Changfeng Energy Inc.

Management’s Discussion and Analysis

For The Three Month Period
Ended March 31, 2012

Dated May 30, 2012

Advisory

The Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to assess material changes in financial condition and results of operations of Changfeng Energy Inc. ("Changfeng" or the "Company") for the three months ended March 31, 2012. This information should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the quarter ended March 31, 2012 and the audited consolidated financial statements and related notes and the MD&A for the year ended December 31, 2011. Unless otherwise note, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars. Additional information relating to Changfeng is available at www.sedar.com.

This MD&A contains certain non-GAAP financial measures to assist users in assessing our performance. Non-GAAP financial measures do not have any standard meaning prescribed by GAAP and may not be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Non-GAAP Financial Measures".

Unless otherwise note, the Company's contractual obligations, commitments, and business risks and uncertainties, as described in its MD&A for the year ended December 31, 2011, are substantially unchanged.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Changfeng bases its estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Caution Regarding Forward-Looking Information

Certain statements in this MD&A may constitute "forward looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiaries, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward looking statements. Such forward looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward looking statements, such as significant changes in market conditions, the inability of the Company to close sales and the inability of the Company to attract sufficient financing and including the risk factors summarized below under the heading "Risk Factors". New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward looking statements as a prediction of actual results. Although the forward looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. The forward looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

Overview

Changfeng is a Canadian public company currently trading on the TSX Venture Exchange ("TSX-V") under the stock symbol "CFY". Changfeng is a natural gas service provider in the People's Republic of China ("the PRC or China").

Currently, our operations are primarily located in Sanya City, Hainan province, China, where we have 30-year (2007-2037) exclusive concession rights to deliver and sell natural gas to both residential and commercial customers. Through our well-established modern gas distribution networks, our customer base and exclusive operation in Sanya city is experiencing recurring revenue and solid operating cash flows.

Since 2008, we have been actively exploring emerging-market opportunities in mainland China that resulted from commencement of construction of PetroChina's Second West-East Pipeline.

Today, Changfeng has become an emerging company through the responsible development and reliable operation of natural gas distribution pipelines and associated facilities in China. Highlights include:

- **In Sanya city, Hainan province, China**
  - 30-year exclusive concession rights (2007-2037) in Sanya city with wholly-owned gas distribution pipeline networks and associated facilities;
  - Secured gas supply through our annual gas quota of 24 million m3 (848 million ft3) until 2015 at a favorable price;
  - Serving more than 82,000 residential and 600 commercial/industrial customers (mainly hotels and restaurants);

- **In Xiangdong district, Pingxiang city, Jiangxi province, China**
  - 50-year exclusive concession rights (2010-2060) in the administrative region of Xiangdong district, including the Pingxiang Industrial Ceramic Production Park (the "Park");
  - Secured gas supply through our annual gas quota of 15 million m3 (530 million ft3) in 2012 with a gradual increase up to 50 million m3 (1,765 million ft3) in 2004 and 2015;
  - Construction on the first phase of the pipelines and associated facilities began in November 2011, and is expected to be completed and commence the supply of gas for this region by late 2012;

- **A potential significant player in the gas distribution business in Southern China, especially within the emerging markets in Hunan, Jiangxi and Guangdong provinces along PetroChina's Second West-East Pipeline.**

Our primary goal is to become one of the predominant natural gas service providers in Southern China by 2015. In pursuit of this goal, we continually strive to advance effective execution of our growth strategy by exploring strategic business development opportunities in mainland China along PetroChina's Second West-East Pipeline. Currently, we have four high-growth potential projects where we can add value, generate revenues and leverage our strength to create a long-term sustainable value for our shareholders and our clients alike.

Recent Developments

- On March 16, 2012, Changfeng renewed its RMB 30 million ($4.8 million) one-year line of credit (the "Credit Line") with the Bank of China (Sanya Branch) ("BOC") for an additional year, of which RMB 20 million ($3.2 million) was drawn down on March 28, 2012. This renewal allows us to continue to have access to the necessary financial resources to grow our business.

- On March 29, 2012, Changfeng announced a proposed joint venture with CNPC Kunlun Natural Gas Exploitation Company Limited ("CNPC Kunlun Exploitation"), a wholly-owned subsidiary of PetroChina (or "CNPC"), to jointly develop natural gas distribution business in four prefecture-level cities in Guangdong Province, China, including Zhaoqing City, Jiangmen City, Foshan City and Zhuhai City (collectively "Western Guangdong Area" or "Yuexi Area"). The intended joint venture will be named Guangdong CNPC Kunlun Changfeng Investment Co., Ltd. and will be based in Guangzhou city, the capital city of Guangdong province. Changfeng will own 49% and CNPC Kunlun Exploitation will own 51% of the intended joint venture. CNPC Kunlun Exploitation has received regulatory approval to develop this project. A formal joint venture agreement between the two parties is underway.

