gas quotas are a long term agreement to purchase significant volumes at relatively low prices. Gas quotas differ from city to a city and are generally predetermined between the local government and one or more of the three state-owned gas suppliers based on a series of factors, such as population, general industrial development level, industrial sector and so on. Without a gas quota, a gas distributor would normally face a high operating risk of gas shortage or higher purchasing price as it would need to purchase gas from third party gas suppliers at higher prices.

Construction and operation of pipeline network

The design and construction of natural gas pipeline networks for a region is the responsibility of the gas distributor that is granted the exclusive concession operating right. Upon completion of the natural gas pipeline network, that distributor also retains ownership of the network and continues to maintain its operations to ensure that natural gas can be securely and constantly delivered to customers. The distributor is also responsible for sales, marketing and billing. Normally, one-time initial connection fees are charged to consumers for their connection to the Company's pipeline network.

Currently, the Company's existing pipeline network in greater Sanya City includes 38-km of high pressure gas pipelines, more than 100-km of medium to low pressure gas pipelines and more than 600-km of branch/customer pipelines. In addition, the Company's network includes 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.

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 and cleaner than gasoline. .In China, the Central Government has been increasing pressure to develop this industry due to the increasing urban air pollution problem. The Company started entering the CNG refueling station market in mainland China in late 2008, and its first CNG refueling station at Changsha City commenced supply of gas in April 2010.

Results of Operations

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

In thousands of Canadian dollars (except for % figures)	Q3 2010	Q3 2009	Change	YTD 2010	YTD 2009	Change
Revenue	5,393	4,101	32%	14,978	12,180	23%
Gross profit	2,626	2,420	9%	7,911	7,620	4%
% of revenue	49%	59%	-17%	53%	63%	-16%
General and administrative	1,070	1,146	-7%	3,568	3,552	0%
% of revenue	20%	28%	-29%	24%	29%	-18%
Interest on long term debt	166	197	-16%	489	677	-28%
% of revenue	3%	5%	-40%	3%	6%	-50%
Travel and business development	531	630	-16%	2,183	1,438	52%
% of revenue	9.9%	15.4%	-36%	15%	12%	25%
Amortization	310	289	7%	881	859	3%
% of revenue	6%	7%	-15%	6%	7%	-15%
Stock based compensation	33	-	-	236	119	98%
% of revenue	1%	-	-	2%	1%	100%
Interest income	1	2	-50%	5	10	-50%
% of revenue	0.02%	0.06%	-60%	0.03%	0.08%	-63%
Income tax expense	(215)	(67)	222%	(147)	(468)	-69%
% of revenue	-4%	-2%	100%	-1%	-4%	-74%
EBITDA (Note a)	1,025	644	59%	2,160	2,630	-18%
% of revenue	19%	16%	19%	14%	22%	-36%
Non-controlling interest	(4)	-	-	2	-	-
% of revenue	-0.08%	-	-	0.01%	-	-
Net income	298	93	219%	413	517	-20%
% of revenue	6%	2%	200%	3%	4%	-25%
Basic and diluted EPS	0.005	0.001	-	0.006	0.008	-
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 third 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 third quarter ended September 30, 2010, was $5.39 million compared to $4.1 million for the same quarter in 2009, an increase of 32%. For the nine-month period ended September 30, 2010, revenue amounted to $15.0 million compared to $12.2 million for the same period in 2009, an increase of 23%. This increase is mainly attributable to continued growth of piped gas sales from Sanya City as more customers were connected, new sales from the CNG refueling retail station, and gas selling price increases taking effect July 1, 2010.

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 increased 8% to RMB 2.60 per cubic meter for residential customers; increased 22% to RMB 3.80 per cubic meter to commercial customers in Sanya City, Hainan Province; and increased 14% to RMB 3.75 per cubic meter at CNG refueling retail stations, in Changsha City, Hunan province.

Revenue from Sanya City has shown continued strong growth in terms of gas connection fees and gas sales. The table below illustrates the increase in customers connected during the periods and presents the volume of natural gas sold for the quarter and nine-month period ended September 30, 2010 and 2009.

