Changfeng Energy Inc.

Management's Discussion and Analysis

For the three and six months
ended June 30, 2011
Dated August 26, 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- and six-month periods ended June 30, 2011. This information should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the quarter ended June 30, 2011 and the audited consolidated financial statements and related notes and the MD&A for the year ended December 31, 2010. Unless otherwise noted, 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 noted, 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.

Non-IFRS Financial Measures

In addition to results reported in accordance with IFRS, the Company uses EBITDA, a non-IFRS 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.

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 ("the PRC or China"). The Company's business operates across three segments. Gas Connections and Pipeline Gas Sales 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 commercial, industrial and residential customers. The Company also owns and operates a Compressed Natural Gas ("CNG") retail refueling station in Changsha City, Hunan Province in China, which represents the Company's third business segment.

Results of Operations

The following table provides selected financial information for the three- and six-month periods ended June 30, 2011 and 2010.

In thousands of Canadian dollars (except for % figures)	**Q2 2011**	**Q2 2010**	**Change**	**YTD 2011**	**YTD 2010**	**Change**
Revenue	6,776	4,495	51%	13,310	9,585	39%
Gross profit	2,246	2,113	6%	6,265	5,285	19%
% of revenue	33.1%	47.0%	-14%	47.1%	55.1%	-8%
General and administrative	1,159	1,070	8%	2,198	2,499	-12%
% of revenue	17.1%	23.8%	-7%	16.5%	26.1%	-10%
Interest on long term debt	340	186	83%	635	323	97%
% of revenue	5.0%	4.1%	1%	4.8%	3.4%	1%
Travel and business development	534	799	-33%	1,290	1,651	-22%
% of revenue	7.9%	17.8%	-10%	9.7%	17.2%	-8%
Amortization	415	320	30%	900	598	51%
% of revenue	6.1%	7.1%	-1%	6.8%	6.2%	1%
Stock based compensation	0	203	-100%	0	203	-100%
% of revenue	0.0%	4.5%	-5%	0.0%	2.1%	-2%
Total expenses	2,448	2,578	-5%	5,023	5,274	-5%
% of revenue	36.1%	57.4%	-21%	37.7%	55.0%	-17%
Interest income	3.2	1.8	78%	4.5	3.8	18%
% of revenue	0.0%	0.0%	0%	0.0%	0.0%	0%
Income tax expense (recovery)	100	-110	-191%	435	-68	-740%
% of revenue	1.5%	-2.4%	4%	3.3%	-0.7%	4%
EBITDA	553	245	126%	2,776	1,135	145%
% of revenue	8.2%	5.4%	3%	20.9%	11.8%	9%
Net income(loss)	**-300**	**-352**	**-15%**	**810**	**83**	**876%**
% of revenue	-4.4%	-7.8%	3%	6.1%	0.9%	5%
Non-controlling interest	-2.5	-6.1		-7.6	-6.1	
% of revenue	0.0%	-0.1%		-0.1%	-0.1%	
Basic and diluted EPS	(0.005)	(0.005)	0%	0.012	0.001	1100%
Weighted average number of common shares outstanding Basic and diluted EPS	66,025	66,025		66,025	66,025	

(i) EBITDA and gross profit will fluctuate from period to period with the timing of obtaining largevalue pipeline gas connection contracts. It will also fluctuate a result of changes in the gas selling price, the cost of gas and the mix of gas sold in the period as between (high margin) Gas Quota (defined below) and (low margin) Other Gas (defined below). With respect to the cost of gas, demand for gas in the Sanya Region 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 versus a regulated selling price of RMB 3.8 to commercial and industrial customers and RMB 2.6 to residential customers 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 CNG (collectively the "Other Gas"). Depending upon the mix of gas supplied in the period as between the (high margin) Gas Quota and (low margin) 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)	Q2 2011	Q2 2010	Change	%	YTD 2011	YTD 2010	Change	%
Net Income	(300)	(352)	52	-15%	810	83	727	876%
Add back:								
Income tax expense (recovery)	100	(110)	210	-191%	435	(68)	503	-740%
Interest income	(3)	(2)	(1)	50%	(4)	(4)	-	-
Stock-based compensation	-	203	(203)	-100%	-	203	(203)	-100%
Amortization	415	320	95	30%	900	598	302	51%
Interest on long term debt	340	186	154	83%	635	323	312	96%
EBITDA	553	245	308	126%	2,776	1,135	1,642	145%

