

Interim Condensed Consolidated Financial Statements
(Expressed in Canadian dollars)

CHANGFENG ENERGY INC.

Three-month and six-month periods ended
June 30, 2011 and 2010
(Unaudited)

CHANGFENG ENERGY INC.

Interim Condensed Consolidated Balance Sheets
(Expressed in Canadian dollars)
(Unaudited)

	June 30, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,016,399	\$ 2,670,113	\$ 3,782,250
Trade and other receivables	2,253,530	2,034,762	1,129,924
Prepaid expenses and deposits	665,399	334,887	299,660
Inventories (note 6)	780,232	572,566	581,570
Due from related parties	375,102	380,301	385,140
Total current assets	7,090,662	5,992,629	6,178,544
Non-current assets:			
Long-term deposits	914,800	917,657	169,692
Plant and equipment (note 5)	38,956,610	37,317,603	29,077,168
Intangible assets (note 9)	298,435	528,150	536,550
Deferred income tax assets	—	—	169,840
Total non-current assets	40,169,845	38,763,410	29,953,250
Total assets	\$ 47,260,507	\$ 44,756,039	\$ 36,131,794
Liabilities and Equity			
Current liabilities:			
Trade and other payables	\$ 2,734,541	\$ 4,262,759	\$ 2,637,320
Deferred revenue	4,012,289	4,683,502	3,586,710
Interest payable	1,942,913	1,965,051	1,996,304
Current portion of bank loan (note 7)	5,968,000	754,500	8,400,840
Due to related parties (note 8)	386,073	320,879	200,510
Total current liabilities	15,043,816	11,986,691	16,821,684
Non-current liabilities:			
Long-term bank loan (note 7)	14,182,872	15,451,037	3,066,000
Due to related parties	5,968,000	6,036,000	6,132,000
Deferred income tax liabilities	111,139	—	(27,600)
Total non-current liabilities	20,262,011	21,487,037	9,170,400
Total liabilities	35,305,827	33,473,728	25,992,084
Equity attributable to owners of the parent:			
Share capital	12,121,808	12,121,808	12,121,808
Contributed surplus	1,762,168	1,762,168	1,190,509
Warrants	—	—	321,724
Accumulated other comprehensive loss	(201,851)	(63,762)	—
Deficit	(2,391,257)	(3,209,347)	(4,175,528)
Total equity attributable to owners of the parent	11,290,868	10,610,867	9,458,513
Non-controlling interest	663,812	671,444	681,197
Total equity	11,954,680	11,282,311	10,139,710
Total liabilities and equity	\$ 47,260,507	\$ 44,756,039	\$ 36,131,794

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

CHANGFENG ENERGY INC.

Interim Condensed Consolidated Statements of Comprehensive Income
(Expressed in Canadian dollars)
(Unaudited)

	Three-month period ended June 30,		Six-month period ended June 30,	
	2011	2010	2011	2010
Revenue	\$ 6,776,117	\$ 4,495,484	\$ 13,310,429	\$ 9,584,940
Cost of sales	4,530,274	2,382,637	7,045,597	4,300,252
Gross margin	2,245,843	2,112,847	6,264,832	5,284,688
Expenses:				
General and administrative	1,159,487	1,069,616	2,198,199	2,498,584
Interest on long-term debt (note 7)	340,099	185,767	635,279	323,460
Travel and business development	534,088	798,735	1,290,241	1,651,336
Amortization	415,346	319,744	900,438	597,704
Stock-based compensation	–	202,720	–	202,720
	2,449,020	2,576,582	5,024,157	5,273,804
Income (loss) from operations	(203,177)	(463,735)	1,240,675	10,884
Interest income	3,200	1,833	4,482	3,768
Income (loss) before income taxes	(199,977)	(461,902)	1,245,157	14,652
Income taxes (recovery)	100,013	(110,000)	434,699	(68,085)
Net income (loss)	(299,990)	(351,902)	810,458	82,737
Other comprehensive income (loss):				
Exchange differences on translation of foreign operations	58,714	520,836	(138,089)	221,641
Total comprehensive income (loss)	\$ (241,276)	\$ 168,934	\$ 672,369	\$ 304,378
Net income (loss) attributable to:				
Owners of the Company	\$ (297,514)	\$ (345,819)	\$ 818,090	\$ 88,820
Non-controlling interest	(2,476)	(6,083)	(7,632)	(6,083)
Total comprehensive income (loss) attributable to:				
Owners of the Company	\$ (238,800)	\$ 175,017	\$ 680,001	\$ 310,461
Non-controlling interest	(2,476)	(6,083)	(7,632)	(6,083)
Income (loss) per share attributable to owners of the parent:				
Basic and diluted	\$ (0.005)	\$ (0.005)	\$ 0.012	\$ 0.001

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CHANGFENG ENERGY INC.