	Q3 2010	Q3 2009	Change	YTD 2010	YTD 2009	Change
Residential customers						
Customers connected during the period	2,676	2,361	13%	12,704	7,091	79%
Total customers at the end of period				63,159	44,892	41%
Gas volume sold (mm3) during the period	0.722	0.601	20%	2.947	2.052	44%
Commercial customers						
Customers connected during the period	21	10	110%	64	43	49%
Total customers at the end of period				504	418	21%
Gas volume sold (mm3) during the period	5.600	5.208	8%	18.107	15.759	15%

Revenue generated from Company's first CNG refueling retail station at Changsha City for this quarter was $369,566, or 7% of consolidated revenue, compared to $194,858 or 4% of consolidated revenue for the previous second quarter of 2010, representing an increase of 90% as a result of completing a six-month trial operation period. This station was completed construction and commenced supply of gas in April 2010. During the third quarter gas volumes were on an average approximately 7,000 m3/day.

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. Excluding foreign exchange effect, revenue for the third quarter ended September 30, 2010 in Chinese renminbi ("RMB") increased by 38% to RMB 35.1 million compared to RMB 25.5 million for the same quarter of 2009.

The exchange rate between Chinese RMB and the Canadian dollar is summarized below.

One Canadian dollar to Chinese RMB	Q3 2010	Q3 2009	% change
Average rate for the three months period	6.51	6.22	4.7%
Spot rate at September 30	6.50	6.37	2.0%

Gross margin
Gross margin for the third quarter ended September 30, 2010 increased by $0.21 million (or 9%) compared to the same quarter in 2009 as a result of increases in gas sales. Gross margin as a percentage of sales for the third quarter of 2010 decreased by 17% to 49% compared to 59% for the comparative quarter in 2009. The decrease in gross margin percentage is mainly due to a relatively higher procurement price for purchases of additional natural gas in the form of LNG and CNG in Sanya City caused by growing demand in excess of our annual 24 million m3 quota. The decrease is also due to relatively lower gross margins on CNG's sales from the refueling retail station. Offsetting the above were the sales price increases made effective July 1, 2010.

Changfeng's annual natural gas quota in Sanya city is 24 million cubic meters that was initially contracted in 2006 with CNOOC. This annual quota is currently 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 has to purchase additional volumes of gas in the form of CNG or LNG 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 higher market prices through two long term natural gas contracts that were entered into in early 2010. For the nine-month period ended September 30, 2010, 1.76 million m3 of LNG and 0.67 million m3 of CNG were purchased compared to nil for the same period of 2009.

Gross margin on gas sales from our CNG refueling retail station is normally much lower than the gross margin on piped natural gas sales. Gross margin for CNG sales was 10% and negative 4% for the third quarter and second quarter of 2010, respectively. A negative gross margin for the second quarter of 2010 was mainly due to lower revenue during its six month trial operation period.

Gross margin for the nine months ended September 30, 2010 increased to $7.9 million compared to $7.6 million for the same period in 2009, representing an increase of 4% or $0.3 million as a result of increases in gas sales. Gross margin as a percentage of sales for nine months ended September 30, 2010 decreased by 16% to 53% compared with 63% for the same period in 2009 mainly due to the factors discussed above.

Operating expenses
General and administrative expenses for the quarter and nine months ended September 30, 2010 was $1.07 million and $3.57 million, respectively, compared to $1.15 million and $3.55 million for the comparable period in 2009. General and administrative expenses as a percentage of sales for the quarter and nine months ended September 30, 2010 was 20% and 24%, respectively, compared to 28% and 29% for the comparative quarter in 2009, representing a decrease by 29% and 18%, respectively, as a result of increases in revenue.

Travel and business development expenses for the quarter and nine months ended September 30, 2010 was $0.53 million and $2.18 million, respectively, compared to $0.63 million and $1.44 million for the comparable period in 2009. This increase for 2010 is primarily attributable to travel and business development activities in Hunan and Jiangxi provinces in mainland China as the Company seeks to develop new projects in close proximity to the new national pipelines.

