Changfeng Energy Inc.

Management's Discussion and Analysis
For the three month period
ended March 31, 2011

Dated June 27, 2011

Advisory

The Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to assess material changes in financial condition and results of operations of Changfeng Energy Inc. ("Changfeng" or the "Company") for the three months ended March 31, 2011. This information should be read in conjunction with the Company's unaudited interim consolidated financial statements and related notes for the quarter ended March 31, 2011 and the audited consolidated financial statements and related notes and the MD&A for the year ended December 31, 2010. Unless otherwise note, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars. Additional information relating to Changfeng is available at www.sedar.com.

Unless otherwise note, the Company's contractual obligations, commitments, and business risks and uncertainties, as described in its MD&A for the year ended December 31, 2010, are substantially unchanged.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") 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.

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.

Overview

Changfeng is a Canadian public company currently trading on the TSX Venture Exchange (TSX-V) under the stock symbol "CFY". The Company is a natural gas distribution utility in the People's Republic of China ("China"). The Company's business operates across three segments. Gas Connections and Pipeline Gas represent two segments that together combine to form a natural gas distribution utility (the "Natural Gas Distribution Utility"). The Natural Gas Distribution Utility is more particularly described as the design, construction, ownership and operation of a natural gas pipeline network in the Sanya Region, which includes Sanya City and Haitang Bay, Hainan Province, China, where the Company markets and distributes natural gas to residential, commercial and industrial customers. The Company also owns and operates a Compressed Natural Gas ("CNG") refueling station in Changsha City, Hunan Province in China, which represents the Company's third business segment.

Adoption of International Financial Reporting Standards

The Canadian Accounting Standards Board requires Canadian publicly-accountable enterprises to adopt IFRS in its annual financial statements for the first fiscal year beginning on or after January 1, 2011. Accordingly, Changfeng began reporting under IFRS in the first quarter of 2011 and has provided comparative figures for 2010 using IFRS. Financial information disclosed in this MD&A for periods ending before and as at December 31, 2009 has not been restated to IFRS and remains in conformity with Canadian Generally Accepted Accounting Principles in effect on those dates.

Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are differences in recognition, measurement and disclosure. First-time adopters must apply IFRS 1, which requires full retrospective application of IFRS, providing certain mandatory exceptions and optional exemptions. Note 17 of the interim consolidated financial statements provides a summary of the transitional exemptions and exceptions applied by the Company in its conversion to IFRS, as well as relevant differences in accounting policies between Canadian GAAP and IFRS. The note also provides reconciliations of shareholders' equity, net earnings and comprehensive income previously reported under Canadian GAAP to that reported under IFRS.

The information provided in this MD&A and in the interim consolidated financial statements with respect to the transition to IFRS reflects current views, assumptions and expectations. Circumstances may arise such as changes in IFRS standards or interpretations of existing IFRS standards before the preparation of the consolidated annual December 31, 2011 financial statements. Consequently, final accounting policy decisions for all standards and exemptions in effect at the date of transition will be made during the preparation of the consolidated financial statements as at December 31, 2011.

It is critical for readers of Changfeng's financial statements to understand that:

1. There was no impact on Changfeng's EBITDA from the adoption of IFRS.
2. There was no impact on Changfeng's cash flows from operations and total cash flows from the adoption of IFRS.
3. All adjustments required to adopt IFRS were non-cash.
4. There are additional disclosures required under IFRS which have dramatically increased the length of the first quarter of 2011 Quarterly Report.

Non-GAAP Financial Measures

In addition to results reported in accordance with GAAP, the Company uses EBITDA, a non-GAAP financial measure as a supplemental metric of its financial and operating performance.

Changfeng has historically reported on such EBITDA, since management believes its use provides more insight into the assessment of the Company's performance. EBITDA is defined herein as earnings before 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 does not have any standardized meaning prescribed by IFRS and therefore may not conform to the definition used by other companies.

The adoption of IFRS did not have a significant impact on EBITDA as previously reported under Canadian GAAP.

