

Condensed Consolidated Interim Financial Statements
(Expressed in Canadian dollars)

CHANGFENG ENERGY INC.

Three-month and six-month periods ended
June 30, 2014 and 2013
(Unaudited)

CHANGFENG ENERGY INC.

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

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash	\$ 16,000,504	\$ 15,151,430
Trade and other receivables	4,076,282	4,296,974
Prepaid expenses and deposits	828,096	997,091
Inventories	1,127,919	691,789
Total current assets	22,032,801	21,137,284
Non-current assets:		
Long-term deposits and advances	1,636,482	1,675,317
Investment in associate	804,375	828,860
Property and equipment	58,279,337	57,310,958
Intangible assets	1,750,413	2,333,403
Due from related parties (note 7)	344,200	351,400
Total non-current assets	62,814,807	62,499,938
Total assets	\$ 84,847,608	\$ 83,637,222
Liabilities and Equity		
Current liabilities:		
Bank indebtedness (note 4(b))	\$ 5,043,400	\$ 3,352,400
Trade and other payables	9,144,899	8,145,905
Deferred revenue	14,050,198	14,488,531
Interest payable (note 4(c))	—	886,502
Current portion of long-term debt	2,667,550	2,284,100
Due to related parties (note 7)	1,392,433	1,445,321
Total current liabilities	32,298,480	30,602,759
Non-current liabilities:		
Long-term debt (note 4(a))	21,833,662	23,843,883
Due to related parties (note 7)	6,884,000	7,028,000
Government grants	980,616	985,824
Deferred income tax liability	774,597	636,818
Total non-current liabilities	30,472,875	32,494,525
Total liabilities	62,771,355	63,097,284
Equity:		
Share capital (note 5)	11,032,007	11,630,789
Contributed surplus	2,599,313	2,424,592
Statutory surplus reserves	1,978,412	1,612,089
Retained earnings	4,238,433	2,008,298
Accumulated other comprehensive income	1,782,374	2,358,789
Total shareholders' equity	21,630,539	20,034,557
Non-controlling interest	445,714	505,381
Total equity	22,076,253	20,539,938
Total liabilities and equity	\$ 84,847,608	\$ 83,637,222

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		Six-month periods ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenue	\$ 10,774,858	\$ 9,190,026	\$ 24,155,416	\$ 18,812,868
Cost of sales	6,036,720	4,864,137	11,627,379	8,914,544
Gross margin	4,738,138	4,325,889	12,528,037	9,898,324
Expenses:				
General and administrative	2,410,484	2,091,349	5,148,702	4,252,425
Travel and business development	809,618	718,615	1,886,502	1,680,581
Stock-based compensation	87,360	–	174,721	–
	3,307,462	2,809,964	7,209,925	5,933,006
Income before interest expense, interest income, share of loss of investment in associate and income taxes	1,430,676	1,515,925	5,318,112	3,965,318
Interest expense	449,129	437,246	939,119	879,231
Interest income	(10,841)	(9,202)	(19,804)	(18,242)
Share of loss of investment in associate	172	274	7,755	579
Income before income taxes	992,216	1,087,607	4,391,042	3,103,750
Income taxes	385,003	463,044	1,854,251	1,206,660
Net income	607,213	624,563	2,536,791	1,897,090
Other comprehensive income (loss):				
Exchange differences on translation of foreign operations	(795,342)	891,381	(576,415)	1,277,589
Total comprehensive income (loss)	\$ (188,129)	\$ 1,515,944	\$ 1,960,376	\$ 3,174,679
Net income (loss) attributable to:				
Owners of the Company	\$ 644,420	\$ 657,201	\$ 2,596,458	\$ 1,948,377
Non-controlling interest	(37,207)	(32,638)	(59,667)	(51,287)
	\$ 607,213	\$ 624,563	\$ 2,536,791	\$ 1,897,090
Total comprehensive income (loss) attributable to:				
Owners of the Company	\$ (150,922)	\$ 1,548,582	\$ 2,020,043	\$ 3,225,966
Non-controlling interest	(37,207)	(32,638)	(59,667)	(51,287)
	\$ (188,129)	\$ 1,515,944	\$ 1,960,376	\$ 3,174,679
Earnings per share attributable to common shareholders (note 6):				
Basic	\$ 0.01	\$ 0.01	\$ 0.04	\$ 0.03
Diluted	0.01	0.01	0.04	0.03

