Interim Consolidated Financial Statements of

CHANGFENG ENERGY INC.

For the three and nine months ended September 30, 2010 and 2009

(Unaudited)

(Expressed in Canadian currency)

CHANGFENG ENERGY INC.

Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2010 and 2009
(Unaudited)

(Expressed in Canadian currency)

CHANGFENG ENERGY INC.

Unaudited Interim Consolidated Balance Sheet
As at

(Expressed in Canadian currency)	September 30, 2010 $	December 31, 2009 $
ASSETS		
CURRENT		
Cash and cash equivalents	2,446,217	3,782,250
Accounts and sundry receivables (Note 9)	1,606,734	1,305,244
Prepaid expenses, advances and deposits	993,138	299,660
Inventories (Note 4)	528,526	581,570
	5,574,615	5,968,724
PREPAID EXPENSES AND DEPOSITS (Note 6)	1,262,927	307,662
PLANT AND EQUIPMENT (Note 5)	35,471,724	29,213,765
INTANGIBLE ASSET	410,400	408,800
FUTURE INCOME TAX ASSETS	128,506	169,840
	42,848,172	36,068,791
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 9)	2,340,866	2,837,830
Deferred revenue	4,663,149	3,586,710
Interest payable (Note 7)	2,004,117	1,996,304
Current portion of long term debt (Note7)	615,600	1,931,580
	9,623,732	10,352,424
LONG TERM DEBT (Note 7)	16,127,797	9,535,260
DUE TO RELATED PARTIES (Note 9)	6,156,000	6,132,000
FUTURE INCOME TAX LIABILITY	31,898	74,600
	31,939,427	26,094,284
NON CONTROLLING INTERESTS	653,707	379,397
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 8(a) and (b))	12,121,808	12,121,808
CONTRIBUTED SURPLUS (Note 8(d))	1,748,327	1,190,509
WARRANTS (Note 8(c))	-	321,724
	13,870,135	13,634,041
ACCUMULATED OTHER COMPREHENSIVE (LOSS) (Note 14)	(767,949)	(778,791)
DEFICIT	(2,847,148)	(3,260,140)
	(3,615,097)	(4,038,931)
	10,255,038	9,595,110
	42,848,172	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 unaudited interim consolidated financial statements.

CHANGFENG ENERGY INC.

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

(Expressed in Canadian currency)	3 months ended September 30		9 months ended September 30	
	2010	**2009**	**2010**	**2009**
REVENUE	5,392,991	4,100,996	14,977,931	12,180,224
COST OF SALES	2,766,940	1,681,280	7,067,192	4,560,435
GROSS MARGIN	**2,626,051**	**2,419,716**	**7,910,739**	**7,619,789**
EXPENSES				
General and administrative	1,069,619	1,145,740	3,568,203	3,551,989
Interest on long term debt (Note 7)	165,755	197,388	489,215	676,726
Travel and business development	531,241	630,380	2,182,577	1,437,709
Amortization	309,748	288,632	881,314	858,925
Stock based compensation (Note8(d))	33,374	-	236,094	119,278
	2,109,737	2,262,140	7,357,403	6,644,627
Income before the under noted	516,314	157,576	553,336	975,162
Interest income	997	2,406	4,764	9,618
Income before tax	517,311	159,982	558,100	984,780
Income tax expense	(214,976)	(66,686)	(146,891)	(467,600)
Non- controlling interest	(4,300)	-	1,783	-
NET INCOME FOR THE PERIOD	**298,035**	**93,296**	**412,992**	**517,180**
DEFICIT, BEGINNING OF PERIOD	(3,145,183)	(3,958,970)	(3,260,140)	(4,382,854)
DEFICIT, END OF PERIOD	(2,847,148)	(3,865,674)	(2,847,148)	(3,865,674)
NET INCOME PER SHARE - basic and diluted	0.005	0.001	0.006	0.008
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 nine months ended September 30, 2010 and 2009
(Unaudited)

(Expressed in Canadian currency)	3 months ended September 30		9 months ended September 30	
	2010	**2009**	**2010**	**2009**
NET INCOME FOR THE PERIOD	298,035	93,296	412,992	517,180
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD				
Currency translation adjustment	(244,739)	(723,801)	10,842	(1,274,372)
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**53,296**	**(630,505)**	**423,834**	**(757,192)**

See accompanying notes to the unaudited interim consolidated financial statements.

CHANGFENG ENERGY INC.

