

Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars)

CHANGFENG ENERGY INC.

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

CHANGFENG ENERGY INC.

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

	March 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash	\$ 4,513,822	\$ 5,061,517
Trade and other receivables	2,332,918	2,567,215
Prepaid expenses and deposits (note 6)	1,232,089	596,331
Inventories (note 5)	928,656	729,413
Due from related parties (note 12)	338,938	323,200
Total current assets	9,346,423	9,277,676
Non-current assets:		
Long-term deposits and advances	1,839,484	1,888,889
Investment in associate	758,751	787,821
Property and equipment (note 8)	42,578,347	43,364,393
Intangible assets (note 7)	614,117	299,181
Total non-current assets	45,790,699	46,340,284
Total assets	\$ 55,137,122	\$ 55,617,960
Liabilities and Equity		
Current liabilities:		
Bank indebtedness (note 9(b))	\$ 4,758,000	\$ 4,848,000
Trade and other payables	3,816,356	4,882,747
Deferred revenue	6,748,303	6,069,457
Interest payable	2,065,322	2,104,388
Current portion of long-term debt (note 9)	1,348,100	1,616,000
Due to related parties (note 12)	462,468	427,843
Total current liabilities	19,198,549	19,948,435
Non-current liabilities:		
Long-term debt (note 9)	14,752,923	15,022,232
Due to related parties (note 12)	6,819,800	6,948,800
Deferred income tax liabilities	249,745	142,059
Total non-current liabilities	21,822,468	22,113,091
Total liabilities	41,021,017	42,061,526
Equity:		
Share capital (note 10)	12,121,808	12,121,808
Contributed surplus	1,863,374	1,863,374
Accumulated other comprehensive income	471,350	738,015
Deficit	(990,843)	(1,824,362)
Total shareholders' equity	13,465,689	12,898,835
Non-controlling interest	650,416	657,599
Total equity	14,116,105	13,556,434
Going concern (note 2(a))		
Subsequent event (note 17)		
Total liabilities and equity	\$ 55,137,122	\$ 55,617,960

See accompanying notes to condensed consolidated interim financial statements.

On behalf of the Board:

"Graham Warren" _____ Director

"Wencheng Zhang" _____ Director

CHANGFENG ENERGY INC.

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

	Three-month periods ended March 31,	
	2012	2011
Revenue	\$ 7,365,093	\$ 6,534,312
Cost of sales	3,462,712	3,000,415
Gross margin	3,902,381	3,533,897
Expenses:		
General and administrative	1,215,050	1,038,712
Travel and business development	1,078,028	756,153
	2,293,078	1,794,865
Income from operations	1,609,303	1,739,032
Interest expense	386,458	295,180
Interest income	(2,805)	(1,282)
Share of loss of investment in associate	14,454	–
Income before income taxes	1,211,196	1,445,134
Income taxes	384,860	334,686
Net income	826,336	1,110,448
Other comprehensive loss:		
Exchange differences on translation of foreign operations	(266,665)	(196,803)
Total comprehensive income	\$ 559,671	\$ 913,645
Net income attributable to:		
Owners of the Company	\$ 833,519	\$ 1,115,604
Non-controlling interest	(7,183)	(5,156)
	\$ 826,336	\$ 1,110,448
Total comprehensive income attributable to:		
Owners of the Company	\$ 566,854	\$ 918,801
Non-controlling interest	(7,183)	(5,156)
	\$ 559,671	\$ 913,645
Earnings per share attributable to common shareholders (note 11):		
Basic and diluted	\$ 0.013	\$ 0.017

See accompanying notes to condensed consolidated interim financial statements.

CHANGFENG ENERGY INC.

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

Three-month period ended March 31, 2012	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Non- controlling interest	Total
Balance, January 1, 2012	\$ 12,121,808	\$ 1,863,374	\$ (1,824,362)	\$ 738,015	\$ 657,599	\$ 13,556,434
Net income	–	–	833,519	–	(7,183)	826,336
Currency translation adjustment	–	–	–	(266,665)	–	(266,665)
Balance, March 31, 2012	\$ 12,121,808	\$ 1,863,374	\$ (990,843)	\$ 471,350	\$ 650,416	\$ 14,116,105

Three-month period ended March 31, 2011	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Non- controlling interest	Total
Balance, January 1, 2011	\$ 12,121,808	\$ 1,762,168	\$ (3,209,347)	\$ (63,762)	\$ 671,444	\$ 11,282,311
Net income	–	–	1,115,604	–	(5,156)	1,110,448
Currency translation adjustment	–	–	–	(196,803)	–	(196,803)
Balance, March 31, 2011	\$ 12,121,808	\$ 1,762,168	\$ (2,093,743)	\$ (260,565)	\$ 666,288	\$ 12,195,956

See accompanying notes to condensed consolidated interim financial statements.

