Changfeng Energy Inc.

Management's Discussion and Analysis

For the three and six months ended June 30, 2012

Dated August 27, 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- and six-month periods ended June 30, 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 June 30, 2012 and the audited consolidated financial statements and related notes and the MD&A for the year ended December 31, 2011. Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars. Additional information relating to Changfeng is available at www.sedar.com.

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 noted, 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 local natural gas distribution company (or natural gas utility) in the People's Republic of China ("the PRC or China").

Currently, Changfeng's operation are primarily located in Sanya City, Hainan Province, China, where Changfeng has 30-year (2007-2037) exclusive concession rights to deliver and sell natural gas to both residential and commercial customers. Its customer base and exclusive operation in Sanya City are providing, through its well-established modern gas distribution networks, recurring revenue and solid operating cash flows to the Company.

Since 2008, Changfeng has 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 its annual gas quota of 24 million m^3 (848 million ft^3) 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 operation rights (2010-2060) in the administrative region of Xiangdong District, including the Pingxiang Industrial Ceramic Production Park (the "Park");
  - Secured gas supply through a four-year gas quota approval: 15 Mm^3 (530 Mft^3) for 2012, 35 Mm^3 (1,237 Mft^3) for 2013 and 50 Mm^3 (1,765 Mft^3) each for 2014 and 2015;

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

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

Recent Developments

- June 27, 2012, the Company received a $722,535 (RMB 4,530,000) government subsidy from the municipal government of Sanya City, Hainan Province, China to partially compensate the Company for high purchase costs of additional volume of Other Gas purchased at market-based prices in 2011 to satisfy customer demand in the Sanya Region. Going forward, the municipal government has indicated that it plans to implement a long-term Budget Process (the "Budget Process") to address the ongoing gas shortage issue in the Sanya Region. The Budget Process, based on the Company's actual purchase cost of additional Other Gas, intended to provide (a) an annual subsidy for the loss, if any, on the gas sales to its residential customers, and this subsidy will be included in the municipal government's annual fiscal budget; (b) periodical sales price adjustments for its commercial customers enabling the sales prices to reflect interaction between supply and demand.

- May 28, 2012, the Company commenced the first phase construction of the Gas & Electricity Exchange Program (the "Program") as previously announced on February 22, 2012. The construction was carried out pursuant to the confirmation of the subsidiary of China National Offshore Oil Corporation ("CNOOC") and its partners who own and operate the Ya13-1 gas well in South Sea China. The subsidiary of CNOOC is also the supplier of the Company's current annual 24 million m^3 (847 million ft^3) quota gas. The total investment related to the first phase of construction is estimated to be approximately $1.1 million (RMB 6.8 million), which will be funded from its existing cash on hand. It is expected that the construction will be completed by late 2012 due to a modification of the engineering design as requested by the other party of the Program.

Upon completion of the first phase of construction of all transmission infrastructures necessary to exchange gas, the Program will enable the Company to acquire approximately 5 million m^3 (177 million ft^3) of natural gas annually until 2015 at a favorable price when compared to what the Company currently pays for Other Gas in the form of LNG/CNG.

The Program was originally launched together with the Local Power Bureau and China National Offshore Oil Yacheng Operation Co., Ltd. ("CNOOC"). In exchange for the exchanged 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 $1.6 million (RMB 10 million).

- 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.

- 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. The Company had drawn $4.8 million (RMB 30 million) against the Credit Line, of which $3.2 million (RMB 20 million) will be due on March 28, 2013, and $1.6 million (RMB10 million) will be due on June 20, 2013.

- On March 13, 2012, Changfeng announced final regulatory approval of the project in Xiangdong District, Pingxiang City, Jiangxi Province, China ("Xiangdong project"), securing its 50-year exclusive operation rights in this region.

- On January 4, 2012, Changfeng announced regulatory approval of a proposed natural gas processing project (the "LNG Plant") in Xiangtan City, Hunan Province, China.