Amortization for the quarter and nine months ended September 30, 2010 was $0.31 million and $0.88 million, respectively, compared to $0.29 million and $0.86 million for the comparable period in 2009 as a result of an increase in property and plant.

Interest on long term debt for the quarter and nine months ended September 30, 2010 was $0.17 million and $0.49 million, respectively, compared to $0.20 million and $0.68 million for the comparable period in 2009.

Stock based compensation expenses for the quarter and nine months ended September 30, 2010 was $0.03 million and $0.24 million, respectively, compared to nil and $0.12 million for the comparable period in 2009 as a result of options being granted and having vested in the respective periods.

EBITDA for the quarter ended September 30, 2010 was $1.03 million or 19% of sales compared to $0.64 million or 16% of sales for the comparable period in 2009, representing an increase of 59% as a result of sales increases. EBITDA for the nine months ended September 30, 2010 was $2.16 million or 14% of sales compared to $2.63 million or 22% of sales for the same period in 2009, primarily due to lower gross margin, and increased business development expenses, partially offset by increase in sales.

Net income
Net income for the third quarter of 2010 was $0.30 million (or 6% of sales) or $0.005 per basic and diluted share, compared to $0.09 million (or 2% of sales) or a $0.001 per basic and diluted share, representing an increase of 219%. This increase was mainly attributable to increased sales and gross margin combined with lower travel and business development expenses.

Net income for the nine months of 2010 was $0.41 million (or 3% of sales) or $0.006 per basic and diluted share, compared to $0.52 million (or 4% of sales) or $0.008 per basic and diluted share, representing a 20% decrease. This decrease was mainly attributable to increased travel and business development expenses and stock option expense, offset by sales increase.

Expansion Projects

Currently, Changfeng is developing three projects in three cities in China:

Haitang Bay pipeline gas project, Sanya city, Hainan province
In late 2009, China Central Government authorized developing Hainan province into an international tourist destination by 2020. Haitang Bay is one of the five major bays in Sanya City, Hainan province. It is a flagship project being promoted by the Hainan provincial government which intends 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. Included among them are many world-class 5 star hotels and a world-class 7 star hotel. The size of Haitang Bay is estimated at 98.7 square kilometers and includes 24 km of beachfront.

During third quarter of 2010, the Company was close to completing 26.6 km of high-to-medium pressure pipeline linking Sanya city with Haitang Bay region and 21.2 km of low pressure pipeline. In addition, the Company has completed the majority of a LNG/CNG storage facility, as well as a gasification processing station. It is expected that gas supply will commence in December 2010 for a newly-built five-star hotel in Haitang Bay. The Company believes that as more hotels and other customers are constructed and connected to the Company's pipeline network, it will drive revenue growth in the form of new connection fees and more gas sales.

Changsha CNG refueling stations project, Changsha City, Hunan province
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 should be dual-fuel natural gas vehicles. Further, gradually by 2015, all existing taxicab and public bus vehicles should be converted into natural gas vehicles. The purpose of this measure is to alleviate a serious air pollution problem. The local government has proposed that a total of approximately 25 CNG refueling stations will be constructed in Changsha region by 2015, of which 7 stations are expected to be owned and operated by Changfeng.

In late 2008, Changfeng entered the CNG refueling station market in Changsha City, Hunan province. Currently, the Company owns a business certificate to operate CNG refueling stations in Changsha City, and holds a long term natural gas supply agreement. This agreement allows the Company to purchase up to 14.6 million m3 annually until September 2027.

The Company's first CNG refueling station in Changsha City was completed construction and commenced supply of gas in April 2010. In September, 2010, the Company entered into a land lease agreement for construction of its second CNG refueling station in Changsha City, Hunan Province.

However, as of September 30, 2010, the Company had not yet purchased any CNG pursuant to its long term CNG gas purchase contract. due to the inability of our gas supplier to provide us with gas. As a result, we have had to purchase gas at relatively higher market prices and with unstable daily volume from other third parties.

In the Changsha region, as in other parts of China, there is a relative gas supply shortage given the surging demand. Further, exacerbating this situation is the fact that during the cold months, which typically run from October to February, demands for gas spikes due to the need for hot water and regular heating. As a result, the gas available for CNG stations is reduced.