  The intended joint venture will be engaged in (i) constructing and operating the gas transmission pipelines and associated facilities (the "Pipelines") which will link from the existing and/or planned provincial trunk lines to the industrial users, power generators and/or urban pipeline natural gas operators within Yuexi

Area, and (ii) delivering and selling natural gas to those users through the Pipelines and the provincial trunk lines.

CNPC Kunlun Exploitation has received regulatory approval from the Guangdong Provincial Development and Reform Commission ("Guangdong DRC") to develop this project.

- On March 13, 2012, Changfeng announced the final regulatory approval of our project in Xiangdong District, Pingxiang City, Jiangxi Province, China ("Xiangdong project"), securing our 50-year concession rights in this region.
- On March 6, 2012, Changfeng announced a title sponsorship of a provincial-level table tennis tournament that was held from the 17th to 20th March 2012 in Sanya City, Hainan Province, China. We are developing our business in some of these provinces and believe that the title sponsorship will improve our brand awareness and market recognitions.
- On February 22, 2012, the Company entered into a Gas and Electricity Exchange Program (the "Program") with the Local Power Bureau and China National Offshore Oil Yacheng Operation Co., Ltd. ("CNOOC"), which will secure an additional annual supply of natural gas totalling approximately 5 million cubic meters until 2015. In exchange for this gas supply, the Company will fund the building of infrastructure to link certain of the supplier's operations to the provincial power grid, although it will not own the constructed assets. The total anticipated capital expenditure related to the Program is $1,585,000 (RMB 10,000,000).This additional gas supply is expected to be available to the Company by the second half of 2012 once approximately $1,074,275 (RMB 6,777,759) of the first phase of construction work is completed.

  Subsequent to the quarter end, on May 28, 2012, Changfeng announced that, pursuant to the confirmation of the subsidiary of CNOOC and its partners who own and operates the Ya13-1 gas well in South Sea China, the first phase construction of all transmission infrastructures necessary to exchange gas has commenced and is expected to be completed in two months. A construction contractor designated by the local power bureau was engaged for the proposed construction of the power line and switching station to connect with the provincial power grid.

  In connection with the Program, as of March 31, 2012, the Company prepaid approximately $326,867 (RMB 2,062,250) to the local contractor for work to be performed in 2012.
- On January 4, 2012, Changfeng announced regulatory approval of our proposed gas utilization project (the "LNG Plant") in Xiangtan City, Hunan Province, China. The regulatory approval signals the operational launch to build the proposed LNG Plant.

  Pursuant to the approval, a 79.85-mu (approximately 5.3 hectares) piece of land will be assigned for Changfeng to build the LNG Plant. The proposed construction work comprises building an industrial metal cutting gas production line with designed daily processing capacity of 300,000 m3 (10,590,000 ft3) of natural gas, and associated Liquefied Natural Gas (LNG) storage facilities, as well as sales and a distribution center to end users. The produced gas will be in liquid form for ease of transportation and storage. The total anticipated investment is approximately RMB 200 million ($32 million) including the proposed acquisition fee for the assigned land. The approval is valid for two years from the approval date, during which time the construction work must be commenced, otherwise, further extension application is required if the commencement of construction does not occur on or before December 23, 2013.
- During the quarter, the first phase of construction work in the Xiangdong Project, in Pingxiang City, Jiangxi Province, China is making progress. The first phase of construction comprises a gate station where the Company receives, processes, stores and distributes the natural gas to its pipeline networks, and 7,500 meters of frame pipeline in the Pingxiang Ceramic Industry Production Park (the "Park"). Currently, more than 4,500 meters of pipeline has been completed. Due to unseasonal weather, the Company has experienced a delay in construction and now expects that the first phase of construction will be wrapped up and commences the supply of gas for the Park by the fourth quarter of 2012.