  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 m^3 (10,590,000 ft^3) 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 easy transportation and storage purposes. 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.

The Company continues to advance its strategic operating plan and remains on target to achieve key milestones in 2012, including commencing supply of gas for its Xiangdong project, in Jiangxi Province, China, and completion construction of the Gas and Electricity Exchange Program (the "Program") for its Sanya operation, in Hainan Province, China, as well as project feasibility study for the proposed joint venture in Guangdong Province, China.

During the first half of 2012, the first phase of construction work for the Xiangdong Project also made progress. The first phase of construction comprises a citygate station, where the Company receives, processes, stores and distributes the natural gas from the sub-branch of the WEP II to the end gas users through its pipeline networks, and a 7km main pipeline in the Pingxiang Ceramic Industry Production Park (the "Park"). Currently, the Company completed construction of the 7km main pipeline in the Park and the construction of the citygate station is underway. Due to unseasonal weather, the Company has experienced a delay in construction and now expects that the first phase of construction will be completed by late 2012 and gas supply for the Park will commence thereupon. In addition, the Company also made various efforts in coordinating the approved quota gas, and applying for an alternative source of gas for the upcoming commencement of gas supply before the interprovincial sub-pipeline linking to the Petro-China's Second West-East Pipeline is accessible for this region.

During the first half of 2012, the Company also made progress in addressing the ongoing gas shortage and high purchase prices for Other Gas in its operation in the Sanya Region. In addition to the receipt of government grant to partially compensate the high purchase costs of additional Other Gas for its fiscal year of 2011, the Company's proposal to raise the sales prices to its commercial customers is pending the final approval by the Hainan Provincial Pricing Bureau. As of June 30, 2012, the Company also paid approximately $0.4 million (RMB2.4 million) in connection with the Gas & Electricity Exchange Program. The Company continues to work closely with the municipal government to implement the following initiatives, which include government subsidy, if any, for its residential customers, sales prices increase for its commercial customers, additional temporary gas quota, completion of the Gas & Electricity Exchange Program, and if necessary, temporary suspension of natural gas supplies to certain industrial customers.

As previously announced on March 29, 2012, the proposed joint venture with the subsidiary of PetroChina is still under development. An arm's length pipeline project research firm is finalizing the project feasibility study. The establishment of the proposed joint venture will be subject to the satisfaction of the feasibility study and approval from the head office of PetroChina.

Subsequent Events

(a) On July 13, 2012, the Company granted 1,200,000 options (the "Options") exercisable at a price of $0.24, 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 its newly elected director and certain members of management who serve in the subsidiaries in China. This grant was made pursuant to the Company's stock option plan. The terms and conditions of the Options are subject to the approval of the TSX Venture Exchange.

(b) On July 19, 2012, the Company received a government grant in an amount of $802,000 (RMB 5,000,000) to fund construction of certain items of property and equipment for the Company's operation in Sanya City, Hainan Province, China.

(c) On August 26, 2012, the Company prepaid $641,600(RMB 4,000,000) for the purchase of additional volume of natural gas (over quota) in amount of 4 million cubic meters with a fixed contractual price, which will be fully delivered before December 31, 2012. The total purchase cost is $1,914,107(RMB 11,933,333) and will be fully paid in three installments before October 2012, regardless of actual amount of gas consumed. This additional volume of gas is reallocated from a gas quota originally belonging to a local gas-fired power plant. The purchase price for this additional gas is favorable when compared to what the Company currently pays for Other Gas in the form of LNG/CNG.

Results of Operations

The following table provides selected financial information for the three- and six-month periods ended June 30, 2012 and 2011.