CHANGFENG ENERGY INC.

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

	Three-month periods ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 826,336	\$ 1,110,448
Items not involving cash:		
Deferred income taxes	109,146	2,659
Amortization	506,074	485,092
Share of loss of investment in associate	14,454	–
Current income taxes	275,714	332,027
Interest expense	386,458	295,180
Income taxes paid	(592,001)	(397,063)
Interest paid	(370,767)	(280,419)
Change in non-cash operating working capital (note 14)	(542,897)	(1,297,387)
Net cash flows from operating activities	612,517	250,537
Cash flows from financing activities:		
Net decrease in long-term debt	(238,050)	(198,700)
Net increase in bank indebtedness	–	2,970,000
Net cash flows from (used in) operating activities	(238,050)	2,771,300
Cash flows from investing activities:		
Acquisition of property and equipment	(495,096)	(2,090,026)
Acquisition of intangible assets (note 7)	(332,555)	–
Net cash flows used in investing activities	(827,651)	(2,090,026)
Increase (decrease) in net cash	(453,184)	931,811
Effects of foreign exchange on cash balances	(94,511)	(52,666)
Net cash, beginning of year	5,061,517	2,670,113
Net cash, end of year	\$ 4,513,822	\$ 3,549,258

See accompanying notes to condensed consolidated interim financial statements.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

1. Corporate information:

Changfeng Energy Inc. (the "Company" or "Changfeng") was incorporated under the Canada Business Corporations 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 registered office of the Company is located at 25 Adelaide Street East, Suite 1612, Toronto, Ontario, M5C 3A1, and the principal operations of its business are 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) Going concern:

The Company's condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplate the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. As at March 31, 2012, the Company had a working capital deficiency of \$9,852,126.

Included in the working capital deficiency is \$2,065,322 of interest payable and a \$4,758,000 one-year line of credit. Interest payable is due on demand to Sanya State Assets Management Corporation (a state-owned company) and originated in years prior to 2007. Sanya State Assets Management Corporation has not requested payment for more than four years and the Company believes that it will not seek repayment in 2012 or the first quarter of 2013. The Company's line of credit has historically been a one-year facility which requires annual renewals or replacement when it becomes due and the Company believes that it will be able to renew the line of credit when it becomes due. Excluding the two items above, the Company's adjusted working capital as at March 31, 2012 was \$3,028,804 (December 31, 2011 - \$3,718,371). The Company continues to explore various sources of financing opportunities such as long-term debt and/or equity financing to support its operations.

While management believes that sustainable operating cash could be generated in the short and long term to provide liquidity, there is no guarantee that they will materialize as planned. Furthermore, there is no guarantee that the interest payable to Sanya State Assets Management Corporation will not be required to be repaid within the next twelve months, or that the renewal of the line of credit in future periods will be successful.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

2. Basis of presentation (continued):

Furthermore, the Company may not be successful in obtaining additional financing on acceptable terms, on a timely basis, or at all, if the interest payable must be paid, if the line of credit is not renewed in future periods and/or projected operating cash flows do not materialize as planned.

The above conditions have resulted in a material uncertainty that may cast significant doubt over the Company's ability to finance its operations to permit it to continue as a going concern. These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern basis of presentation was not appropriate. If the going concern basis of presentation was not appropriate for these condensed consolidated interim financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported net income for the period and the balance sheet classifications used.

(b) Statement of compliance:

The unaudited condensed consolidated interim financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), including IAS 34, Interim Financial Reporting.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2011 annual audited financial statements which have been prepared in accordance with IFRS as issued by the IASB.

The condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2011 annual audited financial statements.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 30, 2012.

(c) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on a historical cost basis for all its recognized assets and liabilities, except for certain financial instruments measured at fair value.

(d) Presentation and functional currencies:

The condensed consolidated interim financial statements are presented in Canadian dollars. The functional currencies of the Company's subsidiaries include the Canadian dollar and the Chinese Renminbi ("RMB").