Interim Condensed Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)
(Unaudited)

Three-month period ended June 30, 2011	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Non-controlling interest	Total
Equity, March 31, 2011	\$ 12,121,808	\$ 1,762,168	\$ (2,093,743)	\$ (260,565)	\$ 666,288	\$ 12,195,956
Loss for the period	–	–	(297,514)	–	(2,476)	(299,990)
Currency translation adjustment	–	–	–	58,714	–	58,714
Equity, June 30, 2011	\$ 12,121,808	\$ 1,762,168	\$ (2,391,257)	\$ (201,851)	\$ 663,812	\$ 11,954,680

Three-month period ended June 30, 2010	Share capital	Contributed surplus	Warrants	Deficit	Accumulated other comprehensive income	Non-controlling interest	Total
Equity, March 31, 2010	\$ 12,121,808	\$ 1,512,233	\$ –	\$ (3,740,889)	\$ (299,195)	\$ 681,197	\$ 10,275,154
Loss for the period	–	–	–	(345,819)	–	(6,083)	(351,902)
Currency translation adjustment	–	–	–	–	520,836	–	520,836
Options granted	–	202,720	–	–	–	–	202,720
Equity, June 30, 2010	\$ 12,121,808	\$ 1,714,953	\$ –	\$ (4,086,708)	\$ 221,641	\$ 675,114	\$ 10,646,808

Six-month period ended June 30, 2011	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Non-controlling interest	Total
Equity, January 1, 2011	\$ 12,121,808	\$ 1,762,168	\$ (3,209,347)	\$ (63,762)	\$ 671,444	\$ 11,282,311
Net income (loss)	–	–	818,090	–	(7,632)	810,458
Currency translation adjustment	–	–	–	(138,089)	–	(138,089)
Equity, June 30, 2011	\$ 12,121,808	\$ 1,762,168	\$ (2,391,257)	\$ (201,851)	\$ 663,812	\$ 11,954,680

Six-month period ended June 30, 2010	Share capital	Contributed surplus	Warrants	Deficit	Accumulated other comprehensive income	Non-controlling interest	Total
Equity, January 1, 2010	\$ 12,121,808	\$ 1,190,509	\$ 321,724	\$ (4,175,528)	\$ –	\$ 681,197	\$ 10,139,710
Net income (loss)	–	–	–	88,820	–	(6,083)	82,737
Currency translation adjustment	–	–	–	–	221,641	–	221,641
Options granted	–	202,720	–	–	–	–	202,720
Warrants expired	–	321,724	(321,724)	–	–	–	–
Equity, June 30, 2010	\$ 12,121,808	\$ 1,714,953	\$ –	\$ (4,086,708)	\$ 221,641	\$ 675,114	\$ 10,646,808

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

CHANGFENG ENERGY INC.

Interim Condensed Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited)

	Three-month period ended		Six-month period ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Cash flows from operating activities:				
Net income (loss)	\$ (299,990)	\$ (351,902)	\$ 810,458	\$ 82,737
Items not involving cash:				
Deferred income taxes	108,915	(110,000)	108,915	(110,000)
Amortization	415,346	319,744	900,438	597,704
Long-term debt accretion	14,672	7,588	29,433	15,349
Interest expense	340,099	185,767	635,279	323,460
Stock-based compensation	—	202,720	—	202,720
Income taxes paid	(536,440)	(41,439)	(933,503)	(451,822)
Interest paid	(340,099)	(276,102)	(635,279)	(473,399)
Trade and other receivables	(298,558)	(432,494)	(12,786)	(200,581)
Prepaid expenses and deposits	(341,969)	299,279	(333,303)	139,612
Inventories	103,395	11,586	(215,603)	21,034
Trade and other payables	(118,941)	(65,785)	(483,514)	(465,282)
Deferred revenue	(47,085)	768,722	(620,653)	815,916
Net cash flows from (used in) operating activities	(1,000,655)	517,684	(750,118)	497,448
Cash flows from investing activities:				
Plant and equipment	(842,439)	(2,471,014)	(2,932,465)	(5,111,034)
Long-term deposits	(44,670)	(521,531)	(44,670)	(1,174,364)
Net cash flows used in investing activities	(887,109)	(2,992,545)	(2,977,135)	(6,285,398)
Cash flows from financing activities:				
Long term debt	1,340,100	(677,700)	4,111,400	5,688,440
Minority contribution	—	301,200	—	301,200
Net cash flows from (used in) financing activities	1,340,100	(376,500)	4,111,400	5,989,640
Increase (decrease) in cash and cash equivalents	(547,664)	(2,851,361)	384,147	201,690
Effects of foreign exchange on cash balances	14,805	235,000	(37,861)	64,629
Cash and cash equivalents, beginning of period	3,549,258	6,664,930	2,670,113	3,782,250
Cash and cash equivalents, end of period	\$ 3,016,399	\$ 4,048,569	\$ 3,016,399	\$ 4,048,569