Consolidated Financial Review

The following table provides selected financial information for the three months ended March 31, 2011 and 2010:

(in thousands in $Cdn) except percentages and per share data (except for % figures)	Three months ended March 31, 2011	2010	Change
Revenue	6,534	5,089	28%
Gross profit (i)	**4,019**	**3,172**	**27%**
Gross profit (% of revenue)	**61.5%**	**62.3%**	**-0.8%**
General and administrative	1,039	1,429	-27.3%
General and administrative (% of revenue)	15.9%	28.1%	-12.2%
Interest on long term debt	295	138	114%
Interest on long term debt (% of revenue)	4.5%	2.7%	1.8%
Travel and business development	756	853	-11.4%
Travel and business development (% of revenue)	11.6%	16.8%	-5.2%
Amortization	485	278	75%
Amortization (% of revenue)	7.4%	5.5%	1.9%
Total operating expenses	**2,575**	**2,697**	**-5%**
Total operating expenses (% of revenue)	**39.4%**	**53.0%**	**-13.6%**
Interest income	1	2	-50%
Interest income (% of revenue)	0.0%	0.0%	0.0%
Income tax expense	-335	-42	698%
Income tax expense (% of revenue)	-5.1%	-0.8%	4.3%
EBITDA (i)	2,224	890	150%
EBITDA (% of Revenue)	34.0%	17.5%	16.5%
Net income	**1,110**	**435**	**155%**
Net income (loss) (% of revenue)	**17.0%**	**8.5%**	**8.5%**
Basic and diluted EPS	0.017	0.007	143%
Weighted average number of common shares outstanding			
Basic and Diluted	66,025	66,025	

(i) EBITDA and gross profit will fluctuate from period to period with the timing of booking large dollar value pipeline gas connection contracts, any change in gas sales price and the gross margin on gas sales which depend on the source and cost of the gas supplied. With respect to the latter, demand for gas in Sanya City has exceeded the Company's annual 24 million m3 quota (the "Gas Quota") which provides gas at a cost of approximately 0.6 RMB per m3. As a result, the Company has been forced to purchase gas at significantly higher market-based prices in the form of Liquefied Natural Gas ("LNG") and/or Compressed Natural Gas ("CNG") (collectively the "Other Gas"). Depending upon the mix of gas supplied in the period as between the Gas Quota and Other Gas, the gross profit and gross margin as well as the EBITDA and EBITDA margin may be greatly affected.

The table below shows the reconciliation of EBITDA to Net Income.

In thousands (except for % figures)	Three months ended March 31, 2011	2010	Change	%
Net Income for the period	1,110	435	675	155%
Add back:				
Income tax expense	335	42	293	698%
Interest income	(1)	(2)	1	-50%
Amortization	485	278	207	75%
Interest on long term debt	295	138	157	114%
EBITDA	2,224	890	1,334	150%

Revenue

Revenue for the three months ended March 31, 2011 was $6.5 million, representing an increase of $1.4 million, or 28%, from $5.1 million for same period of 2010. The increase reflects higher continued growth of piped gas sales from Sanya Region, driven by the sales price increase that became effective on July 1, 2010 when commercial gas prices increased 20% and residential prices increased 8% and increased gas volume from new customers that were connected.

Further increases in revenue are attributable to continued sales from Changfeng's CNG refueling retail station that commenced initial operation in April 2010 and was not in operation in the first quarter of 2010. Total sales from this station were $0.4 million for this quarter or 6% of consolidated revenue.

Revenue from connection fees was lower during the quarter versus the same period last year due to fewer residential customers connected in Sanya City, partially offset by increased commercial connections revenue in Sanya City and Haitang Bay.

During the first quarter of 2011, the pace of real estate development in the Sanya Region slowed due to the policy by China to tighten credit to address the inflation rate. As a result, we experienced a 60% reduction in new residential customers connected compared to the same period last year and a 26% reduction in new commercial customers. However, whereas residential connection revenue was down, commercial connection revenue was higher in Sanya City and Haitang Bay, despite fewer connections as a result of higher value commercial connections.

The table below illustrates the increase in customers connected during the periods and presents the volume of natural gas sold in the Sanya Region, which excludes CNG retail refueling station gas volume, for the three months ended March 31, 2011 and 2010.