In thousands of Canadian dollars except percentages and per share amounts	Q2 2012	Q2 2011	Change	YTD 2012	YTD 2011	Change
Revenue	7,122	6,776	5%	14,487	13,310	9%
Gross profit (1)	**3,421**	**1,830**	87%	**7,323**	**5,364**	37%
% of revenue	**48%**	**27%**	21%	**51%**	**40%**	11%
Other operating income	723	-		723	-	
General and administrative	1,525	1,159	32%	2,740	2,198	25%
% of revenue	21%	17%	4%	19%	17%	2%
Travel and business development	998	534	87%	2,076	1,290	61%
% of revenue	14%	8%	6%	14%	10%	4%
Total expenses	**2,522**	**1,694**	49%	**4,816**	**3,488**	38%
% of revenue	**35%**	**25%**	10%	**33%**	**26%**	7%
Income from operations	**1,621**	**137**	1,083%	**3,230**	**1,876**	72%
% of revenue	**23%**	**2%**	21%	**22%**	**14%**	8%
Interest on long term debt	387	340	14%	774	635	22%
% of revenue	5%	5%	0%	5%	5%	0%
Interest income	-1.5	-3.2	-53%	-4.3	-4.5	-4%
% of revenue	-	-	-	-	-	-
Share of loss of investment in associate	4.8	0.0	-	19.3	-	-
income before income taxes	**1,230**	**-200**	715%	**2,441**	**1,245**	96%
% of revenue	**17%**	**-3%**	20%	**17%**	**9%**	8%
Income tax (recovery)	405	100	305%	790	435	82%
% of revenue	6%	1%	5%	5%	3%	2%
Net income(loss)	**826**	**-300**	375%	**1,652**	**810**	104%
% of revenue	12%	-4%	16%	11%	6%	5%
EBITDA (2)	**2,130**	**552**	**286%**	**4,217**	**2,776**	**52%**
% of revenue	**30%**	**8%**	22%	**29%**	**21%**	8%
Non-controlling interest	-11.8	-2.5	372%	-19.0	-7.6	150%
Basic and diluted EPS	0.013	-0.005	360%	0.025	0.012	108%
Weighted average number of common shares outstanding Basic and diluted	66,025	66,025		66,025	66,025	

Note: (1) Since 2010, the gas demand in the Sanya Region has exceeded our annual 24 million m^3 quota (the "Gas Quota"), which provides gas at a cost of approximately 0.6 RMB per m^3 versus a regulated selling price of RMB 3.8 per m^3 to commercial and industrial customers and RMB 2.6 per m^3 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".

Revenue

Revenue for the second quarter of 2012 was $7.1 million, an increase of $0.3 million, or 5%, from $6.8 million for the same quarter in 2011. Revenue for the six months ended June 30, 2012 was $14.5 million, an increase of $1.2 million, or 9%, from $13.3 million for the same period in 2011. The increases in revenue during the quarter and YTD of 2012 versus the same periods last year are mainly attributable to continued gas volume growth (109% in Q2'12 and 119% YTD) from the CNG refueling retail station, and 7% appreciation of the Chinese RMB against the Canadian dollar, partially offset by a slight decrease (11% in Q2'12 and 3% YTD) in the piped gas sales from the Company's Sanya operation primarily due to limited gas sources.

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 and six month periods ended June 30, 2012 and 2011:

	Q2 2012	Q2 2011	%	YTD 2012	YTD 2011	%
1. Sanya's operation:						
Residential customers						
Customers connected during the period	6,705	4,221	59%	9,544	7,024	36%
Accumulated customers at the end of period				92,491	74,805	24%
Gas volume sold (Mm^3) during the period	0.93	0.86	8%	2.86	2.58	11%
Commercial customers						
Customers connected during the period	6	14	-57%	18	34	-47%
Accumulated customers at the end of period				616	554	11%
Gas volume sold (Mm^3) during the period	5.73	6.82	-16%	13.15	14.63	-10%
Sub-total gas volume sold (Mm^3) during the period	**6.66**	**7.68**	**-13%**	**16.01**	**17.21**	**-7%**
2. Changsha's CNG refueling retail station:						
Gas volume sold (Mm^3) during the period	2.28	1.09	109%	4.17	1.91	119%
Total gas volume sold (Mm^3) during the period	**8.94**	**8.77**	**2%**	**20.18**	**19.12**	**6%**