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

1. Corporate information:

Changfeng Energy Inc. (collectively with all its subsidiaries, the "Company" or "Changfeng") was incorporated under the Canada Business Corporation Act on May 4, 2006. Through its subsidiaries, the Company's core business activity is the distribution of natural gas for industrial, commercial and residential users in the People's Republic of China ("China" or "PRC").

The address of the Company's corporate office is 25 Adelaide Street East, Suite 1612, Toronto, Ontario, M5C 3A1, and the principal place of business is in China.

The ability to build and operate gas pipeline infrastructure and distribute piped gas in China is established by concession rights obtained from the applicable municipal and provincial governments. Natural gas distribution operations in China are subject to certain government regulations regarding the purchase and sale of natural gas including pricing.

2. Basis of presentation:

(a) Statement of compliance:

The interim condensed consolidated financial statements of the Company for the three-month and six-month periods ended June 30, 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 12.

The interim condensed consolidated financial statements were authorized for issue by the board of directors on August 26, 2011.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

2. Basis of presentation (continued):

(b) Basis of measurement:

The interim condensed consolidated financial statements have been prepared on a historical cost basis for all its recognized assets and liabilities. All amounts in these interim condensed consolidated financial statements are stated in Canadian dollars unless indicated with "RMB" to represent the Chinese Renminbi or "US" to represent the United States dollar.

3. Significant accounting policies:

The interim condensed consolidated financial statements should be read in conjunction with the Company's 2010 annual audited consolidated financial statements and first quarter 2011 unaudited interim condensed consolidated financial statements. These interim condensed consolidated financial statements have been prepared in accordance with IFRS using the same accounting policies as were applied in the first quarter 2011 condensed consolidated financial statements.

Accounting standards issued but not yet effective:

(a) Financial instruments - recognition and measurement:

In October 2010, the IASB published amendments to IFRS 9 (2010), Financial Instruments ("IFRS 9 (2010)"), which provides added guidance on the classification and measurement of financial liabilities. IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. For annual periods beginning before January 1, 2013, either IFRS 9 (2009) or IFRS 9 (2010) may be applied. The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

3. Significant accounting policies (continued):

(b) Financial instruments - disclosures:

In October 2010, the IASB issued amendments to IFRS 7, Disclosures - Transfers of Financial Assets ("IFRS 7"). This amendment requires disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the Company's continuing involvement in derecognized financial assets. This amendment is effective for annual periods beginning on or after January 1, 2012 and, therefore, the Company will apply the amendment in the first quarter of 2012. The extent of the impact of adoption of IFRS 7 has not yet been determined.

(c) Consolidated financial statements:

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"), which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 10 provides a single model to be applied in the control analysis for all investees. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 10 has not yet been determined.

(d) Disclosure of interests in other entities:

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 12 contains disclosure requirements for companies that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 12 has not yet been determined.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

3. Significant accounting policies (continued):

(e) Fair value measurement:

In May 2011, the IASB published IFRS 13, Fair Value Measurement ("IFRS 13"), which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS standards with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

(f) Presentation of financial statements:

In June 2011, the IASB published amendments to IAS 1, Presentation of Financial Statements ("IAS 1"), which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted. The amendments require that a company present separately the items of other comprehensive income that may be reclassified to income in the future from those that would never be reclassified as income. The Company intends to adopt the amendments in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

(g) Employee benefits:

In June 2011, the IASB published an amended version of IAS 19, Employee Benefits. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. The amendment is generally applied retrospectively with certain exceptions. The amendment will require actuarial gains and losses to be recognized immediately in other comprehensive income, past service costs to be fully recognized immediately in income and the recognition of expected return on plan assets in income to be calculated based on the rate used to discount the defined benefit obligation. The amendment also requires other additional disclosures. The Company intends to adopt the amendment in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of the amendment has not yet been determined.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

4. Use of accounting estimates and judgments:

The preparation of the interim condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the periods in which the estimates are revised and in any future periods affected. Information about significant areas of estimation and critical judgments in applying accounting policies that have significant effects on the amounts recognized in the interim condensed consolidated financial statements are included in the following notes:

(a) Impairment of plant and equipment and intangible assets:

The Company reviews plant and equipment and intangible assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

(b) 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 interim condensed consolidated balance sheet dates 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 periods. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense immediately.