Consolidated Financial Review

The following table provides selected financial information for the three months ended March 31, 2012 and 2011:

In thousands of Canadian dollars except percentages and per share amounts	Three months ended March 31, 2012	2011	Change	%
Revenue	7,365	6,534	831	12.7%
Gross profit (1)	**3,902**	**3,534**	**368**	**10.4%**
% of revenue	**53.0%**	**54.1%**	**-1.1%**	**-2.0%**
General and administrative	1,215	1,039	176	17.0%
% of revenue	16.5%	15.9%	0.6%	3.8%
Travel and business development	1,078	756	322	42.6%
% of revenue	14.6%	11.6%	3.0%	25.9%
Total expenses	**2,293**	**1,795**	**498**	**27.8%**
% of revenue	**31.1%**	**27.5%**	**3.6%**	**13.1%**
Income from operations	**1,609**	**1,739**	**-130**	**-7.5%**
% of revenue	**21.9%**	**26.6%**	**-4.7%**	**-17.7%**
Interest on long term debt	386	295	91	30.8%
% of revenue	5.2%	4.5%	0.7%	15.6%
Interest income	2.8	1.3	1.5	115.4%
% of revenue	0.0%	0.0%	-	-
Share of loss of investment in associate	-14.5	0.0	-14.5	-
Income before income taxes	**1,211**	**1,445**	**-234**	**-16.2%**
% of revenue	**16.4%**	**22.1%**	**-5.7%**	**-25.6%**
Income tax (recovery)	385	335	50	15.0%
% of revenue	5.2%	5.1%	0.1%	2.0%
Net income(loss)	**826**	**1,110**	-284	-25.8%
% of revenue	11.2%	17.0%	-5.8%	-34.0%
EBITDA (2)	**2,086**	**2,224**	-138	-6.2%
% of revenue	**28.3%**	**34.0%**	-5.7%	-16.8%
Non-controlling interest	-7.2	-5.2	-2	38.5%
Basic and diluted EPS	0.013	0.017	-0.004	-23.5%
Weighted average number of common shares outstanding Basic and diluted	66,025	66,025		

Note: (1) Since 2010, the gas demand in the Sanya Region has exceeded our 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 per m3 to commercial and industrial customers and RMB 2.6 per m3 to residential customers, we have been forced to purchase additional gas at significantly higher market-based prices in the form of Liquefied Natural Gas ("LNG") and/or CNG (collectively the "Other Gas"). As a result, our gross profit fluctuates with (i) the cost of gas and the mix of gas sold in the period as between (high margin) Gas Quota and (low margin) Other Gas, and (ii) the timing of obtaining large value pipeline gas connection contracts and changes in the gas selling price.

Note: (2) EBITDA is identified and defined under the section "Non-GAAP Financial Measures".

Results of Operations

Revenue

Revenue for the first quarter of 2012 was $7.4 million, representing an increase of $0.8 million, or 13%, from $6.5 million for same period of 2011. The increase reflects continued gas volume growth from the CNG refueling retail station and 6% appreciation of the Chinese RMB against the Canadian dollars, partially offset by the lower sales volume and gas connection fees from the Sanya Region.

The table below illustrates the customers connected during the periods and presents the volume of natural gas sold in the Sanya Region, as well as the volume of gas sold from the CNG refueling retail station in Changsha City, for the three months ended March 31, 2012 and 2011.

	Q1 2012	**Q1 2011**	**Change**
1.Sanya's operation:			
Residential customers			
Customers connected during the period	2,839	2,803	1%
Accumulated customers at the end of period	85,786	70,584	22%
Gas volume sold (m3) during the period	1,927,500	1,726,600	12%
Commercial customers			
Customers connected during the period	12	20	-40%
Accumulated customers at the end of period	610	540	13%
Gas volume sold (m3) during the period	7,410,900	7,810,100	-5%
Sub-total gas volume sold (m3) during the period	**9,338,400**	**9,536,700**	**-2%**
2.Changsha's CNG refuelling retail station:			
Gas volume sold (m3) during the period	1,887,919	814,115	132%
Total gas volume sold (m3) during the period	**11,226,319**	**10,350,815**	**8%**

The first quarter revenue was affected by a continued slowdown in the pace of real estate development in the Sanya Region due to the Chinese government policy to tighten credit to address the inflation rate. As a result, we experienced a slight increase in new customers connected for residential and a 40% reduction in new customers connected for commercial for 2012 versus the same period of 2011.