	Q1 2011	**Q1 2010**	**Change**
Residential customers			
Customers connected during the period	2,803	7,046	-60%
Accumulated customers at the end of period	70,584	57,501	23%
Gas volume sold (m3) during the period	1,726,600	1,596,900	8%
Commercial customers			
Customers connected during the period	20	27	-26%
Accumulated customers at the end of period	540	467	16%
Gas volume sold (m3) during the period	7,810,100	6,627,700	18%
Total gas volume sold (m3) during the period	9,536,700	8,224,600	16%

Foreign exchange rates

Changfeng uses the Canadian dollar as its reporting currency, but earns all of its revenues and incurs most of its expenses in Chinese Renminbi ("RMB"). Accordingly, any fluctuation in the exchange rate between these two currencies will affect the Company's reported financial information. Any impact of the changes in foreign exchange rates has been recognized as other comprehensive income, and not in net income. Excluding the impact of foreign exchange, revenues for this quarter were RMB 43.6 million, an increase of RMB 10.2 million, or 31%, from RMB 33.4 million for the same period of 2010.

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

One Canadian dollar to Chinese RMB	Q1'2011	Q1'2010	% change
Spot rate at March 31,	0.1485	0.1488	-0.2%
Average rate for the period	0.1498	0.1522	-1.6%

Gross profit

Gross profit realized for the quarter ended March 31, 2011 totaled $4.1 million, an increase of $0.9 million, or 27%, compared to $3.2 million realized during the same quarter in 2010, as a result of an increase in revenue. Gross profit as a percentage of sales for this quarter was 61.5%, comparable to 62.3% for the same period of 2010.

Gross profit from gas sales in the Sanya Region was significantly higher during the quarter compared to the same period last year, mainly driven by the price increase described above and by increased gas volume.

Gross profit from connection fees was lower during the quarter compared to the same period last year. This was caused by the decline in gross profit from residential gas connection fees driven by fewer residential connections as a result of the slower pace of real estate development in the Sanya Region, partially offset by higher gross profit from commercial gas connection fees in Sanya City and Haitang Bay. Gross margin on commercial connections in Haitang Bay are higher than commercial connections in Sanya City.

We generated gross profit of $0.08 million from our CNG refueling station during the quarter versus nil for the same period last year as it did not commence full operation until June 2010.

Operating expenses

Operating expenses for the first quarter of 2011 totaled $2.6 million, a decrease of $0.1 million, or 5%, from $2.7 million realized during the first quarter of 2010. This decrease reflects the Company's initiative to reduce its operating costs, which began during the second half year of 2010, and is partly offset by a $0.2 million of increased amortization expenses related to new plant and equipment in use at the newly-completed 26.6 km of high-to-medium pressure pipeline in Haitang Bay, Sanya Region.

Operating expenses as a percentage of sales for the first quarter of 2011 were 39.4%, compared to 53.0% for the first quarter of 2010 as a result of sales increase.

Of the $0.8 million in travel and business development expense for the quarter, the majority does not relate to the Company's business in the Sanya Region or the CNG refueling station but instead relates to projects under consideration or development on mainland China.

EBITDA

EBITDA, which measures the Company's profitability before the impact of non-operational items, increased to $2.2 million for the three months ended March 31, 2011, compared to $1.0 million for the same period in 2010, representing an increase of $1.2 million, or 150%. The increase reflected higher revenues, gross profit (+$0.9 million) and decreased expenses (-$0.3 million), as discussed above. The EBITDA increase was driven mainly by increased gross profit from gas sales in Sanya Region due to the sale price increase described above, the increase in gas volume sold and the higher proportion of gas volume purchased from the Gas Quota versus Other Gas purchased at much higher prices.

Expansion Projects

The Company is expanding its existing pipeline network in Sanya City as the geographic boundaries of Sanya City are expanding and with it the Company's exclusive concession rights. This allows the Company to connect its pipeline network to smaller towns in the area and add residential and commercial customers. In addition, Changfeng is extending its pipeline in Haitang Bay in anticipation of further hotels to be connected and as the related infrastructure in Haitang Bay is built which lowers the cost of construction to the Company.

The Company is also focusing on pipeline gas and natural gas distribution utility opportunities in selected cities in mainland China along the second West-East Gas Pipeline including the Xiangdong Project described below..

Haitang Bay pipeline gas project, Sanya City, Hainan province

In late 2009, China Central Government authorized the development of Hainan province into an international tourist destination by 2020. Haitang Bay is one of the five major bays in the Sanya Region, Hainan province which is being promoted as an international tourist destination by all levels of Government. It is a flagship project whose development area is estimated at 98.7 square kilometers and includes approximately 24 km of beachfront.