Revenue

Revenue for the second quarter of 2011 was $6.8 million, representing an increase of $2.3 million, or 51%, from $4.5 million for the same quarter in 2010. Revenue for the first six months of 2011 was $13.3 million, representing an increase of $3.7 million, or 39%, from $9.6 million for the same period in 2010. The significant increase for both quarter and YTD revenue is attributable mainly to the combination of continued higher gas volume growth from Sanya Region as more customers were connected, the gas sales price increase that became effective on July 1, 2010 (commercial and industrial gas prices increased 20%; residential prices increased 8%) and increased connection fees.

Further increases in revenue during the quarter and YTD versus the same periods last year are attributable to new sales from our CNG refueling retail station that commenced testing operation in April 2010, went into full operation in June 2010, and was not in operation in the first quarter of 2010. Total sales from this station for the second quarter and YTD 2011 were $0.5 million and $0.9 million respectively, compared to $0.2 million and $0.2 million for the same periods of 2010.

Further increases in revenue during the quarter and YTD versus the same periods last year are attributable to new gas sales and connection fees in Haitang Bay, a newly developing tourist district in Sanya Region. The Company began to recognize connection and gas sales revenue in Haitang Bay in late 2010. During the quarter and YTD, the Company recognized hotel connections revenue and gas sales revenue in Haitang Bay whereas in the same periods last year no such revenue was recognized.

During the first half year 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. However, during the quarter, residential connection fees were higher versus the same period last year due to more residential connections. Commercial connections fees were higher during the quarter versus the same period last year due to higher-value connections despite slightly fewer connections in the quarter.

However, YTD the Company experienced a 30% reduction in new residential customers connected and a corresponding drop in residential connection fees as connection fees are relatively fixed per customer connected. Working to offset the drop in residential connections revenue was increased connections of smaller restaurants in the Sanya Region which are classified as residential connections. But, whereas the Company experienced a 21% reduction in new commercial customers for 2011 YTD versus the same period of 2010, the Company had increased commercial connections revenue due to higher-value connections.

The table below illustrates the increase in customers connected during the periods and presents the volume of natural gas sold and purchased from its annual 24 million m3 gas quota in Sanya Region for the three and sixmonth periods ended June 30, 2011 and 2010.

	Q2 2011	Q2 2010	Change	YTD 2011	YTD 2010	Change
Residential customers						
Customers connected during the period	4,221	2,982	42%	7,024	10,028	-30%
Accumulated customers at the end of period				74,805	60,483	24%
Gas volume sold (mm3) during the period	0.86	0.63	37%	2.58	2.23	16%
Commercial customers						
Customers connected during the period	14	16	-13%	34	43	-21%
Accumulated customers at the end of period				554	483	15%
Gas volume sold (mm3) during the period	6.82	5.88	16%	14.63	12.51	17%
Total gas volume sold (mm3) during the period	**7.67**	**6.51**	**18%**	**17.21**	**14.73**	**17%**
Gas purchased from 24 mm3 gas quota ("Gas Quota")	**4.32**	**5.44**	**-**	**13.42**	**12.98**	**-**
Gas purchased (mm3) from 3rd parties ("Other Gas") (i)	**3.35**	**1.07**		**3.79**	**1.75**	

(i) The actual gas purchased from 3rd parties was slightly lower due to the use of the Company's gasification facilities.

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.

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

One Canadian dollar to Chinese RMB	Q2'2011	Q2'2010	% change
Spot rate at June 30,	0.1492	0.1565	-4.6%
Average rate for the period	0.1489	0.1506	-1.1%

Gross profit

Gross profit for the second quarter of 2011 increased $0.1 million, or 6% to $2.2 million from $2.1 million in the same quarter of 2010, despite a strong revenue increase of $2.3 million or 51%. This disproportionately lower increase in gross profit was driven mainly by higher purchase prices for natural gas in the Sanya Region due to higher purchase prices for Other Gas versus the Gas Quota, despite improved gasification utilization. It was also driven by the mix of gas sold from the Gas Quota versus from Other Gas during the quarter in the Sanya Region. In Q2-2011, the Company sold 7.67 million m3 of gas in the Sanya Region but only 4.3 million m3 (56%) came from the lower cost Gas Quota with 3.4 million m3 (44%) from higher cost Other Gas. In Q2-2010 5.4 million m3 came from the Gas Quota, being 83% of the 6.51 million m3 sold in Q2-2010. In Q1-2011, 9.1 million m3 came from the Gas Quota, being 95% of the 9.5 million m3 sold in Q1-2011.