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)

Six-month period ended June 30, 2014	Share capital	Contributed surplus	Statutory surplus reserves	Retained earnings	Accumulated other comprehensive income (loss)	Non- controlling interest	Total
Balance, January 1, 2014	\$ 11,630,789	\$ 2,424,592	\$ 1,612,089	\$ 2,008,298	\$ 2,358,789	\$ 505,381	\$ 20,539,938
Share repurchase	(598,782)	–	–	–	–	–	(598,782)
Net income (loss)	–	–	366,323	2,230,135	–	(59,667)	2,536,791
Currency translation adjustment	–	–	–	–	(576,415)	–	(576,415)
Stock based compensation	–	174,721	–	–	–	–	174,721
Balance, June 30, 2014	\$ 11,032,007	\$ 2,599,313	\$ 1,978,412	\$ 4,238,433	\$ 1,782,374	\$ 445,714	\$ 22,076,253

Six-month period ended June 30, 2013	Share capital	Contributed surplus	Statutory surplus reserves	Retained earnings (deficit)	Accumulated other comprehensive income	Non- controlling interest	Total
Balance, January 1, 2013	\$ 12,121,808	\$ 2,042,890	\$ 987,950	\$ (304,256)	\$ 591,636	\$ 627,953	\$ 16,067,981
Share repurchase	(241,444)	–	–	–	–	–	(241,444)
Net income (loss)	–	–	248,812	1,699,565	–	(51,287)	1,897,090
Currency translation adjustment	–	–	–	–	1,277,589	–	1,277,589
Balance, June 30, 2013	\$ 11,880,364	\$ 2,042,890	\$ 1,236,762	\$ 1,395,309	\$ 1,869,225	\$ 576,666	\$ 19,001,216

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		Six-month periods ended	
	2014	2013	2014	2013
Cash flows from operating activities:				
Net income	\$ 607,213	\$ 624,563	\$ 2,536,791	\$ 1,897,090
Items not involving cash:				
Deferred income taxes	34,992	36,555	144,710	222,649
Amortization	867,184	588,184	1,911,304	1,139,100
Prepaid rent expense	22,968	21,827	46,698	43,102
Share of loss of investment in associate	172	274	7,755	579
Current income taxes	350,011	426,489	1,709,541	984,011
Interest expense on long-term debt	449,129	437,246	939,119	879,231
Stock-based compensation	87,360	–	174,721	–
Income taxes paid	(1,180,028)	(566,344)	(1,858,278)	(1,019,362)
Interest expense paid	(408,825)	(441,446)	(1,805,830)	(1,207,631)
Change in non-cash operating working capital	1,725,076	(173,388)	876,841	(333,639)
Net cash flows from operating activities	2,555,252	953,960	4,683,372	2,605,130
Cash flows from financing activities:				
Repurchase of shares	(306,503)	(105,520)	(598,782)	(241,444)
Net increase in bank indebtedness	1,785,000	–	1,785,000	–
Net decrease in bank indebtedness	–	(1,684,000)	–	(4,926,000)
Net decrease in long-term debt	(1,020,749)	(410,500)	(1,156,350)	(410,500)
Net increase in other long-term debt	–	936,500	–	9,852,000
Government grants	15,496	–	15,496	15,023
Net cash flows from (used in) financing activities	473,244	(1,263,520)	45,364	4,289,079
Cash flows from investing activities:				
Acquisition of property and equipment	(1,684,727)	(2,044,171)	(3,574,770)	(4,273,776)
Acquisition of intangible assets	(8,743)	(26,759)	(8,743)	(29,536)
Net cash flows used in investing activities	(1,693,470)	(2,070,930)	(3,583,513)	(4,303,312)
Increase (decrease) in cash	1,335,026	(2,380,490)	1,145,223	2,590,897
Effects of foreign exchange on cash balances	(540,247)	496,866	(296,149)	711,205
Cash, beginning of period	15,205,725	11,562,945	15,151,430	6,377,219
Cash, end of period	\$ 16,000,504	\$ 9,679,321	\$ 16,000,504	\$ 9,679,321

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 and six-month periods ended June 30, 2014 and 2013
(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) Statement of compliance:

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies set out below were consistently applied to all periods presented.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2013 annual audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("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 2013 annual audited consolidated financial statements.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 20, 2014.