In December 2010, the Company completed an extension of a 26.6 km of high-to-medium pressure pipeline linking Sanya City with Haitang Bay, together with 21.2 km of low pressure pipeline, as well as regional pipeline networks in this area. The Company connected three hotels to its pipeline network in Haitang Bay: Double Tree by Hilton Sanya Haitang Bay, Conrad Haitang Bay, and Renaissance Sanya Resort & Spa. In addition, during the quarter the Company signed gas connection agreements for a Sheraton Hotel, Kempinski Hotel and a hospital. The Company believes that as more hotels and other customers are constructed and connected to the Company's pipeline network in Haitang Bay, it will drive revenue growth in the form of new connection fees and increased gas sales.

During the quarter, the Company completed its LNG/CNG storage facility, as well as a gasification processing station in the Sanya Region and has begun testing these facilities. The gasification capability will effectively reduce our cost of gas per m3 as it will increase the volume we receive from our supplier for a given volume and cost of gas.

CNG refueling stations project, Changsha City, Hunan province

In 2006, the Changsha City municipal government started to encourage new taxicab and public bus vehicles to be dual-fuel (CNG/gasoline) vehicles. The local government has proposed that a total of approximately 25 CNG refueling stations be constructed in Changsha region by 2015, of which 7 stations can be owned and operated by Changfeng.

In late 2008, Changfeng entered the CNG refueling station market in Changsha City. Currently, the Company owns a business certificate to operate CNG refueling stations in this city, and holds a long-term natural gas supply agreement with CNPC that allows Changfeng to purchase up to 14.6 million m3 of compressed natural gas annually until September 2027. The Company's first CNG refueling station in Changsha City was completed and commenced gas supply in April 2010; however, as of March 31, 2011, the Company had not been able to purchase any CNG pursuant to its long-term CNG gas purchase contract, mainly attributable to gas shortage in this region caused by surging demand for and limited supply of gas pending the arrival of the Second West-East Pipeline to the region. As a result, the Company has had to purchase gas at relatively higher market prices and with unstable daily volume from other third parties.

The Company believes the gas shortage in Changsha City has adversely affected demand for its gas as taxis do not want to convert to dual-use engines if there is not enough gas available. As a result, daily volumes of approximately 9,000 m3 per day are well below capacity of 12,000 to 15,000 m3 per day. The Company believes the current gas shortage will be alleviated with the arrival of new gas from the Second East-West Pipeline.

In September 2010, the Company entered into a land lease agreement for construction of its second CNG refueling station in Changsha City; however, further expansion and development of CNG refueling stations in Changsha City beyond the first station is delayed pending the arrival of the Second West-East Pipeline and a long-term, secure gas supply contract at a price that will provide for a reasonable margin. The Company is currently pursuing the acquisition of such a contract. In addition, other issues such as pricing, market size/development and capital budgeting are expected to contribute to the evolution of the Company's CNG station initiative in Changsha City.

CNG and pipelined gas project, Xiangdong district, Pingxiang City, Jiangxi province (the "Xiangdong Project")

Pingxiang City is located in the west of Jiangxi Province. It is approximately 50 km from Changsha City. It is considered one of the industrial ceramic capitals of China.

In May 2010, the Xiangdong District government, one of the three administrative districts in Pingxiang City, granted Changfeng a 50-year preliminary exclusive concession right to operate a natural gas construction and distribution business in its existing administrative region and in its Pingxiang Industrial Ceramic Park (the "Ceramic Park"). The Company refers to this as the Xiangdong Project.

The Xiangdong District government started construction of the Ceramic 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 are the main sources 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 and value of ceramics due to the relatively low temperature and unstable supply of coal methane gas. The Company believes that many ceramic manufacturing plants in the Park will convert to and use natural gas as their heating energy when the Second West-East Gas Pipeline begins to commence supply of natural gas to the region. Natural gas is not only cleaner, but it will allow the ceramic companies to produce higher quality, more differentiated products that are of higher value and less like commodities.

In May 2010, Changfeng registered an 80%-owned subsidiary, Pingxiang CF. This represents a major step forward for Changfeng in the construction and operation of a gas distribution business in this area. Through Pingxiang CF, Changfeng plans to build (i) a high pressure pipeline linking the city gate station in Xiangdong District with a gas transmission substation of the branch of the Second West-East Gas Pipeline; (ii) a gate station; (iii) pressure regulators and (iv) a medium pressure pipeline network.