CNG and pipelined gas project, Xiangdong district, Pingxiang City, Jiangxi province
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. It is the industrial ceramic capital of China.

In May 2010, the Xiangdong District government, one of the three administrative districts in Pingxiang City, granted 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 "Park").

The Xiangdong District government started construction of the 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. Many ceramic manufacturing plants in the Park are expected to convert to use natural gas as their heating energy when the second West-East Gas Pipeline begins to commence supply of natural gas.

In May 2010, Changfeng registered an 80%-owned subsidiary, Pingxiang CF. This establishment is a major step forward for Changfeng in the construction and operation of a gas distribution business in this area. Pingxiang CF plans to build a 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 medium pressure pipeline network in this area.

In July 2010, 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 the second West-East Pipeline through a high pressure pipeline that is expected to be constructed by the Company. Currently, the pre-construction preparation of the site has commenced.

Pending Business Acquisitions or Joint Ventures

In order to seize the rapid growing market of natural gas business in China, in early 2010, the Company has entered into the following business acquisitions or joint venture agreements:

(a) During the nine months ended September 30, 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 nine months ended September 30, 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.

(c) For the quarter ended September 30, 2010, the Company received the Certificate entitling it to own a 60% interest in Jiangxi Gaoan Huaneng Pipeline Gas Co. Ltd. ("Gaoan Huaneng"). Pursuant to the letter of intent agreement between the Company and the shareholders of Gaoan Huaneng, the Company agreed to acquire a 60% equity interest in Gaoan Huaneng for a total purchase price of RMB 9 million (approximately $1.35 million) in cash. Gaoan Huaneng plans to set up a joint venture company with a wholly-owned subsidiary of PetroChina to develop a gas distribution business in Bajing Town of Gaoan City. The gas is to be supplied from a branch of the second West-East Pipeline.

As at September 30, 2010, a deposit of RMB 500,000 (approximately $77,000) was paid that was recorded in long term prepaid expenses and deposits. A further RMB 2.5 million (approximately $380,000) is required to be paid pending satisfactory review of the project for market size and economic feasibility. If the Company is not satisfied with the feasibility of the project; the Company may return the Certificate entitling it to a 60% interest in Gaoan Huaneng and would expect to recover its deposit. If the Company is satisfied with the feasibility of the project, the final balance of RMB 6 million (approximately $920,000) is required to paid upon achievement of certain milestones of completion of the project with the final payment to be made by the end of 2011.

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	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Foreign exchange rate RMB	6.51	6.64	6.57	6.46	6.22	5.85	5.49	5.64
Revenue	5,393	4,495	5,089	5,696	4,101	3,742	4,337	4,184
Gross profit	2,626	2,113	3,172	3,093	2,420	2,322	2,878	2,710
Interest	166	185	(138)	230	(197)	(215)	(265)	27
Net income (loss)	298	(330)	446	606	93	(199)	623	590
Net income (loss) per share	0.005	(0.005)	0.007	0.009	0.002	(0.003)	0.009	0.009

Liquidity and Capital Resources

Key Financial Data and Comparative Figures	September 30, 2010	December 31, 2009
($000's)		
Cash and cash equivalents	2,446	3,782
Working capital (deficit)	(4,049)	(4,383)
Plant and equipment	35,472	29,214
Total assets	42,848	36,069
Long term liabilities	22,316	15,742
Shareholders' equity	10,255	9,595

Cash and cash equivalents at September 30, 2010 were $2.4 million, a decrease of $1.3 million from $3.78 million as at December 31, 2009. Working capital deficit at September 30, 2010 decreased to $4.05 million from $4.38 million at December 31, 2009. For the nine months ended September 30, 2010, the Company had net income of $0.41 million and, as at September 30, 2010, had $4.67 million of deferred revenue primarily in connection with gas connection fees. Gas connection fees are deferred when the Company receives the payments from customers, and are 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 September 30, 2010 was $0.62 million (December 31, 2009 – $0.8 million working capital deficit).

The Company does not expect to face any liquidity problems given the fact that Changfeng has positive cash flow from operations and expects to be able to raise additional debt capital to fund its new projects in mainland China.