The first quarter revenue benefited from strong performance in the Company's CNG refueling retail station in Changsha City, Hunan Province. Gas volume sold for the first quarter of 2012 totaled 1.9 million m3, an increase of 1.1 million m3, or 132%, from 0.8 million m3 for the comparable period in 2011. The significant increase was attributable to the increases in the number of natural gas-powered public transportation vehicles served by this station, including taxis, since more and more existing gasoline-powered public vehicles in this city are converted into bi-fuel vehicles (gasoline/CNG). This conversion trend is primarily driven by both rising gasoline prices and government continued support for clean energy vehicles. As a result, the Company has been upgrading its station's refueling capacity to keep up with the increasing demand.

Foreign exchange rates

Changfeng uses the Canadian dollar as its reporting currency, but earns all of its revenues and incurs most of its expenses in Chinese Renminbi ("RMB"). Accordingly, any fluctuation in the exchange rate between these two currencies will affect the Company's reported financial information. Any impact of the changes in foreign exchange rates has been recognized as other comprehensive income, and not in net income. The exchange rate between Chinese RMB and the Canadian dollar is summarized below.

One Chinese RMB to Canadian dollars	Q1'2012	Q1'2011	% change
Spot rate at March 31,	0.1586	0.1485	6.80%
Average rate for the period	0.1587	0.1498	5.94%

Gross margin

Gross margin for the first quarter of 2012 increased $0.4 million, or 10%, to $3.9 million from $3.5 for the comparable period in 2011. As a percentage of sales, gross margin decreased to 53% in the first quarter of 2012 from 54% in the same period of 2011. The 1% decrease was primarily due to the higher purchase price of gas for Other Gas and relatively low margins (22%) on gas sales from the Company's CNG refueling retail station.

To mitigate the negative effects of the gas shortage and higher gas pricing for Other Gas in its operation in the Sanya Region, the Company has been working closely with the municipal government to find solutions. Possible measures to address the problem include a sales prices increase to commercial customers, a government subsidy, additional gas quota, and if necessary, temporary suspension of natural gas supplies to certain industrial customers.

Operating expenses

Operating expenses for the first quarter of 2012 totaled $2.3 million, an increase of $0.5 million, or 28%, from $1.8 million for the comparable period in 2011. The higher expense reflects $0.2 million one-time sponsorship fee for a provincial-level table tennis tournament and increased travel and business development expenses ($0.3 million).

Interest on borrowing

Interest on borrowing for the first quarter of 2012 increased to $0.4 million, compared to $0.3 million for the same periods of 2011 as a result of additional borrowing from the $4.8 million (RMB 30 million) line of credit, since RMB 20 million was drawn in March 2011 with an additional RMB 10 million having been drawn down in June 2011.

EBITDA

EBITDA for the first quarter of 2012 decreased $0.1 million, or 6%, to $2.1 million from $2.2 million for the same periods of 2011. The decrease is mainly attributable to increased operating expenses, partially offset by increased sales.

Net income

The net income for the first quarter of 2012 was $0.8 million, or $0.013 per share compared to $1.1 million or $0.017 per share for the same period in 2011, primarily due to the reasons stated above.

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)	2012	2011				2010		
except per share amounts	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Foreign exchange rate RMB	6.301	6.221	6.545	6.716	6.676	6.570	6.515	6.640
Revenue	7,365	8,929	5,936	6,776	6,534	7,157	5,393	4,495
Gross profit	3,902	4,285	2,059	1,830	3,534	3,341	2,301	1,793
Interest	386	393	374	340	295	153	166	185
Net income (loss)	826	888	(326)	(300)	1,110	583	283	(345)
Net income (loss) per basic and diluted share	0.013	0.013	(0.005)	(0.005)	0.017	0.009	0.005	(0.005)

Financial Condition and Liquidity

Key Financial Data and Comparative Figures	March 31, 2012	December 31, 2011
($000's)		
Cash and cash equivalents	4,514	5,062
Working capital (deficit)	(9,852)	(10,670)
Adjusted working capital(deficit) (note1)	(3,029)	(3,718)
Plant and equipment	42,578	43,364
Total assets	55,137	55,618
Long term liabilities	21,822	22,113
Shareholders' equity	14,116	13,556

Notes1: These financial measures are identified and defined under the section "Non-GAAP Financial Measures".

Cash and cash equivalents decreased by $0.6 million to $4.5 million at March 31, 2012 from $5.1 million at December 31, 2011, primarily resulting from cash provided during the quarter by operating activities of $0.6 million, offset by cash used during the quarter for capital expenditure of $0.8 million and $0.2 million of principal repayment of the bank term loan.

Working capital deficit as at March 31, 2012 decreased to $9.9 million from $10.7 million at December 31, 2011.