In July 2010, the Company entered into an agreement with Pingxiang Ceramic Industry Park Management Committee to purchase 20 mu (approximately 1.33 hectare) of land. This land will be used for the 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.

The Company is currently pursuing the acquisition of a large, long-term gas source with favorable pricing for the Xiangdong Project.

Pending Business Acquisitions or Joint Ventures

In order to exploit the rapidly growing market for natural gas distribution in China, in early 2010, the Company entered into the following business acquisitions or joint venture agreements. However, moving forward with these potential acquisitions depends upon, among other factors, the acquisition of a secure, long-term gas contract satisfactory to the Company, which the Company expects to occur based on gas that will be available upon the completion of the Second West-East Pipeline.

1. In 2010, the Company paid a good faith deposit to the existing shareholder of Hunan CNPC, Guangda Gas Co., Ltd. ("Guangda Gas"), a company that Changfeng is considering for acquisition. Guangda Gas owns a CNG primary filling station in Changsha City. This acquisition is expected to complement the Company's CNG retail station initiative by providing a wholesale supply of gas. The deposit is refundable if the Company is not satisfied with its due diligence procedures or a reasonable purchase price cannot be negotiated.
2. In 2010, the Company paid a good faith deposit to the existing shareholders of Jiangxi Pingxiang Huaneng Energy Co. Ltd. ("Pingxiang Huaneng"), a company that Changfeng is considering for acquisition. Pingxiang Huaneng is a natural gas distributor in the Xiangdong district, Pingxiang City, Jiangxi Province. This acquisition is expected to assist the Company to consolidate gas distribution for the whole geographic area relating to the Xiangdong Project. The deposit is refundable if the Company is not satisfied with its due diligence procedures or a reasonable purchase price cannot be negotiated.

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)	2011	2010				2009		
	IFRS	IFRS	IFRS	IFRS	IFRS	Cdn GAAP	Cdn GAAP	Cdn GAAP
except per share amounts	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Foreign exchange rate RMB	6.68	6.57	6.51	6.64	6.56	6.46	6.22	5.85
Revenue	6,534	7,157	5,393	4,495	5,089	5,696	4,101	3,742
Gross profit	4,019	3,635	2,626	2,113	3,172	3,093	2,420	2,322
Interest	295	153	166	185	138	230	(197)	(215)
Net income (loss)	1,110	595	283	(345)	435	606	93	(199)
Net income (loss) per share	0.017	0.009	0.005	($0.005)	0.007	0.009	0.002	($0.003)

Liquidity and Capital Resources

Key Financial Data and Comparative Figures	March 31, 2011	December 31, 2010
($000's)		
Cash and cash equivalents	3,549	2,670
Working capital (deficit)	(7,122)	(5,994)
Plant and equipment	38,327	37,318
Total assets	46,578	44,756
Long term liabilities	20,414	21,487
Shareholders' equity	12,196	11,282

Cash and cash equivalents at March 31, 2011 were $3.5 million, an increase of $0.8 million from $2.7 million as at December 31, 2010. Working capital deficit at March 31, 2011 increased to $7.1 million from $6.0 million at December 31, 2010.

As at March 31, 2011, the Company had $4.0 million of deferred revenue in connection with construction contracts for gas connection. In addition, the Company has interest payable to Sanya State Assets Management Corporation (a state owned company) of $1.9 million (RMB 13.0 million) for years ending in 2007. However, Sanya State Assets Management Corporation has not requested payment for more than three years. Net of the above amount, the Company's effective working capital deficit is $1.2 million which the Company believes is manageable given its profitability and access to further credit.

The Company believes that its cash balances, and ability to generate liquidity and access to credit facilities will sufficiently enable the Company to maintain its capacity, pursue planned growth, and meet all other expected financial requirements in the near term.

The Company's principal sources of liquidity are cash provided by operations, including advance payments from residential and commercial customers related to construction contracts for gas connection, and access to credit facilities and capital resources. The Company's primary short-term cash requirement is to fund working capital, and repay principal payments of its loan from the China Development Bank.

The Company's medium and long term cash requirements are to repay its Credit Line (described below), to fund construction of its pipeline networks and gas distribution facilities, acquire capital and intangible assets for its growth initiatives in mainland China and repay its long term loan from the Bank of China.