(c) Amortization expense:

The Company's plant and equipment are amortized over their estimated useful economic lives. Useful lives are based upon management's estimates of the length of time that the assets will generate revenue, which is reviewed at least annually for appropriateness. Changes to these estimates can result in variations in the amounts charged for amortization and in the assets' carrying amounts.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

4. Use of accounting estimates and judgments (continued):

(d) Income taxes:

Provisions for income taxes are based on domestic and international statutory income tax rates and tax planning opportunities available to the Company in the jurisdictions in which it operates. Significant judgment is required in determining income tax provisions and the recoverability of deferred tax assets. The calculation of current and deferred income tax balances requires management to make estimates regarding the carrying values of assets and liabilities that include estimates of future cash flows and income related to such assets and liabilities, the interpretation of income tax legislation in the jurisdictions in which the Company operates and the timing of reversal of temporary differences. The Company establishes additional provisions for income taxes when, despite management's opinion that tax positions are fully supportable, there is sufficient complexity or uncertainty in the application of legislation that certain tax positions may be reassessed by tax authorities. The Company adjusts these additional accruals in light of changing facts and circumstances.

(e) Share-based payments:

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the dates at which they are granted. Determining fair value for share-based payment transactions requires the use of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The determination of fair value requires estimating the expected life of the share option, volatility and dividend yield.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

5. Plant and equipment:

Cost	Pipelines	Land use rights	Motor vehicles	Furniture and equipment	Building	Lease improvements	Construction in progress	Total
Balance, January 1, 2010	\$ 26,925,472	\$ 1,136,260	\$ 818,958	\$ 2,336,419	\$ 55,894	\$ –	\$ 4,173,120	\$ 35,446,123
Additions (transfers)	10,052,447	–	430,800	412,927	–	395,506	(1,986,307)	9,305,373
Interest capitalized	425,263	–	–	–	–	–	–	425,263
Foreign currency translation	(421,534)	(17,789)	(12,821)	(36,578)	(875)	–	–	(489,597)
Balance, December 31, 2010	36,981,648	1,118,471	1,236,937	2,712,768	55,019	395,506	2,186,813	44,687,162
Additions	522,929	–	84,583	1,436,016	1,118,424	–	(278,896)	2,883,056
Foreign currency translation	(416,626)	(12,600)	(13,935)	(30,562)	(620)	(4,455)	–	(478,798)
Balance, June 30, 2011	\$ 37,087,951	\$ 1,105,871	\$ 1,307,585	\$ 4,118,222	\$ 1,172,823	\$ 391,051	\$ 1,907,917	\$ 47,091,420

Amortization	Pipelines	Land use rights	Motor vehicles	Furniture and equipment	Building	Lease improvements	Construction in progress	Total
Balance, January 1, 2010	\$ 5,219,210	\$ 260,984	\$ 212,430	\$ 664,126	\$ 12,205	\$ –	\$ –	\$ 6,368,955
Amortization for the period	746,420	29,710	147,535	151,562	1,483	23,073	–	1,099,783
Foreign currency translation	(81,177)	(4,086)	(3,326)	(10,399)	(191)	–	–	(99,179)
Balance, December 31, 2010	5,884,453	286,608	356,639	805,289	13,497	23,073	–	7,369,559
Amortization for the period	641,115	14,687	83,066	95,670	5,793	5,616	–	845,947
Foreign currency translation	(62,623)	(3,229)	(4,018)	(9,072)	(152)	(1,602)	–	(80,696)
Balance, June 30, 2011	\$ 6,462,945	\$ 298,066	\$ 435,687	\$ 891,887	\$ 19,138	\$ 27,087	\$ –	\$ 8,134,810

Net book value	Pipelines	Land use rights	Motor vehicles	Furniture and equipment	Building	Lease improvements	Construction in progress	Total
January 1, 2010	\$ 21,706,262	\$ 875,276	\$ 606,528	\$ 1,672,293	\$ 43,689	\$ –	\$ 4,173,120	\$ 29,077,168
December 31, 2010	31,097,195	831,863	880,298	1,907,479	41,522	372,433	2,186,813	37,317,603
June 30, 2011	30,625,006	807,805	871,898	3,226,335	1,153,685	363,964	1,907,917	38,956,610

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

6. Inventories:

	June 30, 2011	December 31, 2010	January 1, 2010
Construction materials	\$ 569,731	\$ 392,970	\$ 410,682
Gas appliances, meters and spare parts	176,245	179,596	170,888
Natural gas	34,256	–	–
	<u>\$ 780,232</u>	<u>\$ 572,566</u>	<u>\$ 581,570</u>

The amount of inventories recognized as an expense during the six-month periods ended June 30, 2011 and 2010 was \$1,520,035 and \$1,168,446, respectively.