Adjusted Working Capital

The adjusted working capital deficit as at March 31, 2012 (see "Non-GAAP Financial Measures") was $3.0 million, which the Company believes is manageable given its profitability and access to further credit. Adjusted working capital excludes $2.1 million of interest payable to Sanya State Assets Management Corporation (a state-owned company) for years ending in 2007 (which is due on demand, however, is not expected to be repaid within the next 12 months), and a $4.8 million of renewable line of credit.

Liquidity and Capital Resources

Overview

Our principal sources of short-term funding are our existing cash balances, operating cash flows and borrowing under our renewable credit facility. Our principal source of long-term funding is our bank term loans that entered into in January 2010 and January 2008, respectively.

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

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

In the short-term, we do not expect to face any liquidity problems considering our ability to generate sustainable cash in the short and long term to provide liquidity, maintain financial capacity and flexibility, as well as our ability to raise additional debt capital to fund our working capital needs and new projects in mainland China.

We continuously review acquisition and investment opportunities in selected cities in mainland China as a result of the new gas source from PetroChina's Second West-East Pipeline. We expect that the funding for any such acquisitions and/or investments could be funded from cash from operations, debt and/or equity financing.

2012 Credit Agreement

On March 16, 2012, the Company's $4.8 million (RMB 30.0 million) one-year line of credit with the Bank of China was renewed for an additional year, for which principal repayments are due one year from the date of withdrawal. As part of the renewal, the Company is subject to a financial covenant that requires the Company's debt-to-total-assets ratio to be maintained below 80%. All other terms remain unchanged. The interest rate on the Credit Line is based on the variable rate prescribed by the People's Bank of China.

The Company had drawn $4,758,000 (RMB30, 000,000) against the Credit Line, of which $3,172,000 (RMB20, 000,000) will be due on March 28, 2013, and $1,586,000 (RMB10,000,000) that was initially drawn on June 10, 2011 will be due on June 10, 2012.

Cash flow from operations

Net cash provided by operations was $0.6 million for the first quarter of 2012 compared to $0.3 million for the same periods of 2011.

Changes in non-cash working capital accounts used $0.5 million in cash for the first quarter of 2012 compared to $1.3 million used for the same period of 2011. The primary drivers of this usage were decreased accounts receivable and accounts payable, and increased prepaid expenses, deferred revenue and inventories.

Financing activities

During this quarter, the Company repaid $0.2 million (RMB 1.5 million) of its long-term bank loan.

Capital Expenditures

Capital expenditures in property, plant and equipment during the first quarter of 2012 were $0.5 million, compared to $2.1 million for the same period in 2011. The substantial cash usage was related to continued construction of pipeline networks in Sanya City, including the Haitang Bay district.

During this quarter, the Company paid $0.3 million (RMB 2.0 million) cash payment in connection with its Gas & Exchange Program.

We expect to finance the majority of the upcoming construction of projects under development in mainland China through project debt financing, assuming such financing remains available on favorable terms, as well as solid operating cash flow from our existing operations.

Contractual Obligations and Commitments

As of March 31, 2012, there have been no significant changes to contractual obligations and commitments since December 31, 2011.

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, 5,300,000 stock options outstanding and 5.300,000 stock options outstanding and exercisable at a weighted average exercise price of $0.51 per share. The Company has no warrants outstanding.

Seasonality of Operations

Seasonality can impact the Company's pipeline natural gas sales. The Company's current operations are mainly located in the Sanya Region, a tourist area in the PRC's only tropical province that attracts more tourists in winter and spring than the rest of the year. As a large portion of the Company's natural gas sales are made to hotels and restaurants, the Company's sales are affected by tourism and are higher in the winter and spring.

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

Non-GAAP Financial Measures

This MD&A contains certain financial measures that do not have any standardized meaning prescribed by IFRS. Therefore, these financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned these measures should not be construed as alternative to net earnings or to cash provided by (used in) operating, investing, and financing activities determined in accordance with IFRS, as indicators of our performance. we provide these measures to assist investors in determining our ability to generate earnings and cash provided by operating activities and to provide additional information on how these cash resources are used. These measures are listed and defined below:

EBITDA

EBITDA is defined herein as earnings before income tax expense (recovery), (loss) gain on sale of assets, interest income (expense), depreciation and amortization, share of loss of investment in associate, as well as 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. A reconciliation of net earnings (loss) to EBITDA for each of the periods presented in this MD&A follows:

As at $ thousands	Q1, 2012	Q1, 2011	Change	%
Net Income	826	1,110	(284)	(26%)
Add:				
Income tax	385	335	50	15%
Interest income	(3)	(1)	(2)	-
Share of loss of investment in associate	(14)	-	(14)	-
Amortization	506	485	21`	4%
Interest on borrowing	386	295	91	31%
EBITDA	**2,086**	**2,224**	**(138)**	**(6%)**

Adjusted working capital

Adjusted working capital is calculated as current assets less adjusted current liabilities. Adjusted current liabilities is calculated as current liabilities, excluding interest repayable on demand to Sanya Asset Management Corporation that is not expected to be repaid within the next 12 months, and lines of credit. As is the practice with lines of credit in China, Typically, credit lines are renewed when it comes due.

We believe that adjusted working capital is a useful supplemental measure as it provides an indication of our ability to settle our debt obligations as they come due.

Our calculation of adjusted working capital is provided in the table below:

As at $ thousands	March 31, 2012	December 31, 2011
Current assets	9,346	9,278
Less: Current liabilities	19,198	19,948
Working capital (deficit)	(9,852)	(10,670)
Plus: Interest payable	2,065	2,104
Line of credit	4,758	4,848
Adjusted working capital deficit	**(3,029)**	**(3,718)**

Financial Instruments

The Company does not have complex financial instruments, and the various risks related to these financial instruments, including foreign currency risk, commodity price risk, interest rate risk, concentration of credit risk and liquidity risk have been disclosed in our audited Consolidated Financial Statements and MD&A for the year ended December 31, 2011 and the notes thereto that are available at www.sedar.com.

Transactions With Related Parties

I. As at March 31, 2012, a company controlled by a significant shareholder, who is also an officer and director of the Company, owed the Company a total of $21,938 for various expenditures paid by the Company on behalf of this corporation.

II. As at March 31, 2012 and December 31, 2011, the Company had an outstanding loan of $317,000 (RMB 2,000,000) due from the minority shareholder of Hunan Changfeng CNPC Energy Co., Ltd.

("Hunan CF CNPC"), which used the funds to contribute the capital it owed to that subsidiary. The loan is unsecured and non-interest bearing. The minority shareholder has waived its right to any future profit that it would otherwise be allocated until the loan is repaid. The Company will begin recording this shareholder's profit allocation prospectively at the time the loan has been repaid.

On May 4, 2012, the Company entered into supplementary agreements with this minority shareholder. Pursuant to the supplementary agreements, the loan will be due on June 8, 2015, secured by this minority shareholder's 40% equity interest in Hunan CF CNPC and bearing interest rate at 120% five-year term loan prescribed by the People's Bank of China.

III. In 2007, a significant shareholder, who is also an officer and director of the Company advanced loans in the aggregate amount of $6,340,000 (RMB 40,000,000) (December 31,2011 - 6,464,000 (RMB 40,000,000)) to the Company, through wholly owned corporations, in accordance with a Subordination and Forbearance Agreement dated April 27, 2007, Consignment Loan Agreements dated May 23, 2007 and June 26, 2007, and other ancillary documentation. These loans are unsecured, non-interest bearing, subordinate to the claims of all other creditors, including unsecured creditors of the Company, and were due on demand only after April 27, 2010.

On April 27, 2010, these loans were renewed for another three years with the same terms and conditions and are due on demand only after April 27, 2013.

IV. As at March 31, 2012, the Company has an obligation to contribute $479,800 (RMB 3,000,000) (December 31, 2011 - $484,800 (RMB 3,000,000) for the remaining share of its capital contribution in Xiangtan Shin-Ko Energy Co., Ltd., an associate of the Company.

V. As at March 31, 2012, the Company owed an officer and director of the Company $462,468 (December 31, 2011 - $427,843) for unpaid salary.

VI. On November 22, 2010, the Company loaned $10,000 to an officer of the Company. This loan is unsecured, non-interest bearing and has no fixed terms of repayment. The loan was repaid in February 2012.

Risk Factors

The Company manages a number of risks to achieve an acceptable level of risk without appreciably hindering its ability to maximize returns. Management has procedures in place to identify and manage significant operational and financial risks. A discussion of the Company's risks is discussed in the Company's Annual Information Form and in the MD&A for the year ended December 31, 2011.

Accounting Pronouncements

There have been no new accounting pronouncements issued in the first quarter of 2012 that are expected to impact the Company. For a summary of recent pronouncements, see note 3(m) in the Company's audited annual financial statements for the year ended December 31, 2011.