Cash flow from operations

For the three months ended March 31, 2011, the Company has generated $1.2 million in cash from operations before changes in non-cash operating assets and liabilities, an increase of $0.9 million compared to $0.3 million for the same period of 2010. These significant increases were mainly attributable to sales increases, as well as lower operating expenses.

Changes in non-cash working capital accounts used $1.0 million in cash for the first quarter of 2011, compared to $0.3 million used for the same period of 2010. The primary drivers of this usage were decreased accounts receivable, accounts payable, deferred revenue and increased inventories, which required cash as a result of a slow down in real estate development. The slow down in real estate development negatively affected the Company's gas connection contracts signed during the quarter which resulted in lower advance payments from connection-fee contracts signed.

Investing activities

Capital expenditures during the first quarter of 2011 were $2.1 million, compared to $3.3 million for the same period in 2010. The substantial cash usage related to continued construction of pipeline networks in Sanya City, including the Haitang Bay district, and a $1.1 million (RMB 7.3 million) cash payment for a 4,183 square metre plot of land in Sanya City to build a monitoring and control centre and administrative office (the "Centre").

Subsequent to the quarter end, on April 12, 2011, the Company made another payment of $0.07 million (RMB 0.5 million) to secure the use of the Centre's land.

Financing activities

Cash generated from financing activities for the quarter was $2.8 million, compared to $6.4 million for the same period of 2010. During this quarter, the Company repaid $0.22 million (RMB 1.5 million) of its long-term bank loan, and received $3.0 million (RMB 20.0 million) one-year Credit Line, described below to fund working capital.

Credit facilities

During the first quarter of 2011, the Bank of China agreed to increase the Company's bank loan by $4.5 million (RMB 30 million) in the form of a one year line of credit (the "Credit Line"). The Credit Line is secured by the same collateral as that for its $14.8 million (RMB 100 million) long-term loan announced on January 25, 2010. As a result, the Bank of China has increased the Company's total loan to $19.3 million (RMB 130.0 million).

The significant increase in credit facilities is mainly attributable to its 10-year long-term bank loan of $14.8 million (RMB 100 million) that was obtained in January 2010. The loan bears variable interest rate, and is due monthly with principal repayments commencing in 2012, maturing on January 2019.

As of the date of this report, $3.0 million (RMB 20.0 million) was drawn on the Credit Line and is due in March 2012. The interest rate on the loan is based on the variable rate set by the People's Bank of China. As is the practice with lines of credit in China, the Company can apply to the Bank of China to have the Credit Line renewed when it comes due. Typically, credit lines are renewed. Further, the Company can apply within the one year term of the Credit Line to draw additional amounts up to $1.5 million (RMB 10 million).

The Company continuously reviews acquisition and investment opportunities in selected cities in mainland China as a result of the impending full commercial supply of natural gas by the not-yet-completed Second West-East Gas Pipeline. We expect that the funding for any such acquisitions could be funded from cash from operations, debt and/or equity financing.

Subsequent event

In June 2011, the Company drew an additional $1,485,000 (RMB 10,000,000) from the Credit Line above, increasing the total drawings to $4,455,000 (RMB 30,000,000).

Off-Balance Sheet Arrangements

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.

Share Capital

As at the date of this report, the Company has 66,025,000 common shares outstanding, 4,525,000 stock options outstanding and 4,525,000 stock options outstanding and exercisable at a weighted average exercise price of $0.60 per share. The Company has no warrants outstanding.

Seasonality of Operations

Seasonality can impact the Company's pipeline natural gas sales. The Company's current operations are mainly located in the Sanya Region, a tourist area 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 and restaurants, the Company's sales are affected by tourism and are higher in the winter and spring.

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

Financial 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 our audited Consolidated Financial Statements and MD&A for the year ended December 31, 2010 and the notes thereto that are available at www.sedar.com.

Significant Accounting Policies and Critical Accounting Estimates

Accounting Policies

The Company's consolidated financial statements for the year ending December 31, 2011 must use the IFRS standards that are in effect on December 31, 2011 and, therefore, the unaudited consolidated financial statements for the three months ending March 31, 2011 have been prepared using the standards that are expected to be effective at the end of 2011. However, the Company's IFRS accounting policies will only be finalized when the first annual IFRS consolidated financial statements are prepared for the year ending December 31, 2011. Therefore, certain accounting policies that the Company currently expects to follow under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified. As a result, the unaudited consolidated financial statements for the three months ended March 31, 2011 are subject to change.