The sales from the Company's CNG refueling retail station in Changsha City, Hunan Province for the second quarter of 2012 increased by $0.7 million or 119% to $1.2 million, compared to $0.5 million for the same period of 2011. For the six months ended June 30, 2012 sales from this station increased by $1.3 million or 131% to $2.2 million, compared to $0.9 million for the same periods of 2011. The significant increase was attributable to the increases in the number of gas-fueled buses served at this station. It is expected that more and more existing gasoline-fueled buses in this city will be converted into bi-fuel vehicles (gasoline/CNG), which are 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.

Piped gas sales from the Company's Sanya's operation for the quarter and YTD of 2012 were flat to the same periods of 2011. Currently, the volume of gas sold from the Sanya Region are mainly limited to its annual quota volume of natural gas, because high purchase cost of additional amount of Other Gas (over quota) makes it unprofitable for the Company to significantly increase gas supply at current regulated sales prices.

Pipeline connection fees from the Company's Sanya's operation for the quarter and YTD of 2012 were affected by a continued slowdown in the pace of real estate development in China due to the Chinese government policy to tighten credit to address the inflation rate. Commercial customers connected for the second quarter and YTD of 2012 decreased by 57% and 47%, respectively, compared to the same periods of 2011, but residential customers connected for the quarter and YTD of 2012 increased by 59% and 36%, respectively, compared to the same period of 2011 due primarily to completion of more connections. As a result, pipeline connection fees for the quarter and YTD of 2012 increased by 5% and 4%, respectively, compared to the same periods of 2011 due to increased residential customers and higher-value commercial customers despite fewer commercial connections.

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 significant impact of the changes in foreign exchange rates has been recognized as other comprehensive income.

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

One Canadian dollar to Chinese RMB	Q2'2012	Q2'2011	% change
Spot rate at June 30,	0.1604	0.1492	7.51%
Average rate for the period	0.1595	0.1489	7.12%

Gross profit

Gross profit for the second quarter of 2012 increased by $1.6 million (or 87%) and for the six months ended June 30, 2012 increased by $2.0 million (or 37%), compared to the same periods of 2011, despite a slight revenue increase of $0.3 million or 5%. Gross profit as a percentage of sales for the second quarter and YTD of 2012 increased accordingly by 21% to 48% and by 11% to 51%, compared to 27% and 40%, respectively, for the same periods of 2011. CNG refueling retail station gross margins year-over-year improved 8% due primarily to lower operating costs as a result of gas volume increase. Piped gas gross margins year-over-year improved 27% reflecting reduced volume of Other Gas purchased at market-based pricing. Pipeline connection fee margins year-over-year improved 23% which varied with the timing of obtaining large value pipeline gas connection contracts.

Other operating income

On June 27, 2012, the Company received $722,535 (RMB 4,530,000) as a government grant from the municipal government of Sanya City, Hainan Province, China to partially compensate the Company for certain gas purchases made at unfavourable prices in 2011 to satisfy customer demand in the Sanya City region. This government grant was recognized as other income for the quarter ended June 30, 2012.

Operating expenses

General and administrative expenses for the quarter of 2012 increased by $0.4 million (or 32%) to $1.5 million and for the six months ended June 30, 2012 increased by $0.5 million (or 25%) to $2.7 million, compared to the same periods of 2011. The increase was attributable to general expenses including employee salary and benefits as a result of a high inflation rate in China and sales increases. General and administrative expenses as a percentage of sales for the second quarter and YTD of 2012 increased accordingly by 4% to 21% and by 2% to 19%, compared to 17% and 17%, respectively, for the same periods of 2011.