7. Long-term debt:

	June 30, 2011	December 31, 2010
Term loan facility - China Development Bank (a)	\$ 1,119,000	\$ 1,509,000
Term loan facility - Bank of China (b)	14,555,872	14,696,537
	<u>15,674,872</u>	<u>16,205,537</u>
Less current portion	1,492,000	754,500
	<u>\$ 14,182,872</u>	<u>\$ 15,451,037</u>

(a) The Company made a payment in the amount of \$149,200 (RMB 1,000,000) on its term loan from the China Development Bank in accordance with the quarterly repayment provisions of the loan.

(b) In June 2011, the Company drew \$1,492,000 (RMB 10,000,000) on its one-year \$4,476,000 (RMB 30,000,000) bank loan from the Bank of China. Total drawings on this loan at June 30, 2011 were \$4,476,000 (RMB 30,000,000). The loan is due in March 2012.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

7. Long-term debt (continued):

- (c) Also included in current portion of the bank loan is \$4,476,000 (RMB 30,000,000) for a one-year bank loan from the Bank of China, of which \$2,984,000 (RMB 20,000,000) is due in March 2012, and \$1,492,000 (RMB 10,000,000) is due in June 2012.

Long-term loan principal payments are as follows:

	RMB	Cdn. \$
2011	10,000,000	\$ 1,492,000
2012	7,500,000	1,119,000
2013	10,000,000	1,492,000
2014	10,000,000	1,492,000
2015	10,000,000	1,492,000
Thereafter	60,000,000	8,952,000
	107,500,000	16,039,000
Long-term debt discount, net of accretion	(2,411,160)	(364,128)
	105,088,840	\$ 15,674,872

8. Related parties and related party transactions:

- (a) As at June 30, 2011, Sanya Changkai Development Co., Ltd., a corporation controlled by a significant shareholder who is also an officer and director of the Company, owed the Company a total of \$77,400 (US \$78,928) (December 31, 2010 - \$78,501 (US \$78,928)) for various expenditures paid by the Company on its behalf. This amount, included in trade and other receivables on the interim condensed consolidated balance sheets, is unsecured, non-interest bearing and with no fixed terms of repayment.
- (b) As at June 30, 2011, the Company owed an officer and director of the Company \$386,073 (December 31, 2010 - \$320,879) for unpaid salary. These amounts are unsecured, non-interest bearing and with no fixed terms of repayment.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

9. Commitments and contingencies:

(a) General:

Estimated losses from contingencies are accrued by a charge to income when information available prior to the issuance of the financial statements indicates that it is likely that a future event will confirm that an asset has been impaired or a liability incurred at the date of the interim condensed consolidated financial statements and the amount of the loss can be reasonably estimated.

(b) Pipeline construction and equipment:

The Company has signed contracts with several equipment suppliers and construction supervisors for a total amount of \$8,282,750 (RMB 55,514,416) (December 31, 2010 - \$8,649,910 (RMB 57,322,135)), of which \$6,563,944 (RMB 43,994,260) has been paid as at June 30, 2011.

(c) Natural gas purchase commitments:

- (i) On May 30, 2011, the Company entered into a supplementary agreement with a gas supplier with which it had previously signed two agreements for the purchase of compressed natural gas ("CNG"). The original agreements, signed in 2009 (in connection with the acquisition of Hunan CNPC NEI) and 2008, were to secure the long-term supply of CNG up to 11,000,000 m³ and 3,650,000 m³ per year, respectively.

Pursuant to the 2009 agreement, the Company had made a payment at the date of signing of \$149,200 (RMB 1,000,000) (December 31, 2010 - \$150,900 (RMB 1,000,000)), with an additional payment due of \$298,400 (RMB 2,000,000). Pursuant to the 2008 agreement, the Company had made a payment at the date of signing of \$74,600 (RMB 500,000) (December 31, 2010 - \$75,450 (RMB 500,000)), with the requirement of paying an additional charge of \$74,600 (RMB 500,000) (December 31, 2010 - \$75,450 (RMB 500,000)) at the time the gas is first supplied. As at June 30, 2011, the Company had not purchased any CNG pursuant to these agreements, as the gas supplier was unable to supply any CNG.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

9. Commitments and contingencies (continued):

Pursuant to the supplementary agreement, the gas supplier agreed to supply natural gas to the Company once natural gas is available. At that time, the Company and the gas supplier will enter into a one-year gas supply agreement, renewable annually, with an annual gas volume not less than previous contractual amounts. In addition, the \$223,800 (RMB 1,500,000) of payments described above, which had been included as intangible assets, will be repaid to the Company within 60 days of signing the supplementary agreement, and so were reclassified to trade and other receivables. The remaining unpaid balance of \$373,000 (RMB 2,500,000), as mentioned above, was further waived.