Gross margin as a percentage of sales for the second quarter of 2011 decreased by 14% to 33% compared to 47% for the same period of 2010. This decrease is due to the reasons noted above, as well as relatively lower margins (16% for the quarter) on new sales from the Company's CNG retail refueling station, which was in testing operation in April 2010 and went into full operation in June 2010.

Gross profit for the first six months of 2011 increased $1.0 million, or 19%, to $6.3 million from $5.3 million in the same period of 2010, despite a strong revenue increase of $3.7 million or 39%. This disproportionately lower increase was caused primarily by the reasons noted above relating to the higher purchase price of gas for Other Gas, as well as the mix of gas sold as between the Gas Quota and Other Gas in the Sanya Region. Gross margin as a percentage of sales for the first six months of 2011 decreased by 8% to 47% compared to 55% for the same period of 2010, as a result of the reasons noted above and the relatively lower margins (17% YTD) on new sales from the Company's CNG retail refueling station.

Demand for gas in the Sanya Region is greatly exceeding the Gas Quota due to both urban expansion and rapid development of coastal tourism. The Company's gas quota of 24 million m3 in Sanya Region, which was originally set in 2006 with CNOOC and is set to expire in 2015, at a relatively fixed purchase price, can only meet a portion of total market demand. As a result, the Company must periodically purchase additional volumes of gas in the form of CNG or LNG to fill its pipeline and most importantly, to avoid gas shortages in peak seasons. All of the CNG or LNG purchased is at current market based pricing.

On Hainan Island there was a gas shortage during the quarter such that the price of Other Gas purchased to meet demand was higher than in Q1-2011. During the quarter, the Company also had to buy gas from mainland China to meet surging demand. The average price of Other Gas was higher than the Company's regulated selling price. However, the Company was able to increase the selling price of some Other Gas significantly beyond the regulated selling to two of its industrial customers with large daily volume to mitigate its higher gas purchase cost. To further mitigate the negative effects of the gas shortage and higher gas pricing for Other Gas, the Company is working closely with the municipal government to find a solution. Possible measures to address the problem include a sales prices increase for commercial customers, a government subsidy and a larger gas quota.

Operating expenses

The Company is experiencing operating leverage as strong revenue growth outpaces growth in operating expenses.

General and administrative expenses for the second quarter of 2011 increased $0.1 million, or 9%, to $1.2 million, and for the first six months of 2011 decreased $0.3 million, or 12%, to $2.2 million, as compared to the same periods of 2010. Since the second half of 2010, the Company began an initiative to reduce its operating costs. Despite strong revenue increases (51% in Q2 and 39% YTD versus the same periods last year), General and administrative expenses have not increased proportionately. They increased slightly in Q2 versus Q2 last year and have decreased YTD versus the same period last year. As a result, General and administrative expenses as a percentage of sales for the quarter decreased to 17%, down 7% from 24% and for YTD decreased to 17%, down 10% from 26% for the same periods last year.

Travel and business development expenses for the second quarter of 2011 decreased $0.3 million, or 33%, to $0.5 million, and for the first six months of 2011 decreased $0.4 million, or 22%, to $1.3 million, as compared to the same periods of 2010 as a result of the effort to reduce operating costs, described above. Travel and business development expenses as a percentage of revenue for the quarter decreased to 8%, down 10% from 18% for the same quarter last year and decreased to 10% YTD, down 8%, from 17% for the same period last year. Of the $0.5 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 in mainland China.

Interest on borrowing for the quarter and YTD of 2011 increased to $0.3 million and $0.6 million, respectively, compared to $0.2 million and $0.3 million for the same periods of 2010 as a result of additional borrowing from the RMB 30 million of credit of line announced in April 2011. In March 2011, RMB 20 million was drawn with an additional RMB 10 million having been drawn down in June 2011.