CHANGFENG ENERGY INC.

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

Three-month and six-month periods ended June 30, 2014 and 2013
(Unaudited)

2. Basis of presentation (continued):

(b) Historical cost basis of presentation and functional currencies:

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.

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").

3. Significant accounting policies:

These condensed consolidated interim financial statements have been prepared in accordance with IFRS using the same accounting policies as were applied in the 2013 annual consolidated financial statements. In addition, the Company has adopted the following new accounting policies:

(a) Recent accounting pronouncements:

(i) Financial instruments - presentation:

In December 2011, the IASB published amendments to IAS 32, Financial Instruments - Presentation ("IAS 32"). 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 effective date for the amendments to IAS 32 is annual periods beginning January 1, 2014. The Company has adopted the amendments to IAS 32 in its condensed consolidated interim financial statements for the annual period beginning on January 1, 2014. The extent of the impact of adoption of the amendments to IAS 32 had no impact on the Company.

CHANGFENG ENERGY INC.

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

Three-month and six-month periods ended June 30, 2014 and 2013
(Unaudited)

3. Significant accounting policies (continued):

(ii) Levies:

Beginning January 1, 2014, the Company adopted International Financial Reporting Interpretations Committee ("IFRIC") 21, Levies ("IFRIC 21"), on a retrospective basis with restatement. This IFRIC is applicable to all levies other than outflows that are within the scope of other standards, fines, or penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payments, as identified by the relevant legislation, occurs. The impact of the adoption of IFRIC 21 did not have a material impact on the Company's condensed consolidated interim financial statements.

(b) Accounting standards issued but not yet effective:

Certain pronouncements were issued by the IASB or the IFRIC that are not yet effective for the six-month periods ended June 30, 2014 and 2013, and have not been applied in preparing these condensed consolidated interim financial statements.

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 consolidated 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.

CHANGFENG ENERGY INC.

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

Three-month and six-month periods ended June 30, 2014 and 2013
(Unaudited)

4. Long-term debt and bank indebtedness:

(a) Long term debt:

- (i) On January 5, 2010, the Company entered into a term loan with the Bank of China, Sanya Branch ("BOC, Sanya") for \$17,210,000 (RMB 100,000,000) (December 31, 2013 - \$17,570,000 (RMB 100,000,000)), maturing in January 2019 and bearing interest at the prescribed lending rate of the People's Bank of China, which is reset every six months. It is secured by 60% of the interest in CF China held by HEL, and certain gas connection rights. During the six-month period ended June 30, 2014, the Company made payments in the amount of \$860,500 (RMB 5,000,000) (2013 - \$410,500 (RMB 2,500,000)) in accordance with the semi-annual repayment provisions of the term loan agreement. At June 30, 2014, \$14,628,500 (RMB 85,000,000) of the term loan is outstanding.

At June 30, 2014, the Company had unamortized transaction costs of \$195,138 (RMB 1,133,864) (December 31, 2013 - \$227,017 (RMB 1,292,072)), which has been offset against the term loan.

- (ii) On January 15, 2013, the Company entered into an agreement with the BOC, Sanya to secure a bank loan facility in the amount of \$8,605,000 (RMB 50,000,000) (the "Term Loan"). The bank loan facility provides that the proceeds of the Term Loan will be used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City. It has a 10-year term from the date of the first initial withdrawal, and bears interest of 110% of the prime rate set by the People's Bank of China. As at June 30, 2014, the Company has withdrawn \$6,884,000 (RMB 40,000,000), which remains fully outstanding.

CHANGFENG ENERGY INC.

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

Three-month and six-month periods ended June 30, 2014 and 2013
(Unaudited)

4. Long-term debt and bank indebtedness (continued):

(iii) On December 21, 2012, the Company entered into a term loan with the Bank of China, Pingxiang Branch ("BOC, Pingxiang") for \$3,442,000 (RMB 20,000,000), maturing six years from the date of the first withdrawal, and bearing both fixed and variable interest at 120% of the prime rate of the People's Bank of China. The variable component of interest will be calculated initially on the date of withdrawal and will be reset every three months. This term loan is secured by the property and equipment of Pingxiang CF and guaranteed by CF China. The proceeds from this term loan will be used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang City, Jiangxi province. As of June 30, 2014, the Company had withdrawn \$3,442,000 (RMB 20,000,000) (December 31, 2013 - \$3,514,000 (RMB 20,000,000)). During the six-month period ended June 30, 2014, the Company made payments in the amount of \$258,150 (RMB 1,500,000) (2013 - nil). At June 30, 2014, \$3,183,850 (RMB 18,500,000) of the term loan is outstanding.