- (ii) On March 8, 2010, the Company entered into an agreement to purchase liquefied natural gas ("LNG") from a third party for a period of five years related to its operations in Sanya City. Pursuant to this agreement, LNG will be supplied 24 hours a day, and the daily volume of LNG delivered will depend on the Company's forecast demand for the next day. As at June 30, 2011, the deposit of \$74,600 (RMB 500,000) (December 31, 2010 - \$75,450 (RMB 500,000)) was returned.
- (iii) On April 14, 2011, the Company entered into a new four-year CNG supply agreement with its existing CNG gas supplier to purchase CNG for its operations in Sanya City, up to 5,000,000 m³ until 2015 with the annual volume of CNG to be adjusted based on Changfeng's annual demand forecast. As at June 30, 2011, \$179,040 (RMB 1,200,000) (December 31, 2010 - \$60,360 (RMB 400,000)) was paid as a deposit on the contract and was recorded in long-term deposits, and is expected to be refunded when the agreement expires. This new gas supply agreement replaced its previous four-year CNG supply agreement that was entered into on April 7, 2010.
- (iv) On June 27, 2011, the Company entered into an LNG purchase agreement pursuant to which the third party agreed to provide 1,950,000 m³ of LNG. The LNG will be fully delivered before December 31, 2011. The total amount to be paid to the third party regardless of actual gas use by the Company is \$894,081 (RMB 5,992,500). A deposit of \$74,600 (RMB 500,000) is required to be paid within 5 business days upon signing the agreement, and will be paid back when the agreement expires on December 31, 2011.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

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10. Financial instruments and risk management:

The Company is exposed to foreign exchange risk, interest rate risk, credit risk, liquidity risk and regulatory risk and uncertainty. The Company has policies for managing these risks that are aligned with its overall objectives to maintain a simple and cost-effective capital structure that supports a long-term growth strategy and maximizes operating flexibility.

There have been no material changes to the Company's risk and risk management activities since December 31, 2010.

As at June 30, 2011, the carrying amounts for cash and cash equivalents, trade and other receivables, trade and other payables and interest payable on the interim condensed consolidated balance sheets approximate fair values because of the limited term to maturity of these financial instruments.

11. Segmented information:

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

The Company is segregated into three principal business segments: gas connection, pipeline gas sales and CNG refuelling sales. Expenses and assets of non-operational divisions are allocated to the gas connection, pipeline gas sales and CNG refuelling sales based on their portions of consolidated revenue. Transactions between reportable segments, namely the transfer of certain pipeline assets from the gas connection segment to the pipeline gas sales segment, have been accounted for based on the carrying values of the assets transferred.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

11. Segmented information (continued):

Three-month period ended June 30, 2011:

	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Revenue	\$ 2,503,342	\$ 3,732,841	\$ 539,934	\$ 6,776,117
Cost of sales	1,676,512	2,399,634	454,128	4,530,274
	826,830	1,333,207	85,806	2,245,843
Expenses:				
General and administrative	344,235	736,507	78,745	1,159,487
Interest on long-term debt	–	340,099	–	340,099
Travel and business development	204,766	308,450	20,872	534,088
Amortization	28,149	352,135	35,062	415,346
	577,150	1,737,191	134,679	2,449,020
Income (loss) from operations	\$ 249,680	\$ (403,984)	\$ (48,873)	\$ (203,177)
Acquisition of plant and equipment	\$ 73,360	\$ 749,633	\$ 19,446	\$ 842,439
Total assets June 30, 2011	\$ 2,852,894	\$ 41,937,779	\$ 2,469,834	\$ 47,260,507

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

11. Segmented information (continued):

Three-month period ended June 30, 2010:

	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Revenue	\$ 1,545,295	\$ 2,755,331	\$ 194,858	\$ 4,495,484
Cost of sales	1,026,191	1,154,258	202,188	2,382,637
	519,104	1,601,073	(7,330)	2,112,847
Expenses:				
General and administrative	358,861	695,074	15,681	1,069,616
Interest on long-term debt	–	185,767	–	185,767
Travel and business development	313,745	481,879	3,111	798,735
Stock-based compensation	69,684	124,249	8,787	202,720
Amortization	23,817	266,082	29,845	319,744
	766,107	1,753,051	57,424	2,576,582
Loss from operations	\$ (247,003)	\$ (151,978)	\$ (64,754)	\$ (463,735)
Acquisition of plant and equipment	\$ 129,985	\$ 2,257,108	\$ 83,921	\$ 2,471,014
Total assets June 30, 2010	\$ 3,114,734	\$ 38,898,443	\$ 1,408,375	\$ 43,421,552