Cash provided by operating activities for the quarter ended September 30, 2010 was $0.57 million, a decrease of $0.90 million, compared to $1.46 million for the same period in 2009. This decrease was mainly attributable to RMB3.8 million ($0.57 million) paid as prepayment towards the purchase of 3.0 million m3 of natural gas to be delivered by the end of 2010 and a decrease in deferred revenue of $0.61 million, offset by increased net income of $0.3 million.

Cash used in financing activities for the quarter ended September 30, 2010 was $0.53 million repayment of long term bank loan.

Cash used in investing activities for the quarter ended September 30, 2010 consists of $1.42 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 $0.07 million payment for the leased land used for the CNG refueling station.

The Company continuously reviews acquisition and investment opportunities in selected cities in Jiangxi and Hunan province, mainland China, which are fast growing emerging markets as a result of the impending full commercial supply of natural gas by the second West-East Gas Pipeline. We expect that the funding for any such acquisitions and, depending on their size, could be from cash from operations, debt and/or equity financing.

Long Term Natural Gas Supply Contracts

Changfeng secures its gas supply primarily through long-term contracts with stated-own gas suppliers as described below:

Sanya City, Hainan Province
The table below sets out the long term gas purchase contracts 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

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 quota
2008-2027	CNPC	14.6 million m3 a year

Subsequent Events

Subsequent to September 30, 2010, the Company began pre-construction preparation of the site for construction of its second CNG refueling station in Changsha City, Hunan Province. The Company paid RMB 100,000 (approximately $15,400) on deposit to the landlord pursuant to the lease agreement signed September 28, 2010.

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 53,642,174 ($8,255,530) (December 31, 2009 – RMB 13,831,359 ($2,163,000)), of which RMB 47,421,234 ($7,298,128) has been paid as at September 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 principal agreement with CNOOC for the further supply of gas upon the construction of a LNG receiver terminal in Hainan province As at September 30, 2010, RMB 280,000 ($43,120) 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 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 September 30, 2010, RMB 1,000,000 ($154,000) was paid and recorded in long term prepaid expenses and deposits with the balance payable at time the gas is first supplied. As at September 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 ($77,000) at the time the gas is first supplied. As at September 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 LNG from outside suppliers without the consent of the other party to this agreement. As at September 30, 2010, RMB 500,000 ($77,000) was paid as a deposit on the contract and 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 September 30, 2010, RMB 400,000 ($61,600) was paid as a deposit on the contract and was recorded in long term prepaid expenses and deposits and is expected to be refunded when the agreement expires.

On September 10, 2010, the Company entered into a natural gas purchase agreement with a third party pursuant to which the third party agreed to provide maximum volume of 3 million m3 of natural gas. The natural gas will be fully delivered before December 31, 2010. The total amount to be paid to the third party regardless of actual gas use by the Company is RMB7.6 million ($1.1 million). This purchase agreement was reached with the help of Sanya local government as a temporary solution to avoid residential gas shortage issues in Sanya city for the rest of 2010. As at September 30, 2010, RMB 3.8 million ($0.57 million) was paid toward the purchase of natural gas and was recorded in prepaid expenses and deposits. The remaining balance is expected to be paid before the agreement expires on December 31, 2010.

On September 8, 2008, the Company signed a land lease agreement for 3,000 M2 of land for construction of a CNG refueling retail station in Changsha City, Hunan Province. The lease term is for 20 years until October 2028. A deposit of RMB 100,000 ($15,400) and four years' rent (RMB 1,880,000 or $289,000) are required to be made in advance. As at September 30, 2010, the Company has paid RMB 1,870,000 ($287,980). If the Company decides to terminate this agreement, a termination payment of RMB 1,000,000 ($154,000) will be payable.

On September 28, 2010, the Company entered into a land lease agreement for construction of its second CNG refueling station in Changsha City, Hunan Province. The lease term is for 21 years from September 28, 2011 until September 27, 2032. A deposit of RMB 100,000 ($15,400) and the first year's rent (RMB 336,000 or $51,710) is required to be paid upon commencement of construction. If the Company decides to terminate this agreement, a termination payment of RMB 1,000,000 ($154,000) will be payable. As of September 30, 2010, no payment has been made.