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

3. Significant accounting policies:

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

Recent accounting pronouncements:

(a) Financial instruments - recognition and measurement:

In October 2010, the IASB published amendments to IFRS 9, Financial Instruments ("IFRS 9 (2010)"), which provide 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, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, 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, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

(b) Financial assets and liabilities:

In December 2011, the IASB published amendments to International Accounting Standard 32, Financial Instruments: Presentation ("IAS 32"), and issued new disclosure requirements in IFRS 7, Financial Instruments: Disclosures ("IFRS 7"). The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. Certain of the amendments to IFRS 7 were adopted by the Company during the first quarter of 2012 and had no material impact; the remainder of the amendments are to be adopted for annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The amendments to IAS 32 clarify when an entity has a legally enforceable right to offset, as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the balance sheet or subject to master netting arrangements or similar arrangements. The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

3. Significant accounting policies (continued):

(c) Consolidated financial statements:

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"). IFRS 10 replaces portions of IAS 27, Consolidated and Separate Financial Statements ("IAS 27"), that addresses consolidation, and supersedes SIC-12, Consolidation - Special Purpose Entities ("SPE") ("SIC-12"), in its entirety. IFRS 10 provides a single model to be applied in the analysis of control of all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures specified in IFRS 10 are carried forward substantially unmodified from IAS 27.

(d) Joint arrangements:

In May 2011, the IASB issued IFRS 11, Joint Arrangements ("IFRS 11"). IFRS 11 supersedes IAS 31, Interest in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement, which are classified as either joint operations or joint ventures, and provides guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly. Investments in joint ventures are required to be accounted for using the equity method.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, Investments in Associates and Joint Ventures, has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

(e) Disclosure of interests in other entities:

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), which contains disclosure requirements for companies that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 10, IFRS 11, amendments to IAS 27 and IAS 28. The Company intends to adopt IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 in its consolidated financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 has not yet been determined.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

3. Significant accounting policies (continued):

(f) 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 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.

(g) Presentation of financial statements:

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

4. Significant accounting judgment, estimates and assumptions:

The preparation of the condensed consolidated interim financial statements in accordance 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 condensed consolidated interim financial statements is included in the following notes:

(a) Allowance for doubtful accounts:

The Company establishes a provision for doubtful receivables when there is objective evidence that the Company will not be able to collect all amounts due to it. The allowance is based on management's best estimates of specific losses on individual exposures, as well as a provision on historical trends of collections. The provision is recorded against the trade and other receivables balance, with a corresponding charge recorded in the consolidated statements of comprehensive income. Actual amounts received may differ from management's estimate.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

4. Significant accounting judgment, estimates and assumptions (continued):

(b) Revenue recognition:

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

Revenue from gas connection contracts is recognized using 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 in the period in which the expected loss is identified.

(c) Amortization expense:

The Company's long-lived assets are amortized over their estimated useful economic lives on a straight-line basis. 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.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

5. Inventories:

	March 31, 2012	December 31, 2011
Construction materials	\$ 512,397	\$ 459,582
Gas appliances, meters and spare parts	356,402	236,895
Natural gas	59,857	32,936
	<u>\$ 928,656</u>	<u>\$ 729,413</u>

The amount of inventories recognized as an expense through cost of sales during the periods ended March 31, 2012 and 2011 was \$434,358 and \$527,719, respectively, which completely comprised raw material costs. There were no impairments of inventory or reversals of impairments recorded during the three-month periods ended March 31, 2012 and March 31, 2011.

6. Gas prepayment:

Included in prepaid expenses and deposits is a payment of \$792,500 (RMB 5,000,000) (December 31, 2011 - nil) made to the Company's 24 million m3 gas supplier as a prepayment for gas to be purchased in future periods. The prepayment is expected to be used to fund purchases of gas during the second quarter of 2012. At March 31, 2012, \$783,385 (RMB 4,942,494) had not been used.

7. Intangible asset:

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., 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.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

7. Intangible asset (continued):

In connection with the Program, as of March 31, 2012, the Company prepaid approximately \$326,867 (RMB 2,062,250) to a local contractor for work to be performed in 2012. This amount has been recorded as an intangible asset on the condensed consolidated interim balance sheet, on which amortization will begin once the construction on the first phase is completed and the exchanged gas is available to the Company.

Cost	
Balance, December 31, 2011	\$ 331,501
Additions	326,867
Foreign currency translation	(8,022)
Balance, March 31, 2012	\$ 650,346
Accumulated amortization	
Balance, December 31, 2011	\$ 32,320
Amortization	4,529
Foreign currency translation	(620)
Balance, March 31, 2012	\$ 36,229
Net book value	
December 31, 2011	\$ 299,181
March 31, 2011	614,117

8. Property and equipment:

(a) Land use rights:

As at March 31, 2012, the Company held five land use rights certificates. They all have a 50-year term and expire in 2051.