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

11. Segmented information (continued):

Six-month period ended June 30, 2011:

	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Revenue	\$ 4,086,378	\$ 8,279,401	\$ 944,650	\$ 13,310,429
Cost of sales	2,649,541	3,613,635	782,421	7,045,597
	1,436,837	4,665,766	162,229	6,264,832
Expenses:				
General and administrative	645,555	1,408,544	144,100	2,198,199
Interest on long-term debt	–	635,279	–	635,279
Travel and business development	467,128	694,014	129,099	1,290,241
Amortization	54,718	776,271	69,449	900,438
	1,167,401	3,514,108	342,648	5,024,157
Income (loss) from operations	\$ 269,436	\$ 1,151,658	\$ (180,419)	\$ 1,240,675
Acquisition of plant and equipment	\$ 75,693	\$ 2,736,846	\$ 119,926	\$ 2,932,465
Total assets June 30, 2011	\$ 2,852,894	\$ 41,937,779	\$ 2,469,834	\$ 47,260,507

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
(Unaudited)

11. Segmented information (continued):

Six-month period ended June 30, 2010:

	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Revenue	\$ 3,381,182	\$ 6,008,900	\$ 194,858	\$ 9,584,940
Cost of sales	2,002,752	2,095,312	202,188	4,300,252
	1,378,430	3,913,588	(7,330)	5,284,688
Expenses:				
General and administrative	869,619	1,613,284	15,681	2,498,584
Interest on long-term debt	–	323,460	–	323,460
Travel and business development	585,510	1,062,715	3,111	1,651,336
Stock-based compensation	69,684	124,249	8,787	202,720
Amortization	37,643	530,215	29,846	597,704
	1,562,456	3,653,923	57,425	5,273,804
Income (loss) from operations	\$ (184,026)	\$ 259,665	\$ (64,755)	\$ 10,884
Acquisition of plant and equipment	\$ 316,236	\$ 4,639,378	\$ 155,420	\$ 5,111,034
Total assets June 30, 2010	\$ 3,114,734	\$ 38,898,443	\$ 1,408,375	\$ 43,421,552

Geographic information:

The Company's revenue is wholly generated from China and the majority of its assets are located in China. For the six-month periods ended June 30, 2011 and 2010, there is no significant individual customer from which sales amounted to more than 10% of the Company's revenue.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
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12. First time adoption of International Financial Reporting Standards:

For the overall impact of IFRS on the opening balance sheet as at the transition date, including a discussion of the optional exemptions taken and the applicable mandatory elections, refer to note 17 in the first quarter report to shareholders for the three-months ended March 31, 2011.

Reconciliation of Canadian generally accepted accounting principles ("GAAP") to IFRS:

In preparing its opening IFRS interim condensed consolidated financial statements, the Company has adjusted amounts previously reported in its financial statements prepared in accordance with Canadian GAAP.

The adjustments made to the interim condensed consolidated balance sheets and interim condensed consolidated statements of comprehensive income are explained below. Changes to the net cash flows were not material as a result of the conversion to IFRS and, accordingly, no reconciliation is made for the interim condensed consolidated statements of cash flows.

(a) Adjustments made to the interim condensed consolidated balance sheets:

(i) Deferred taxes:

IAS 12, Income Taxes, provides specific guidance that prohibits the recognition of deferred tax liabilities on the acquisition of assets that were not acquired in a business combination, where a "business" is defined by specific criteria under IFRS 3, Business Combinations. Canadian GAAP does not include such a restriction. Upon its acquisition of Hunan CNPC NEI in 2009, the Company recorded a deferred tax liability related to the intangible asset acquired. Hunan CNPC NEI did not meet the criteria of a "business" under IFRS upon acquisition, resulting in the reversal of the recognized deferred tax liability of \$99,432 (December 31, 2010 - \$100,600; January 1, 2010 - \$102,200) on transition.