Travel and business development expenses for the quarter of 2012 increased by $0.5 million (or 87%) to $1.0 million and for the six months ended June 30, 2012 increased by $0.8 million (or 61%) to $2.1 million, compared to the same periods of 2011. The increase was attributable to the travel and business development activities in mainland China as the Company seeks to develop new projects in close proximity to the new national pipelines, including a $0.2 million one-time sponsorship fee for a provincial-level table tennis tournament. The majority of the travel and business development expenses does not relate to the Company's business in Sanya City or the CNG retail station but instead relates to projects under consideration or development in mainland China.

As a result, the total operating expense for the second quarter of 2012 increased by $0.8 million (or 49%) to $2.5 million, and for the first six months ended June 30, 2012 increased by $1.3 million (or 38%) to $4.8 million, as compared to the same periods of 2011. Operating expenses as a percentage of sales for the quarter of 2012 increased to 35%, up 10% from 25% and for YTD of 2012 increased to 33%, up 7% from 26% for the same periods of 2011, respectively.

EBITDA

EBITDA for the second quarter of 2012 increased by $1.6 million, or 286%, to $2.1million and for the six months ended June 30,2012 increased by $1.4 million, or 52%, to $4.2 million, compared to the same periods of 2011. The increase was primarily attributable to the reasons noted above relating to the sales increase, higher gross margin and a $0.7 million one-time government grant, partially offset by higher operating expenses.

Net income (loss)

The net income for the second quarter of 2012 was $0.8 million or $0.013 per share compared to net loss of $0.3 million or $0.005 per share for the same period in 2011, primarily due to the reasons stated above. The net income for the six months ended June 30,2012 was $1.7 million, or $0.025 per share compared to $0.8 million or $0.012 per share for the same period of 2011.

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	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Foreign exchange rate RMB	6.27	6.30	6.22	6.54	6.72	6.68	6.57	6.51
Revenue	7,122	7,365	8,929	5,936	6,776	6,534	7,157	5,393
Gross profit	3,421	3,902	4,285	2,059	1,830	3,534	3,341	2,301
Interest	387	386	393	374	340	295	153	166
Net income (loss)	826	826	888	(326)	(300)	1,110	583	283
Net income (loss) per basic and diluted share	0.013	0.013	0.013	(0.005)	(0.005)	0.017	0.009	0.005

Financial Condition and Liquidity

Key Financial Data and Comparative Figures	June 30, 2012	December 31, 2011
($000's)		
Cash and cash equivalents	6,029	5,062
Working capital (deficit)	(10,804)	(10,670)
Adjusted working capital(deficit) (note1)	4,172	2,351
Plant and equipment	44,311	43,364
Total assets	58,044	55,618
Long term liabilities	21,763	22,113
Shareholders' equity	15,123	13,556

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

Cash and cash equivalents increased by $0.9 million to $6.0 million at June 30, 2012 from $5.1 million at December 31, 2011, primarily from cash provided by operating activities of $4.2 million, offset by cash used for capital expenditure of $2.7 million and $0.5 million of principal repayment of the bank term loan.

Working capital deficit as at June 30, 2012 was $10.8 million, relatively constant when compared to $10.7 million as at December 31, 2011.

Adjusted Working Capital

The Company's adjusted working capital (see "Non-GAAP Financial Measures") was $4.2 million as at June 30,2012, compared to $2.4 million as at December 31, 2012. Adjusted working capital excludes $8.1 million of deferred revenue in connection with gas connection fees, $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 month period), and $4.8 million of line of credit.

Liquidity and Capital Resources

Overview

The Company's principal sources of short-term funding are its existing cash balances, operating cash flows and borrowing under its renewable credit facility. Its principal source of long-term funding is its 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), 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, Management does not expect to face any liquidity problems considering its ability to generate sustainable cash in the short and long term to provide liquidity, maintain financial capacity and flexibility. The Company has not had any problems collecting payments from its customers in a reliable and timely manner and expects no such difficulties in the foreseeable future. In addition, the Company has been actively pursuing a range of alternatives to secure the long-term funding with the most competitive financing terms to fund its projects under development. The Company expects 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 its existing operations.