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

(Expressed in Canadian currency)	3 months ended September 30 2010	3 months ended September 30 2009	9 months ended September 30 2010	9 months ended September 30 2009
CASH FLOWS FROM OPERATING ACTIVITIES	**$**	**$**	$	$
Net Income for the period	298,035	93,296	412,992	517,180
Adjustments for:				
Income taxes	109,000	50,818	(1,000)	378,066
Amortization	309,748	288,632	881,314	858,925
Stock based compensation	33,374	-	236,094	119,278
Long term debt accretion	8,118	-	23,467	-
Non-controlling interest	4,300	-	(1,783)	-
	762,575	432,746	1,551,084	1,873,449
Accounts and sundry receivables	(84,947)	(31,460)	(285,528)	(148,404)
Prepaid expenses, advances and deposits	(526,092)	(58,435)	(386,479)	(336,248)
Inventories	33,847	23,044	54,880	158,980
Accounts payable and accrued liabilities	153,277	155,745	(913,764)	(20,546)
Deferred revenue	228,550	836,214	1,044,466	1,463,365
Interest payable	-	99,881	-	316,223
Cash flows from operating activities	**567,210**	**1,457,735**	**1,064,659**	**3,306,819**
CASH FLOWS FROM INVESTING ACTIVITIES				
Plant and equipment	(1,422,483)	(839,005)	(6,533,517)	(2,409,587)
Prepaid expenses, advances and deposits	(70,094)	-	(1,244,458)	-
Cash flows from investing activities	**(1,492,577)**	**(839,005)**	**(7,777,975)**	**(2,409,587)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Long term debt	(530,510)	(474,900)	5,157,930	(1,798,650)
Minority interest contribution	-	-	301,200	-
Cash flows from financing activities	**(530,510)**	**(474,900)**	**5,459,130**	**(1,798,650)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,455,877)**	**143,830**	**(1,254,186)**	**(901,418)**
Effects of foreign exchange on cash balances	(146,475)	(379,469)	(81,847)	(478,922)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**4,048,569**	4,332,507	3,782,250	5,477,208
CASH AND CASH EQUIVALENTS, END OF PERIOD	**2,446,217**	**4,096,868**	**2,446,217**	**4,096,868**

SUPPLEMENTAL INFORMATION				
Interest paid	271,450	75,683	744,849	309,560
Taxes paid	-	15,868	451,822	89,678

See accompanying notes to the unaudited interim 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 pipeline natural gas in Sanya City Hainan Province, China, through its wholly owned subsidiary, Sanya Changfeng Offshore Natural Gas Supply Co., Ltd. ("CF China"). CF China is 100% owned by Hainan Energy Limited ("HEL") and HEL is 100% owned by the Company. 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.

The Company is currently organized for management reporting purposes into three principal business segments: gas connections, pipeline gas sales and CNG refuelling 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 People's Republic of China("China") 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 September 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 Natural Gas Co. Ltd.("Pingxiang CF"). All material intercompany balances and transactions have been eliminated.

As at September 30, 2010, the Company had a working capital deficiency of $ 4.1 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

	September 30, 2010 $	December 31, 2009 $
Construction materials	386,664	410,682
Gas appliances, meters, and spare parts	141,862	170,888
	528,526	581,570

The amount of inventory recognized as an expense during the nine-month period ended September 30, 2010 was $2,005,311 (2009 - $1,897,650). As at September 30, 2010 and December 31, 2009, all inventories were recorded at cost.

5. Plant and Equipment

	September 30, 2010 Cost $	Accumulated Amortization $	September 30, 2010 Net $
Pipelines	29,468,915	6,317,471	23,151,444
Land use rights (b)	1,140,707	284,731	855,976
Motor vehicles	1,252,314	310,934	941,380
Furniture and equipment	410,069	108,242	301,827
Computer equipment	115,968	69,347	46,620
CNG station	489,861	6,452	483,409
	32,877,834	**7,097,177**	**25,780,657**
Construction in progress (c)	9,691,067	-	9,691,067
	42,568,901	**7,097,177**	**35,471,724**

	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**

(a) Included in plant and equipment as at September 30, 2010 is cumulative capitalized interest of $399,954 (RMB 2,598,795)(December 31, 2009 - $87,800; RMB 572,715).

(b) As at September 30, 2010, the Company held four land use rights certificates. They all have a 50 year term and expire February 28, 2051.

(Expressed in Canadian dollars, unless otherwise indicated)

5. Plant and Equipment (Continued)

(c) In July 2010, Pingxiang Changfeng Natural Gas Co. Ltd.("Pingxiang CF"), an 80%-owned subsidiary of the Company, entered into an agreement with Pingxiang Ceramic Industry Park Management Committee to purchase a 20 mu (approximately 1.33 hectare) of land. This land is expected to be used for construction of one gas gate station to link Xiangdong District with a high pressure pipeline that is expected to be constructed by Pingxiang CF in 2011.

Pursuant to the agreement, the total purchase price is RMB 1.92 million ($290,000) in cash, of which RMB1,320,000 million ($200,000) is expected to be refunded by the local government when the construction of the gas gate station is completed. RMB 200,000 ($30,000) was paid as a deposit upon signing the agreement which was included in Construction in Progress in the consolidated financial statements, with the remaining balance to be paid when the ownership of land use right is transferred to Pingxiang CF.