(b) Pipeline construction and equipment:

The Company has signed contracts with several equipment suppliers and construction supervisors for a total amount of \$3,819,477 (RMB 24,082,452) (December 31, 2011 - \$3,470,049 (RMB 21,473,076)), of which \$2,072,692 (RMB 13,068,677) (December 31, 2011 - \$2,139,222 (RMB 13,237,762)) has been paid as at December 31, 2011 and was classified as construction in progress.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

8. Property and equipment (continued):

Cost	Buildings	Pipelines	Land use rights (a)	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress (b)	Total
Balance, January 1, 2011	\$ 55,019	\$ 36,981,648	\$ 1,118,471	\$ 1,236,937	\$ 2,712,768	\$ 395,506	\$ 2,186,813	\$ 44,687,162
Additions (transfers)	2,625,683	2,528,041	–	125,316	1,921,116	–	(1,980,379)	5,219,777
Foreign currency translation	3,901	2,622,291	79,308	87,708	192,356	28,045	155,065	3,168,674
Balance, December 31, 2011	2,684,603	42,131,980	1,197,779	1,449,961	4,826,240	423,551	361,499	53,075,613
Additions	2,576,939	2,477,573	–	122,989	1,866,409	–	493,509	7,537,419
Foreign currency translation	(2,626,777)	(3,243,262)	(22,236)	(149,907)	(1,975,047)	(7,863)	(6,711)	(8,031,803)
Balance, March 31, 2012	\$ 2,634,765	\$ 41,366,291	\$ 1,175,543	\$ 1,423,043	\$ 4,717,602	\$ 415,688	\$ 848,297	\$ 52,581,229

Accumulated amortization	Buildings	Pipelines	Land use rights (a)	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress (b)	Total
Balance, January 1, 2011	\$ 13,497	\$ 5,884,453	\$ 286,608	\$ 356,639	\$ 805,289	\$ 23,073	\$ –	\$ 7,369,559
Amortization	23,508	1,329,044	31,816	182,965	251,800	16,756	–	1,835,889
Foreign currency translation	957	402,728	20,323	25,289	57,101	(626)	–	505,772
Balance, December 31, 2011	37,962	7,616,225	338,747	564,893	1,114,190	39,203	–	9,711,220
Amortization	31,178	1,633,576	39,032	226,356	324,519	21,683	–	2,276,344
Foreign currency translation	(23,777)	(1,438,807)	(37,514)	(190,055)	(267,810)	(26,719)	–	(1,984,682)
Balance, March 31, 2012	\$ 45,363	\$ 7,810,994	\$ 340,265	\$ 601,194	\$ 1,170,899	\$ 34,167	\$ –	\$ 10,002,882

Net book value	Buildings	Pipelines	Land use rights (a)	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress (b)	Total
January 1, 2011	\$ 41,522	\$ 31,097,195	\$ 831,863	\$ 880,298	\$ 1,907,479	\$ 372,433	\$ 2,186,813	\$ 37,317,603
December 31, 2011	2,646,641	34,515,755	859,032	885,068	3,712,050	384,348	361,499	43,364,393
March 31, 2012	2,589,402	33,555,297	835,278	821,849	3,546,703	381,521	848,297	42,578,347

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

9. Long-term debt and bank indebtedness:

	March 31, 2012	December 31, 2011
Term loan facility - China Development Bank (a)	\$ 555,100	\$ 808,000
Term loan facility - Bank of China (b)	15,545,923	15,830,232
	16,101,023	16,638,232
Less current portion	1,348,100	1,616,000
	\$ 14,752,923	\$ 15,022,232

(a) The Company made a payment in the amount of \$237,900 (RMB 1,500,000) on its term loan from the China Development Bank in accordance with the quarterly repayment provisions of the loan.

(b) Included in current portion of bank loan was a one-year line of credit (the "Credit Line") with the Bank of China. The Company has drawn \$4,758,000 (RMB 30,000,000) against the Credit Line as of March 31, 2012, of which \$3,172,000 (RMB 20,000,000) will be due on March 28, 2013, and \$1,586,000 (RMB10,000,000) that was drawn on June 10, 2011 will be due on June 10, 2012.

On March 16, 2012, the Credit Line was renewed by the Bank of China 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. As at March 31, 2012, the Company was in compliance with all of its debt covenants.

Long-term loan principal payments are as follows:

	RMB	Cdn. \$
2012	8,500,000	1,348,000
2013	5,000,000	793,000
2014	10,000,000	1,586,000
2015	10,000,000	1,586,000
2016	10,000,000	1,586,000
Thereafter	60,000,000	9,516,000
	103,500,000	16,415,000

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

10. Share capital:

(a) Authorized:

Unlimited common shares

(b) Issued common shares:

	Number of shares	Amount
Balance, March 31, 2012 and December 31, 2011	66,025,000	\$ 12,121,808

The common shares outstanding have a par value of nil.