The Company made capital expenditures $1.9 million for the quarter to bring the capital expenditures spent for the six months ended June 30, 2012 to $2.7 million. The expenditures were mainly for the purchase of land, pipeline facilities to connect new customers and payment for the Gas & Exchange Program.

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 Credit Line has variable interest rates based on prime rate prescribed by the People's Bank of China.

The Company had drawn $4,812,000 (RMB30, 000,000) against the Credit Line, of which $3,208,000 (RMB20, 000,000) will be due on March 28, 2013, and $1,604,000 (RMB10,000,000) that was redrawn on June 19, 2012 will be due on June 20, 2013.

Cash provided by operating activities

Cash provided by operating activities in the second quarter of 2012 was $3.6 million, compared to net cash used by operating activities of $1.0 million for the same periods of 2011. This was due primarily to the working capital inflows in the quarter of 2012 of $1.8 million as compared to outflows of $0.7 million in the same period of 2011 and a higher net profit (includes government grant of $0.7 million). The higher working capital inflows in the quarter of 2012 was due mainly to the decrease in prepaid expenses and deposits of $0.8 million and increased in deferred revenue of $1.2 million.

Cash provided by operating activities for the six months ended June 30,2012 was $4.2 million, compared to net cash used by operating activities of $0.8 million in the same periods of 2011, primarily due to the reasons stated above.

Financing activities

Cash used for financing activities in the quarter and YTD of 2012 was $0.2 million (RMB 1.5 million) and $0.5 million, respectively, primarily due to repayment on the bank loan.

Contractual Obligations and Commitments

As of June 30, 2012, there have been no significant changes to contractual obligations and commitments disclosed in the December 31, 2011 annual audited financial statements.

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, 6,450,000 stock options outstanding and 6,450,000 stock options outstanding and exercisable at a weighted average exercise price of $0.46 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 that these measures should not be construed as alternatives 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:

In thousands (except for % figures)	Q2 2012	Q2 2011	Change	%	YTD 2012	YTD 2011	Change	%
Net Income	826	(300)	1,126	375%	1,652	810	842	104%
Add back:								
Income tax expense	405	100	305	305%	790	435	355	82%
Share of loss of investment in associate	(5)	-	(5)	-	(19)	-	(19)	-
Interest income	(1)	(3)	2	67%	(4)	(4)	-	-
Amortization	518	415	103	25%	1,024	900	124	14%
Interest on borrowing	387	340	47	14%	774	635	139	22%
EBITDA	2,130	552	1,578	286%	4,217	2,776	1,441	52%

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, deferred revenue in connection with gas connection fees which are deferred when we receives the payments from customers and are recognized on the percentage of completion method, measured by reference to the value of work carried out during the period, as well as line 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.

Calculation of adjusted working capital is provided in the table below:

As at $ thousands	**June 30, 2012**	**December 31, 2011**
Current assets	10,353	9,278
Less: Current liabilities	21,157	19,948
Working capital (deficit)	(10,804)	(10,670)
Add back:		
Deferred revenue	8,075	6,069
Interest payable	2,089	2,104
Line of credit	4,812	4,848
Adjusted working capital	**4,172**	**2,351**

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 June 30, 2012 and December 31, 2011, 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 June 30, 2012 and December 31, 2011, the Company had an outstanding loan of $320,800 (RMB 2,000,000) due from a 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 $6,416,000 (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. The significant shareholder extended the date on which these loans are due on demand to April 27, 2015.

IV. As at June 30, 2012, the Company owed an officer and director of the Company $492,468 (December 31, 2011 - $427,843) for unpaid salary.

V. 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 two quarters 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.