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))	1,180,000	181,602
Advance on natural gas quote fee (Note 10 (b))	1,500,000	230,850
Good faith deposits towards pending business acquisitions(c)	4,514,796	694,827
Advance on long term lease of land (Note 10 (c))	1,011,358	155,648
Total	8,206,154	1,262,927

Good faith deposits towards pending business acquisitions

Included in prepaid expenses and deposits were approximately $694,827 (RMB 4,514,796) advance payments as described below:

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 a 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 will 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 can 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.

(Expressed in Canadian dollars, unless otherwise indicated)

7. Long-term Debt

	September 30 2010 $	December 31, 2009 $
a) Term Loan Facility – China Development Bank RMB 11,500,000 ($1,769,850) (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 September 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 September 30, 2010 of $24,007,420 (December 31, 2009 - $24,086,988) and gas distribution rights.	1,769,850	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 ($15,390,000) bearing interest at the prescribed lending rate of the People's Bank of China (5.94% as of September 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($461,700), of which a portion is being accreted to operations and the balance accreted to plant and equipment over the term of the facility. As of December 31, 2009, RMB 294,000 ($45,247) has been cumulatively accreted.	15,390,000 (461,700) 45,247	-
Sub-total	16,743,397	11,466,840
Less: current portion	(615,600)	(1,931,580)
Total	**16,127,797**	**9,535,260)**

(Expressed in Canadian dollars, unless otherwise indicated)

7. Long-term Debt (Continued)

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

	RMB	$
2011	4,000,000	615,600
2012	10,000,000	1,539,000
2013	7,500,000	1,154,250
2014	10,000,000	1,539,000
2015 and thereafter	80,000,000	12,312,000
	111,500,000	17,159,850
Long term debt discount net of nine months accretion	(2,706,000)	(416,453)
	108,794,000	16,743,397

As at September 30, 2010, the Company had accrued interest of $2,004,117 (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).

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 –September 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 –September 30, 2010	-	-	-

(Expressed in Canadian dollars, unless otherwise indicated)

8. Capital Stock (Continued)

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		236,094
Balance, September 30, 2010	$	1,748,327

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, September 30, 2010	4,650,000	$ 0.60

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

Number outstanding	Number outstanding and exercisable	Weighted average remaining contractual life (in years)	Exercise prices $	Expiry date
3,000,000	3,000,000	2.32	0.60	22/01/2013
50,000	50,000	3.91	0.60	25/08/2013
400,000	400,000	3.75	0.55	28/06/2014
1,200,000	962,500	4.66	0.60	29/05/2015
4,650,000	4,412,500	2.96		

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.

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.

During the three months ended September 30, 2010, $33,374 (September 30, 2009 - $nil) of stock-based compensation expenses was recorded due to the vesting of granted 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 ($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 – 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 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 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 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.

10. Commitments and Contingencies (Continued)

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 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 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 RMB 7.6 million ($1.1 million). This purchase agreement was reached with the help of 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.

(c) Lease Commitment

On September 8, 2008, the Company signed a land lease agreement for 3,000 M2 of land for construction of a CNG refuelling 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 signed a land lease agreement for construction of its second CNG refuelling station in Changsha City, Hunan Province. The lease term is for 21 years from September 28, 2011 to 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.

(Expressed in Canadian dollars, unless otherwise indicated)

10. Commitments and Contingencies (Continued)

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

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 September 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.

As at September 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.

12. Financial Instruments (Continued)

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 September 30, 2010, the Company held foreign currency cash and cash equivalents of RMB 15,708,654 ($2,417,562) (December 31, 2009 – RMB 21,111,585 ($3,236,406)) and US $33,310 ($34,303) (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.

(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.

(Expressed in Canadian dollars, unless otherwise indicated)

12. Financial Instruments (Continued)

(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 September 30, 2010, the Company had a cash and cash equivalents balance of $2,446,217(December 31, 2009 - $3,782,250), to settle current liabilities of $9,623,732(December 31, 2009 - $10,352,424). The cash and cash equivalents balance consisted solely of cash.

(f) Sensitivity Analysis

As at September 30, 2010, the Company had variable interest rate term loan facilities in the aggregate of $16,743,397 (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 nine months ended September 30, 2010 would have had the following impact on the Company's net income.