Amortization for the quarter and YTD of 2011 increased to $0.4 million and $0.9 million, respectively, compared to $0.3 million and $0.6 million for the same periods of 2010 as a result of the expansion of pipeline assets and the new LNG/CNG gasification facilities in Haitang Bay.

EBITDA

EBITDA for the second quarter of 2011 increased $0.4 million, or 126%, to $0.6 million from $0.2 million and for the first six months of 2011, increased $1.7 million or 142%, to $2.8 million from $1.1 million, as compared to the same periods of 2010. The increase is mainly attributable to increased gas sales volume, increased gas sales prices, and reduced operating expenses. However, strong revenue growth, driven by increased gas volume and gas price increases, and significantly lower operating expenses as a percentage of revenue were greatly offset by increased gas purchase prices for Other Gas in the Sanya Region and the mix of (higher margin) Gas Quota versus (lower margin) Other Gas as described above. EBITDA as a percentage of sales for the quarter and YTD of 2011 increased to 8% and 21%, respectively, compared to 5% and 12% for the same period of 2010.

Net income (loss)

The net loss for the second quarter of 2011 was $0.3 million or $0.005 loss per share compared to a net loss of $0.4million or $0.005 loss per share for the same period in 2010, primarily due to the reasons stated above. The net income for the first six months of 2011 was $0.8 million, or $0.012 per share compared to $0.08 million or $0.001 per share for the same period of 2010, primarily due to the reasons stated above.

Expansion Projects

The Company is expanding its existing pipeline network in the Sanya Region as the geographic boundaries of Sanya City (and as a result the Company's exclusive concession rights) are expanding. This expansion 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 utility 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 and Xiangtan Projects 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, one of the five major bays in the Sanya Region, Hainan province, is being promoted as an international tourist destination by all levels of government. It is a flagship project with a development area estimated at 98.7 square kilometers and which includes approximately 24 kilometers beachfront.

In December 2010, the Company completed a 26.6 kilometer high-to-medium pressure pipeline extension linking Sanya City to Haitang Bay. In addition, the Company built 21.2 kilometers low pressure pipeline in Haitang Bay 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, the Company signed gas connection agreements for a Sheraton Hotel, Kempinski Hotel and a hospital. The Company believes that as more hotels, as well as 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 first half year of 2011, the Company completed construction of its LNG/CNG storage facility, as well as a gasification processing station in the Sanya Region and has put these facilities into operation. The gasification capability will effectively reduce the Company's cost of Other Gas gas per m3 as it will increase the volume the Company receives from its supplier for a given unit 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 become dual-fuel (CNG/gasoline) vehicles. The local government determined 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.

The Company's first CNG refueling station in Changsha City in Hunan province was completed and commenced gas supply in April 2010. The Company had two long-term CNG purchase agreements that were originally signed in 2008 and 2009 in connection with the acquisition of Hunan CNPC NEI to secure the long-term supply of CNG up to 11,000,000 m3 and 3,650,000 m3 per year, respectively. However, due mainly to a gas shortage in Changsha City, caused by surging demand for and limited source of gas supply, the Company has not been able to purchase any CNG pursuant to its long-term CNG purchase contracts. On May 30, 2011, the Company entered into a supplementary agreement (the "Supplementary Gas Agreement") with the gas supplier with which it had previously signed the two agreements described above. Pursuant to the Supplementary Gas Agreement, the gas supplier agreed to supply CNG to the Company, once it is available.. At that time, the Company and the gas supplier agree enter into a one-year gas supply agreement, renewable annually, with annual gas volume not less than previous contractual amounts.

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, further expansion and development of CNG refueling stations in Changsha City beyond the first station have been delayed pending the completion of the second West-East Pipeline and a secure gas supply at a price that will provide for a reasonable margin. 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, Hunan province.

The Company believes the current gas shortage will be alleviated with the completion of new gas from the Second East-West Pipeline. During this quarter, daily volume sold for this station was approximately 12,000 m3 which was close to its capacity volume of 12,000 to 15,000 m3 per day. This compares to approximately 9,100 m3 per day in Q1 2011, an increase of 32%.

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 "Park"). 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 subsidiary 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 gas 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 finalizing its preliminary concession rights and is pursuing the acquisition of a large, long-term gas source with favorable pricing. The Company has also been in discussion with several potential gas customers in the Ceramic Park many of which have provided serious expressions of interest in purchasing gas when the gas arrives. Pre-construction of the pipeline linking the branch of the Second West-East Gas Pipeline to the Park is under way.