The minimum lease payments in successive years are as follows:

	RMB	$
2010 year end	368,000	56,635
2011 year end	336,000	51,710
2012 year end	418,250	64,369
2013 year end	829,500	127,660
2014 year end	829,500	127,660
Thereafter	15,039,516	2,314,582
Total	17,820,766	2,742,616

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 ($81,280) as at September 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 $277,953 (December 31, 2009 - $200,510) for unpaid salary which amount is included in accounts payable and accrued liabilities as at September 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 ($6,156,000) (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. As a result, on April 27, 2010, these loans were automatically 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 4,412,500 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 mainly located 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.

Seasonality can also impact the Company's CNG sales due to the fact that vehicles need more gas during the warmer seasons due to air conditioning.

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 interim consolidated 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, and 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 adopt IFRS for its interim and annual consolidated financial statements effective January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of all quarterly results reported by the Company for the year ended December 31, 2010, as well as an opening IFRS consolidated balance sheet as of January 1, 2010.

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 implementing its IFRS conversion plan for this transition, which includes 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 had completed diagnostic review of the significant differences between IFRS and Canadian GAAP, in order to identify key areas that could significantly impact the Company's financial reporting. In many areas, the Company's policies and transition elections may impact the effect that the conversion to IFRS will have on the Company's financial reporting. As such, the Company is in the process of evaluating and selecting appropriate accounting policies and determining the transition elections it plans to use. As a result of the above process, the Company expects the following areas could be significantly impacted by the Company's transition to IFRS:

- **Plant and equipment**

Under IFRS, the Company will be required to apply componentization concepts to its plant and equipment, and will be required to perform an annual review of the estimates of useful lives, residual values and depreciation methods, in addition to the annual review for impairment. The Company expects to use the historical cost accounting method to value its assets under IFRS.

- **Stock based compensation**

Under Canadian GAAP, stock based compensation is measured using the fair market value method under which the cost is recognized on a straight-line basis over the vesting period of the underlying security. The Company has not estimated a forfeiture rate for stock options that may not vest; rather the Company accounts for actual forfeitures as they occur. Under IFRS, stock based compensation will be measured using the fair market value method under which the cost will be recognized on a graded vesting basis over the vesting period of the underlying security. In addition, the Company must estimate a forfeiture rate for stock options that may not vest.

- **Presentation and disclosure**

The presentation, including disclosures, of the Company's consolidated financial statements will change as a result of implementing the IFRS presentation and disclosure requirements. These changes could result in significant differences in the presentation of the Company's consolidated balance sheet, statement of operations, shareholders's equity and cash flows. In addition, it is expected that the Company will disclose additional information in the notes to the consolidated financial statements in order to comply with the requirements of IFRS.

- **Income taxes**

The Company expects differences in the accounting for future income taxes and continues to assess the potential impact under IFRS.

As the analysis of each of the key areas progresses, other elements of the Company's IFRS conversion 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	Completed
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	Completed
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements	Completed
Management and employee education and training	Throughout the transition process
Quantification of the Financial Statement impact of changes in accounting policies	December 20, 2010

During 2010, the Company plans to complete some of the key activities related to the conversion, including the following:

- Prepare the opening consolidated balance sheet as of January 1, 2010,
- Draft the consolidated financial statements and notes thereto,
- Determine the accounting policies and transition elections,
- Obtain appropriate training for the Company's staff.

The Company has informed the audit committee of management's plans and decisions to date, and the Company plans to continue to provide the audit committee with updates through 2010 as the conversion plan progresses.

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 and MD&A 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 pipeline network in the Greater Sanya region, including the Haitang Bay district, which is expected to commence supplying gas in December 2010.

In addition to strong organic growth in the Sanya region, 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, which represent large, rapidly growing emerging markets as a result of impending full commercial supply of large volumes of natural gas to these new markets via the second West-East Gas Pipeline. Based on its existing business in the Sanya region and gas distribution projects under development, Changfeng expects strong growth over the next five years.