(b) Bank indebtedness:

In the second quarter of 2014, the Company renewed its line of credit with BOC, Sanya for \$1,721,000 (RMB 10,000,000). Included in current liabilities is \$3,442,000 (RMB 20,000,000) (December 31, 2013 - \$1,757,000 (RMB 10,000,000)) relating to the Company's line of credit (the "Credit Line") with BOC, Sanya. Subsequent to the quarter end, the Company had repaid \$1,721,000 (RMB 10,000,000) line of credit with BOC, Sanya. This loan contains a financial covenant, which requires the Company's subsidiary, CF China's debt-to-total-assets ratio to be maintained below 75%.

Also included in current liabilities is \$1,601,400 (RMB 9,305,055) (December 31, 2013 - \$1,595,400 (RMB 9,080,250)) relating to a U.S. \$1,500,000 term loan from the Bank of China (Canada) pursuant to a credit facility letter agreement effective October 30, 2013. The term loan is secured by a standby letter of credit provided by the Company and issued by the Bank of China Hainan Branch for the amount of RMB 10,000,000. The term loan has a one-year term from the date of the withdrawal and bears annual interest of six-month LIBOR rate plus 250bps.

The proceeds of the line of credit and the term loan have been used for the general working capital purposes of the Company.

As at June 30, 2014, the Company was in compliance with all of its debt covenants.

CHANGFENG ENERGY INC.

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

Three-month and six-month periods ended June 30, 2014 and 2013
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4. Long-term debt and bank indebtedness (continued):

(c) Interest payable:

Included in interest payable is nil (December 31, 2013 - \$882,401 (RMB 5,022,204)) in connection with the bank loans previously settled. The accrued interest was originally paid by Sanya State Assets Management Corporation to the bank on behalf of the Company. In the first six months of 2014, the Company has fully paid the balance.

5. Share capital:

On November 21, 2013, the Company received approval from the TSX-V to make a normal-course issuer bid (the "Bid"). Pursuant to the Bid, the Company proposes to purchase through the facilities of the exchange, from time to time over the next 12 months, if considered advisable, up to an aggregate of 3,000,000 common shares. The Bid commenced on November 26, 2013 and will conclude on the earlier of the date on which purchases under the Bid have been completed and November 26, 2014.

During the first six months of 2014, the Company purchased 1,540,000 shares pursuant to the Bid for cash cost of \$598,782, inclusive of transaction costs. Subsequent to June 30, 2014, the Company purchased no shares.

6. Earnings per share ("EPS"):

Basic EPS amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of shares outstanding during the three-month and six-month periods ended June 30, 2014 and 2013. 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 three-month and six-month periods ended June 30, 2014 and 2013, adjusted for the effect of potentially dilutive stock options.

CHANGFENG ENERGY INC.

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

Three-month and six-month periods ended June 30, 2014 and 2013
(Unaudited)

6. Earnings per share ("EPS") (continued):

The following tables set forth the calculation of basic and diluted EPS:

	Three-month period ended June 30, 2014			Three-month period ended June 30, 2013		
	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	\$ 644,420	63,353,841	\$ 0.01	\$ 657,201	65,444,827	\$ 0.01
Diluted	644,420	64,265,271	0.01	657,201	66,069,163	0.01

	Six-month period ended June 30, 2014			Six-month period ended June 30, 2013		
	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	\$ 2,596,458	63,647,108	\$ 0.04	\$ 1,948,377	65,541,255	\$ 0.03
Diluted	2,596,458	64,589,908	0.04	1,948,377	66,199,996	0.03

7. Related party disclosures:

(a) Related party transactions:

- (i) As at June 30, 2014, the Company had an outstanding loan of \$344,200 (RMB 2,000,000) (December 31, 2013 - \$351,400 (RMB 2,000,000)) due from the minority shareholder of Hunan CF CNPC, which used the funds to contribute the capital it owed to that subsidiary. 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.

CHANGFENG ENERGY INC.