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	IFRS	Cdn GAAP	Cdn GAAP	Cdn GAAP
except per share amounts	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Foreign exchange rate RMB	6.72	6.68	6.57	6.51	6.64	6.56	6.46	6.22	5.85
Revenue	6,776	6,534	7,157	5,393	4,495	5,089	5,696	4,101	3,742
Gross profit	2,246	4,019	3,635	2,626	2,113	3,172	3,093	2,420	2,322
Interest	340	295	153	166	185	138	230	(197)	(215)
Net income (loss)	(300)	1,110	595	283	(345)	435	606	93	(199)
Net income (loss) per share	(0.005)	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	June 30, 2011	December 31, 2010
($000's)		
Cash and cash equivalents	3,016	2,670
Working capital (deficit)	(7,954)	(5,994)
Plant and equipment	38,957	37,318
Total assets	47,261	44,756
Long term liabilities	20,262	21,487
Shareholders' equity	11,954	11,282

Cash and cash equivalents at June 30, 2011 were $3.0 million, an increase of $0.3 million from $2.7 million as at December 31, 2010. Working capital deficit at June 30, 2011 increased to $8.0 million from $6.0 million at December 31, 2010.

As at June 30, 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 amounts, the Company's effective working capital deficit is $2.0 million, which the Company believes is manageable given its profitability and access to further credit.

The Company believes that its cash balances, ability to generate cash from operations and access to credit facilities will sufficiently enable the Company to 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 connections, and access to credit facilities and capital resources. The Company's primary short-term cash requirements are to fund working capital, repay principal payments of its loan from the China Development Bank,and to repay its line of credit (described below).

The Company's medium and long-term cash requirements are to fund construction of 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 second quarter ended June 30, 2011, the Company used $1.0 million in cash for operations compared to $0.5 million in cash generated for the same period of 2010. The primary drivers of this usage were increased accounts receivable, prepaid expenses and deposits, and decreased accounts payable, as well as $0.5 million income tax paid for 2010.

Investing activities

Capital expenditures during the second quarter of 2011 were $0.8 million, compared to $3.0 million for the same period of 2010. The cash usage related to continued construction of pipeline networks and LNG/CNG gasification facilities in Sanya Region.

Financing activities

Cash generated from financing activities for the quarter was $1.3 million, compared to $0.4 million cash used for the same period of 2010. During this quarter, the Company repaid $0.15 million (RMB 1.0 million) of its long-term bank loan, and received a $1.5 million (RMB 10.0 million) one-year line of credit, described below to fund working capital.

Credit facilities

In early 2011, the Bank of China agreed to increase the Company's bank loan, referred to below, 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 $14.9 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 facility to $19.4 million (RMB 130.0 million).

The Company's 10-year long-term bank loan of $14.9 million (RMB 100 million) that was obtained from the Bank of China in January 2010 bears interest at a variable rate, and is due monthly with principal repayments commencing in 2012. It matures in January 2019.

In March, 2011, $3.0 million (RMB 20.0 million) of the Credit Line was drawn, and the remaining balance of $1.5 million (RMB 10.0 million) was further drawn in June 2011. The interest rate on the Credit line is based on the variable rate set by the People's Bank of China and is due in one year. 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.

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. The Company expects that the funding for any such acquisitions could be funded from cash from operations, debt and/or equity financing.

Subsequent Events

(a) In July 2011, the Company, together with a company owned by the local municipality, Xiangtan Economic Construction and Development Investment Co. Ltd. and a local investment company, established a joint venture company, Xiangtan Changfeng Natural Gas Co., Ltd. (the "Joint Venture"). The Joint Venture has registered capital of $1,492,000 (RMB 10,000,000), of which Changfeng owns 51%. The Company contributed $298,400 (RMB 2,000,000) subsequent to June 30, 2011, and is required to contribute the remaining 462,520 (RMB 3,100,000) by July 14, 2013.

The objective of the Joint Venture is to (i) develop a natural gas pipeline network to serve industrial, commercial and residential customers in designated regions of Xiangtan City; and (ii) develop CNG (Compressed Natural Gas) and LNG (Liquefied Natural Gas) refueling stations in designated regions of Xiangtan City (the "Xiangtan Project").