	Impact on Net Income
Interest rate +1%	$ 107,239
Interest rate -1%	($107,239)

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 September 30, 2010

	Gas Connection $	Pipeline Gas Sales $	CNG Refueling Sales $	Consolidated $
Revenue	1,930,607	3,092,817	369,566	5,392,991
Cost of sales	1,347,083	1,088,554	331,303	2,766,940
	583,524	2,004,263	38,264	2,626,051
Expenses				
General and administrative	303,248	634,538	131,833	1,069,619
Interest on long-term debt	-	165,755	-	165,755
Travel and business development	268,041	208,423	54,777	531,241
Stock-based compensation	11,947	19,140	2,287	33,374
Amortization	26,026	257,224	26,498	309,748
	609,262	1,285,080	215,395	2,109,737
Income (loss) before the under-noted	(25,738)	719,183	(177,131)	516,314
Interest income	648	-	349	997
Income tax expenses	(39,020)	(168,486)	(7,469)	(214,976)
Non-controlling interest	301	-	(4,601)	(4,300)
Net income (loss) for the period	**(63,809)**	**550,697**	**(188,853)**	**298,035**
Acquisition of plant and equipment during the period	**2,402**	**1,287,826**	**120,595**	**1,410,823**

As at September 30, 2010, there was bank overdraft $5,647 (December 31, 2009 - $363,582) and other current assets of $37,994 (December 31, 2009 - $135,946) held in Canada.

Three months ended September 30, 2009

	Gas Connection $	Pipeline Gas Sales $	Consolidated $
Revenue	1,665,054	2,435,942	4,100,996
Cost of sales	1,072,262	609,018	1,681,280
	592,792	1,826,924	2,419,716
Expenses			
General and administrative	336,104	809,636	1,145,740
Interest on long-term debt	-	197,388	197,388
Travel and promotion	298,860	331,520	630,380
Amortization	10,461	278,171	288,632
Stock based compensation	2,974	(2,974)	-
	648,399	1,613,741	2,262,140
Income(loss)before the under-noted	(55,607)	213,183	157,576
Interest income	1,039	1,367	2,406
Income tax expenses	(15,868)	(50,818)	(66,686)
Net income(loss) for the period	**(70,436)**	**163,732**	**93,296**
Acquisition of plant and equipment during the period	**73,567**	**765,438**	**839,005**

(Expressed in Canadian dollars, unless otherwise indicated)

13. Segmented Information (Continued)

Nine months ended September 30, 2010

	Gas Connection $	Pipeline Gas Sales $	CNG Refueling Sales $	Consolidated $
Revenue	5,311,789	9,101,717	564,424	14,977,931
Cost of sales	3,349,835	3,183,866	533,491	7,067,192
	1,961,954	5,917,851	30,934	7,910,739
Expenses				
General and administrative	1,172,867	2,247,822	147,514	3,568,203
Interest expense	347	488,768	100	489,215
Travel and business development	853,551	1,271,138	57,888	2,182,577
Stock-based compensation	81,631	143,389	11,074	236,094
Amortization	63,669	765,348	52,297	881,314
	2,172,065	4,916,465	268,873	7,357,403
Income(loss) before the under-noted	(210,111)	1,001,386	(237,939)	553,336
Interest income	2,947	1,388	429	4,764
Income tax expense	(43,123)	(101,066)	(2,702)	(146,891)
Non-controlling interest	2,375	2,869	(3,461)	1,783
Net income(loss) for the period	(247,912)	904,577	(243,673)	412,992
Acquisition of plant and equipment during the period	**318,638**	**6,482,844**	**276,015**	**7,077,497**
Assets as at September 30,2010	**2,042,831**	**37,878,826**	**2,926,514**	**42,848,172**

Nine months ended September 30, 2009

	Gas Connection $	Pipeline Gas Sales $	Consolidated $
Revenue	4,347,073	7,833,151	12,180,224
Cost of sales	2,587,472	1,972,963	4,560,435
	1,759,601	5,860,188	7,619,789
Expenses			
General and administrative	1,265,147	2,286,841	3,551,989
Interest on long-term debt	-	676,726	676,726
Travel and promotion	582,398	855,312	1,437,709
Amortization	28,547	830,378	858,925
Stock based compensation	42,570	76,708	119,278
	1,918,662	4,725,965	6,644,627
Income(loss) before the under-noted	(159,061)	1,134,223	975,162
Interest income	3,433	6,185	9,618
Income tax expenses	(89,678)	(377,922)	(467,600)
Net income(loss) for the period	**(245,306)**	**762,486**	**517,180**
Acquisition of plant and equipment during the period	**150,027**	**2,259,560**	**2,409,587**
Assets as at September 30,2009	**3,462,593**	**32,738,683**	**36,201,276**

(Expressed in Canadian dollars, unless otherwise indicated)

14. Accumulated Other Comprehensive (Loss) Income

	September 30, 2010 $	December 31, 2009 $
Balance, at the beginning of the period	(778,791)	727,220
Currency translation adjustment during the period	10,842	(1,506,011)
Balance, at the end of the period	(767,949)	(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 December 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 Event

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.

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.