(ii) Long-term debt:

IAS 1 provides guidance that requires a financial liability that is due to be settled within 12 months of the reporting date is classified as current, regardless of whether an agreement to refinance the loan was obtained after the reporting date.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
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12. First time adoption of International Financial Reporting Standards (continued):

Canadian GAAP permits reclassification to long-term in the case where an agreement to refinance a loan is obtained between the reporting date and the completion of the financial statements. At January 1, 2010, a loan of \$6,469,260 (RMB 42,200,000), with no fixed repayment terms, payable to the Sanya State Assets Management Corporation was reclassified as current because the Company had not finalized a refinancing with its RMB 100,000,000 long-term bank loan until after December 31, 2009, a loan which was used to repay the RMB 10,000,000 loan due in 2010.

- (b) Reconciliation of shareholders' equity as reported under Canadian GAAP to total equity under IFRS:

	January 1, 2010	June 30, 2010	December 31, 2010
Shareholders' equity reported under Canadian GAAP	\$ 9,595,110	\$ 10,168,368	\$ 10,801,374
Reclassification of non-controlling interest to total equity under IFRS	681,197	675,114	671,444
Differences increasing reported total equity:			
Plant and equipment (i)	(136,597)	(162,735)	(190,507)
Deferred income taxes (ii)	–	–	–
Cumulative translation adjustment (iii)	–	(33,939)	–
Total equity under IFRS	\$ 10,139,710	\$ 10,646,808	\$ 11,282,311

- (i) Plant and equipment:

IFRS provides more specific guidance than Canadian GAAP on the capitalization and componentization of plant and equipment. Specifically, IFRS requires that each part of an identifiable item of plant and equipment with a cost that is significant in relation to the total cost of the item shall be capitalized and amortized separately. As a result of this difference, the Company determined that certain assets must be separately capitalized components under IFRS. The retrospective application of this standard resulted in a decrease in total equity, being the cumulative incremental amortization that would have been expensed in prior periods had these assets been separately identified and amortized.

CHANGFENG ENERGY INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
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12. First time adoption of International Financial Reporting Standards (continued):

(ii) Deferred income taxes:

The increase in total equity related to deferred taxes reflects the change in temporary differences resulting from the effect of the other transitional adjustments.

(iii) Cumulative translation adjustment ("CTA"):

The Company elected to reset the CTA balance to nil as of January 1, 2010 in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The CTA balance as of January 1, 2010 of \$778,791 was recorded as an adjustment to equity. The application of the exemption had no impact on total equity.

(c) Reconciliation of net income as reported under Canadian GAAP to IFRS:

	Three-month period ended June 30, 2010	Six-month period ended June 30, 2010
Net income (loss) under Canadian GAAP	\$ (330,727)	\$ 114,958
Add back non-controlling interest (i)	(6,083)	(6,083)
Difference decreasing reported amount:		
Amortization of assets components (ii)	(15,092)	(26,138)
Net income (loss) under IFRS	\$ (351,902)	\$ 82,737

(i) Non-controlling interest:

Non-controlling interest is included in the determination of net income under Canadian GAAP. Under IFRS, net income is attributed to both the controlling and non-controlling interest. This adjustment includes non-controlling interest in the determination of net income, resulting in an increase to net income.

(ii) Amortization of assets components:

The impact of componentization of assets with different methods or rates, as required under IFRS, resulted in an increase in amortization expenses and decrease in net income under IFRS compared to Canadian GAAP.

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Notes to Interim Condensed Consolidated Financial Statements (continued)
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and six-month periods ended June 30, 2011 and 2010
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12. First time adoption of International Financial Reporting Standards (continued):

(iii) Income taxes:

Deferred income taxes are impacted by the changes in temporary differences resulting from the effect of the IFRS reconciling items.

(d) Reconciliation of comprehensive income as reported under Canadian GAAP to IFRS:

	Three-month period ended June 30, 2010	Six-month period ended June 30, 2010
Comprehensive income under Canadian GAAP	\$ 163,084	\$ 370,538
Difference decreasing reported amount:		
Add back non-controlling interest	(6,083)	(6,083)
Differences in net income (i)	(15,092)	(26,138)
Cumulative translation adjustment	27,025	(33,939)
Comprehensive income under IFRS	\$ 168,934	\$ 304,378

(i) Differences in net income:

Reflects the differences in net income between Canadian GAAP and IFRS as described in the reconciliation of net income as reported under Canadian GAAP to IFRS.

13. Seasonality of operations:

Seasonality can impact the Company's pipeline natural gas sales. The Company's current operations are located mainly in Sanya City, an international tourist city in the PRC's only tropical province. Sanya City attracts more tourists in winter and spring than the rest of the year. The Company's natural gas sales are higher during the high tourism seasons of winter and spring as a large portion of the Company's natural gas sales are made to hotels and restaurants.

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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14. 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; and (ii) develop CNG and LNG refuelling stations.

- (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 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 Venture Exchange.