A summary of the significant accounting policies that the Company has adopted in the transition from previous GAAP to IFRS, including the significant elections and exemptions that are allowed upon first time adoption of IFRS, as well as the significant impacts on these consolidated financial statements, have been disclosed in the Note 3 and Note 17 of the interim consolidated financial statements. The following discussion sets forth the estimates that the Company considers as critical in applying significant accounting policies and preparing its consolidated financial statements.

Asset componentization

The adoption of IFRS resulted in separately capitalization components of certain assets where the components were significant and had different useful lives than the previously recorded asset. The amortization of these separate components resulted in a change in amortization expense under IFRS compared to Canadian GAAP.

Valuation of intangible assets

The Company has intangible assets acquired in a business acquisition that were recorded at their fair values at the acquisition date. The identification and valuation of these intangible assets at the time of acquisition require the use of management judgment and estimates, which were believed to be reasonable under the circumstances. The use of alternative estimates and assumptions could increase or decrease the estimated fair value of recorded intangible assets, and potentially result in a different impact to our results of operations.

The Company's intangible assets consist of gas purchase contract rights, which are amortized over their contractual useful lives

Revenue recognition

Gas connection revenue is deferred and only recognized when the outcome of a contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably.

Revenue from gas connection contracts is recognized on the percentage of completion method, measured by reference to the value of work carried out during the year. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense immediately. Sales of gas appliances are recognized when goods are delivered and title has passed.

Amortization expense

The Company's plant and equipment are amortized on a straight-line basis over their estimated useful lives once they are ready for their intended use. The estimation of useful lives requires management's judgment regarding the period of time the assets will be in use based on engineering studies, experience and industry practice.

Plant and equipment are recorded at cost. Land use rights are recorded at cost and amortized over the term of the agreement. The useful lives of the Company's assets are as follows:

Pipelines	30 - 35 years
Building	30 - 35 years
Land use rights	Term of agreement
Motor vehicles	3 - 10 years
Furniture and equipment	3 - 20 years
Computer equipment	3 - 5 years
Lease improvement	Term of agreement

Impairment of long-lived assets

At each financial position reporting date, the carrying amounts of the Company's assets including long-lived assets including plant and equipment and intangible assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of an asset exceeds the fair value of the asset. Impairment loss is recognized in the net (loss) or income for the period.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, current income taxes are recognized for the estimated taxes payable for the current year. Future income taxes are determined based on the temporary differences between the accounting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. These income tax assets and liabilities are measured using the enacted or substantively enacted tax rates in which the income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances, which are not clearly defined. There is no statute of limitations in the case of tax evasion. The tax returns of the Company's PRC subsidiaries prior to tax year of 2010 are subject to examination by the relevant tax authorities.

Share-based compensation

The Company measures the fair value of its share-based compensation awards using the Black-Scholes option pricing model and recognizes the fair value expense on a straight-line basis over the relevant vesting period. Management uses judgment to determine the inputs to the Black-Scholes option pricing model including expected planed lives, underlying share price volatility and forfeiture rates. Changes in these assumptions could have a material impact on the calculation of fair value and the amount of compensation expense recognized in earnings.

Reconciliations

The following table reconciles earnings from Canadian GAAP to that under IFRS for the period indicated.

	Q1'10	Q2'10	Q3'10	Q4'10	2010
Earnings under Canadian GAAP	445,685	(330,727)	298,035	607,098	1,020,091
Items affecting comparability:					
Depreciation differences on componentisation of certain assets	(11,046)	(15,092)	(15,461)	(12,311)	(53,910)
Non-controlling interest	-	(6,083)	4,300	(7,971)	(9,754)
Earnings under IFRS	**434,639**	**(351,902)**	**286,874**	**586,816**	**956,427**

There is no change on EBITDA upon IFRS conversion, since all the adjustments are non-cash items.

Outlook

The Company continues to add both residential and commercial customers to its existing pipeline network in the Sanya Region, including the Haitang Bay district, which it commenced supplying gas in December 2010.

In addition to organic growth in the Sanya Region, Changfeng is continuing its efforts to expand its natural gas distribution business in mainland China. The Company's strategic growth priorities focus on selected cities in Jiangxi and Hunan provinces, which represent large, rapidly-growing emerging markets as a result of impending full commercial supply of large volumes of natural gas via the second West-East Gas Pipeline.