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

Three-month and six-month periods ended June 30, 2014 and 2013
(Unaudited)

7. Related party disclosures (continued):

(ii) Xiangtan Shin-Ko Energy Co., Ltd. ("Shin-Ko Energy"):

Included in current due to related parties as at June 30, 2014, is a required capital contribution of \$516,300 (RMB 3,000,000) (December 31, 2013 - \$527,100 (RMB 3,000,000)) to be made to Shin-Ko Energy. Also included in current due to related parties, as at June 30, 2014, was \$214,962 (RMB 1,249,050) (December 31, 2013 - \$224,378 (RMB 1,277,050)) relating to a loan made to the Company by Shin-Ko Energy. The loan is interest-free and is not secured. It is payable on demand.

(b) Transactions with key management personnel:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and/or its subsidiaries, directly or indirectly, including any external director of the Company and/or its subsidiaries. Key management personnel include: the Chief Executive Officer, the Chief Financial Officer, the Vice President and the Company's directors.

(i) In 2007, a significant shareholder, who is also an officer and director of the Company, advanced loans in the aggregate amount of \$6,884,000 (RMB 40,000,000) (December 31, 2013 - \$7,028,000 (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, are subordinated to the claims of all other creditors, including unsecured creditors, of the Company, and are due on demand. However, these corporations and the Company have entered into Loan Renewal Agreements whereby the parties have agreed to enter into further loan renewal agreements upon the same terms and conditions as the Consignment Loan Agreements, in perpetuity.

(ii) As at June 30, 2014, the Company owed an officer of the Company \$661,171 (December 31, 2013 - \$621,171) for unpaid salary.

CHANGFENG ENERGY INC.

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

Three-month and six-month periods ended June 30, 2014 and 2013
(Unaudited)

8. 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, 2013.

As at June 30, 2014, the Company had a working capital deficiency of \$10,265,679 (December 31, 2013 - \$9,465,475). The Company believes that this deficiency can be funded through projected operating cash flows from operations and through securing additional financing from third-party financial institutions. There are certain assumptions made by management in determining projected operating cash flow, such as temporary natural gas contracts from the government of China and continued growth in its operations.

While management believes that the assumptions included in its operating forecast are reasonable, there is no guarantee that they will materialize as planned. The Company may not be successful in obtaining additional financing on acceptable terms, on a timely basis, or at all, and projected operating cash flows may not materialize as planned.

As at June 30, 2014, the carrying amounts for trade and other receivables, trade and other payables and interest payable on the condensed consolidated interim balance sheets approximate fair values because of the limited term to maturity of these financial instruments.

The Company's financial instruments that are carried at fair value consisting of cash, have been classified as Level 1 within the fair value hierarchy.

9. Seasonality of operations:

Seasonality can impact the Company's natural gas distribution 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 the winter than the rest of the period. The Company's natural gas sales are higher during this high tourism season, as a large portion of the Company's natural gas sales are made to hotels and restaurants. Seasonality can also impact the Company's CNG retail station sales due to vehicles being in need of more gas during the warmer seasons for air-conditioning.

CHANGFENG ENERGY INC.

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

Three-month and six-month periods ended June 30, 2014 and 2013
(Unaudited)

10. Segmented reporting:

The Company has two reportable segments: gas distribution utilities (the "utility") and CNG refuelling station. The utility provides gas pipeline connection services and delivers natural gas to commercial, industrial and residential customers through its pipeline networks and associated facilities. The Company's other segment is a CNG refuelling retail station, which is used primarily to supply gas for taxicabs and public transportation vehicles. The performance of each segment is measured by income from operations.

There were no significant intercompany transactions between segments. Summarized financial information concerning the reportable segments is shown in the following tables:

Three-month period ended June 30, 2014	Gas distribution utility	CNG refuelling station	Consolidated
Revenue	\$ 8,668,095	\$ 2,106,763	\$ 10,774,858
Cost of sales	4,387,100	1,649,620	6,036,720
	4,280,995	457,143	4,738,138
Expenses:			
General and administrative	2,200,843	209,641	2,410,484
Travel and business development	796,874	12,744	809,618
Stock-based compensation	70,694	16,666	87,360
	3,068,411	239,051	3,307,462
Income before interest expense, interest income, share of loss of investment in associate and income taxes	\$ 1,212,584	\$ 218,092	\$ 1,430,676
Acquisition of property and equipment	\$ (1,684,467)	\$ (260)	\$ (1,684,727)
Acquisition of intangible assets	(8,743)	–	(8,743)
Investment in associate	804,375	–	804,375
Total assets, June 30, 2014	\$ 81,142,222	\$ 3,705,386	\$ 84,847,608
Total assets, December 31, 2013	\$ 79,942,756	\$ 3,694,466	\$ 83,637,222

CHANGFENG ENERGY INC.