Xiangtan City has a population of approximately 2.7 million and is the hometown of Chairman Mao, the founder, architect, and ruler of the PRC. It is about 120 kilometers from Changsha City, the capital of Hunan province and is along the Second West-East Pipeline..

Currently, the Joint Venture is working with the municipal government to secure exclusive concession rights in designated regions of Xiangtan City. The Joint Venture is also working to secure a natural gas supply agreement from Petro China's Hunan subsidiary. Petro China is the owner and operator of the Second West-East pipeline.

(b) On July 5, 2011, the Company granted 1,000,000 options (the "Options") exercisable at a price of $0.23, being an exercise price equal to the market price of the common shares of the Company on the day immediately prior to the date of the grant, for five years from the date of grant to an officer of the Company. This grant was made in accordance with the Company's approved Option Plan, and will vest monthly over a 24-month period beginning March 1, 2011. The terms and conditions of the Options are subject to the approval of the TSX-V.

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, 5,400,000 stock options outstanding of which 4,400,000 are exercisable at a weighted average exercise price of $0.55 - $0.60 and 1,000,000 are exercisable $0.23 per share. The Company has no warrants outstanding.

Seasonality of Operations

Seasonality can impact the Company's operations in the Sanya Region as it is 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 the Company's 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 and six months ending June 30, 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 and six months periods ended June 30, 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 for the three months ended March 31, 2011. 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 required 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 the Company's 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 basis 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 planned 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.

Adoption of International Financial Reporting Standards

Effective January 1, 2011, the Company adopted IFRS as required for all Canadian publicly-accountable enterprises by the Canadian Accounting Standards Board. The adoption date of January 1, 2011 has required the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. A reconciliation from equity under Canadian GAAP to IFRS at the date of transition of January 1, 2010 and reconciliation from earnings under Canadian GAAP to IFRS for the prior year comparable quarter and year to date for 2010, has been disclosed in the Company's first interim condensed consolidated financial statements prepared under IFRS at March 31, 2011.

Impact of the changeover to IFRS

The conversion to IFRS resulted in few differences in recognition, measurement, and presentation provided in the interim consolidated financial statements.

Cash flows have not been affected by the change, since all of these changes are non-cash items.

Shareholder's equity at December 31, 2010 were increased by $480,937, including an increase from a $671,444 reclassification of non-controlling interest, and a decrease from $190,507 for cumulative incremental amortization expenses as a result of component accounting under IFRS.

Comprehensive income for the year ended December 31, 2010 was decreased by $ 63,664 which was the impact of cumulative incremental amortization expenses from component accounting.

The impact of the transition to IFRS reflects management's 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.

With respect to presentation, the consolidated balance sheet, consolidated statements of comprehensive income and cash flow statement line items relate easily to each other under Canadian GAAP and IFRS with the exception of non-controlling interest that had to be reclassified under IFRS.

International Accounting Standard ("IAS") 34 Interim Financial Reporting states that the purpose of interim financial reporting is to provide an update on the latest complete set of annual financial statements. Given that, less note disclosure is required in interim reporting than that required in a full set of IFRS annual financial statements. However, an issuer's interim financial report that complies only with the minimum requirements under IAS 34 is less informative to investors in the first quarter after an issuer transitions to IFRS, since the latest annual financial statements were prepared under old Canadian GAAP. Consequently, additional IFRS transition information, such as the opening statement of financial position and accounting policies under IFRS, are included in the Company's Q1 interim financial reports so that financial statements users are better able to understand how the transition to IFRS affected previously reported annual and interim results. Given this, the Ontario Securities Commission ("OSC") has stated that issuers do not have to repeat this kind of information in their Q2 and Q3 interim financial reports, since the information is already available on public record through their Q1 report. The OSC also stated that it would therefore not object to issuers just making a cross-reference to the Q1 report in their Q2 and Q3 interim financial reports. The Company has made such a cross-reference in its interim financial statements after Q1.

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, where it commenced supplying gas in December 2010.

In addition to organic growth in the Sanya Region, Changfeng is executing its growth strategy, which is to focus on small and medium-sized cities In mainland China with a large addressable market for gas sales, driven primarily by industrial customers along the Second West-East Gas Pipeline. The Company now has two such piped gas projects in development In mainland China, being the Xiangdong Project and the Xiangtan Project.