11. Earnings per share:

Basic earnings per share ("EPS") amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average of shares issued during the year. Diluted EPS amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of shares issued during the year, adjusted for the effect of potentially dilutive stock options.

The following table sets forth the calculation of basic and diluted EPS:

	Three-month period ended March 31, 2012			Three-month period ended March 31, 2011		
	Net income attributable to common shareholders	Weighted average number of shares	EPS	Net income attributable to common shareholders	Weighted average number of shares	EPS
Basic and diluted	\$ 833,519	66,025,000	\$ 0.013	\$ 1,115,604	66,025,000	\$ 0.017

As at March 31, 2012 and 2011, there were no potentially dilutive stock options outstanding; however, these options may be dilutive in future periods.

12. Related party disclosures:

(a) 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.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

12. Related party disclosures (continued):

- (b) 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 (see note 17).
- (c) 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.
- (d) 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.
- (e) 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.
- (f) 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.

13. 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, 2011.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

13. Financial instruments and risk management (continued):

As at March 31, 2012, 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.

14. Change in non-cash operating working capital:

	Three-month periods ended March 31,	
	2012	2011
Trade and other receivables and due from related parties	\$ 243,124	\$ 285,772
Prepaid expenses and deposits	(737,037)	8,666
Inventories	(212,918)	(318,998)
Trade and other payables and due to related parties	(628,087)	(699,259)
Deferred revenue	792,021	(573,568)
	<u>\$ (542,897)</u>	<u>\$ (1,297,387)</u>

15. Seasonality of operations:

Seasonality can impact the Company's pipeline natural gas sales. The Company's current operations are primarily located in Sanya City, an international tourist destination 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.

16. Segmented reporting:

The Company has three reportable segments: gas connection, pipeline gas sales and CNG refuelling sales. Two of these segments (gas connection and pipeline sales) combine to form a gas distribution utility, which is currently the Company's primary operation. The utility delivers natural gas to commercial, industrial and residential customers through its pipeline networks and associated facilities. The Company's third business segment is a CNG refuelling retail station which is mainly used to supply gas for taxicab and public vehicles. The performance of each segment is measured by income from operations.

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. There were no significant intercompany transactions between the business segments.

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

16. Segmented reporting (continued):

Summarized financial information concerning the reportable segments is shown in the following tables:

Three-month period ended March 31, 2012:

	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Revenue	\$ 1,622,789	\$ 4,745,162	\$ 997,142	\$ 7,365,093
Cost of sales	876,809	1,809,521	776,382	3,462,712
	745,980	2,935,641	220,760	3,902,381
Expenses:				
General and administrative	359,226	744,086	111,738	1,215,050
Travel and business development	277,112	788,422	12,494	1,078,028
	636,338	1,532,508	124,232	2,293,078
Income from operations	\$ 109,642	\$ 1,403,133	\$ 96,528	\$ 1,609,303
Acquisition of plant and equipment	\$ 777	\$ 481,052	\$ 13,267	\$ 495,096
Total assets, March 31, 2012	\$ 3,401,308	\$ 49,606,917	\$ 2,186,158	\$ 55,194,383

Three-month period ended March 31, 2011:

	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Revenue	\$ 1,583,036	\$ 4,546,560	\$ 404,716	\$ 6,534,312
Cost of sales	999,598	1,638,137	362,680	3,000,415
	583,438	2,908,423	42,036	3,533,897
Expenses:				
General and administrative	301,320	672,036	65,356	1,038,712
Travel and business development	262,362	385,564	108,227	756,153
	563,682	1,057,600	173,583	1,794,865
Income (loss) from operations	\$ 19,756	\$ 1,850,823	\$ (131,547)	\$ 1,739,032
Acquisition of plant and equipment	\$ 2,334	\$ 1,987,213	\$ 100,479	\$ 2,090,026
Total assets, March 31, 2011	\$ 2,342,662	\$ 41,744,429	\$ 2,491,314	\$ 46,578,405

CHANGFENG ENERGY INC.

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

Three-month periods ended March 31, 2012 and 2011
(Unaudited)

16. Segmented reporting (continued):

Geographic information:

The Company's revenue is wholly generated from China and the majority of its assets are located in China. For the three-month periods ended March 31, 2012 and 2011, there is no significant individual customer from which sales amounted to more than 10% of the Company's revenue.

17. Subsequent event:

On May 4, 2012, the Company entered into supplementary agreements with the minority shareholder of Hunan CF CNPC regarding the loan per note 12(b). 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.