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

Three-month and six-month periods ended June 30, 2014 and 2013
(Unaudited)

10. Segmented reporting (continued):

Three-month period ended June 30, 2013	Gas distribution utility	CNG refuelling station	Consolidated
Revenue	\$ 7,160,697	\$ 2,029,329	\$ 9,190,026
Cost of sales	3,426,941	1,437,196	4,864,137
	3,733,756	592,133	4,325,889
Expenses:			
General and administrative	1,980,221	111,128	2,091,349
Travel and business development	707,254	11,361	718,615
Stock-based compensation	–	–	–
	2,687,475	122,489	2,809,964
Income before interest expense, interest income, share of loss of investment in associate and income taxes	\$ 1,046,281	\$ 469,644	\$ 1,515,925
Acquisition of property and equipment	\$ (2,011,683)	\$ (32,488)	\$ (2,044,171)
Acquisition of intangible assets	(26,759)	–	(26,759)
Investment in associate	808,817	–	808,817
Total assets, June 30, 2013	\$ 68,551,381	\$ 3,131,055	\$ 71,682,436
Total assets, December 31, 2012	\$ 58,509,028	\$ 2,690,504	\$ 61,199,532

CHANGFENG ENERGY INC.

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

Three-month and six-month periods ended June 30, 2014 and 2013
(Unaudited)

10. Segmented reporting (continued):

Six-month period ended June 30, 2014	Gas distribution utility	CNG refuelling station	Consolidated
Revenue	\$ 20,021,723	\$ 4,133,693	\$ 24,155,416
Cost of sales	8,321,974	3,305,405	11,627,379
	11,699,749	828,288	12,528,037
Expenses:			
General and administrative	4,716,886	431,816	5,148,702
Travel and business development	1,857,197	29,305	1,886,502
Stock-based compensation	144,821	29,900	174,721
	6,718,904	491,021	7,209,925
Income before interest expense, interest income, share of loss of investment in associate and income taxes	\$ 4,980,845	\$ 337,267	\$ 5,318,112
Acquisition of property and equipment	\$ (3,570,279)	\$ (4,491)	\$ (3,574,770)
Acquisition of intangible assets	(8,743)	–	(8,743)
Investment in associate	804,375	–	804,375
Total assets, June 30, 2014	\$ 81,142,222	\$ 3,705,386	\$ 84,847,608
Total assets, December 31, 2013	\$ 79,942,756	\$ 3,694,466	\$ 83,637,222

CHANGFENG ENERGY INC.

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

Three-month and six-month periods ended June 30, 2014 and 2013
(Unaudited)

10. Segmented reporting (continued):

Six-month period ended June 30, 2013	Gas distribution utility	CNG refuelling station	Consolidated
Revenue	\$ 15,107,545	\$ 3,705,323	\$ 18,812,868
Cost of sales	6,209,175	2,705,369	8,914,544
	8,898,370	999,954	9,898,324
Expenses:			
General and administrative	3,951,592	300,833	4,252,425
Travel and business development	1,657,533	23,048	1,680,581
Stock-based compensation	–	–	–
	5,609,125	323,881	5,933,006
Income before interest expense, interest income, share of loss of investment in associate and income taxes	\$ 3,289,245	\$ 676,073	\$ 3,965,318
Acquisition of property and equipment	\$ (4,237,837)	\$ (35,939)	\$ (4,273,776)
Acquisition of intangible assets	(29,536)	–	(29,536)
Investment in associate	808,817	–	808,817
Total assets, June 30, 2013	\$ 68,551,381	\$ 3,131,055	\$ 71,682,436
Total assets, December 31, 2012	\$ 58,509,028	\$ 2,690,504	\$ 61,199,532

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 and six-month periods ended June 30, 2014 and 2013, there is no significant individual customer from which sales amounted to more than 10% of the Company's revenue.