March 29, 2010

Introduction

This management discussion and analysis ("MD&A") provides an analysis of the financial condition and results of operations of Changfeng Energy Inc. (the "Company") and compares the financial results for the year ended December 31, 2009 with those of the same period the previous year. The MD&A should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2009 and the audited consolidated financial statements and related notes and the MD&A for the year ended December 31, 2008 which have been prepared in accordance with generally accepted accounting principles in Canada. Additional information about the Company is available at www.sedar.com.

CAUTION REGARDING FORWARD LOOKING STATEMENTS

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 subsidiary, 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.

Description of Business

Changfeng Energy Inc. is a Canadian public company currently trading on the TSX Venture Exchange, as a Tier 1 company, under the stock symbol "CFY". The Company was formed via a reverse takeover of McBroom Resources and the merger was completed on January 29, 2008. The Company through its wholly owned subsidiary Hainan Energy Limited and its wholly owned subsidiary Sanya Changfeng Offshore Natural Gas Supply Co. Ltd. is engaged in the design and construction of natural gas distribution networks and the distribution of natural gas to residential and commercial customers in the greater Sanya region, Hainan Province, People's Republic of China ("PRC").

The primary business objective is to become one of the predominant natural gas distributors in the southern PRC. Changfeng has acquired a Hainan Natural Gas Operating Permit which provides it with the rights to distribute natural gas throughout the greater Sanya region. Changfeng has developed a natural gas pipeline network in Sanya City and is in the process of expanding the distribution network in various other communities throughout the greater Sanya region. Changfeng has been formally recognized as Sanya City's exclusive natural gas distributor through the signing of a concession agreement.

Description of Operations

Changfeng conducts its business through three primary operating segments: Distribution Network Design and Construction, Natural Gas Supply and Distribution and CNG Filling Stations, each of which is described in further detail below.

Distribution Network Design and Construction and Natural Gas Supply and Distribution

Changfeng has built and owns Sanya City's main pipeline network and branch pipeline networks to effect gas connections to residential, industrial and commercial users. Each of Changfeng's pipeline customers is physically connected to its pipeline network through connection equipment and natural gas usage monitoring systems which are installed and maintained by Changfeng.

Changfeng's network includes 38 km of high pressure gas pipelines, over 100 km of medium to low pressure gas pipelines and over 120 km of branch/customer pipelines. The network includes one primary station, 2 gate processing stations and 3 gas pressure regulating stations. The primary station is connected to the state owned natural gas processing plant located nearby. This processing plant is directly connected via high pressure sub sea pipeline to the CNOOC Ya13-1 gas field located approximately 100 km offshore in the South China Sea.

Changfeng is continuing to expand its customer base in Sanya City and is also in the process of expanding its operations to newly developed business, tourist and residential areas, including the districts of Haitang Bay and Green Scientific Park. Changfeng has been granted the right to construct facilities and distribute natural gas to Haitang Bay, a tourist destination located in Hainan Province currently under development. Changfeng is not dependent upon any single customer or group of customers for a material portion of its natural gas sales or revenues. Changfeng has been formally recognized as the City of Sanya's exclusive natural gas distributor through the signing of a concession agreement. This concession agreement gives Changfeng the exclusive right to piped gas distribution in the City of Sanya for 30 years commencing December 31, 2007 and includes any future geographical boundary increases of the City of Sanya.

Following the completion of its natural gas distribution networks, Changfeng retains ownership in such networks and manages its operation to transport natural gas to residential and commercial end users. Changfeng charges its customers a one time connection fee to the network.

CNG Filling Stations

On December 18, 2008, the Company established a new company, Hunan Changfeng CNPC Energy Co. Ltd. ("Hunan CF CNPC"), with a subsidiary of China National Petroleum Corporation ("CNPC") and its associates to pursue compressed natural gas ("CNG") distribution opportunities in Changsha, a major city in China and capital of Hunan Province. The Company has 58% of the equity interests of Hunan CF CNPC through its newly incorporated, 99.92% owned subsidiary, Sanya Changfeng New Energy Investment Co. Ltd. ("Sanya CF NEI") and its 60% owned subsidiary Hunan CNPC New Energy Investment Ltd. (see below). As of December 31, 2009, the Company has made its capital contribution in Hunan CF CNPC and the other parties are required to make their capital contribution by December 2010.

In January 2009, the Company acquired 60% of the equity interest in Hunan CNPC New Energy Investment Ltd. ("Hunan CNPC NEI"), which has a contract with Hunan CNPC Pipeline Gas Co. Ltd., an arm's length corporation, to purchase 11 million M^3 of CNG a year until September 12, 2027. The CNG purchased pursuant to this contract will be used to supply the Company's CNG commercial vehicle filling stations in Changsha City, upon completion of construction.

The first CNG station has been completed, tested and operations commenced in 2010. Two more stations are expected to commence construction shortly. Changfeng's share of the capital expenditures will be funded from existing working capital.

Foreign Exchange Rates

The Company undertakes substantially of its transactions in Chinese RMB. All revenues are earned in Chinese RMB.

Canadian dollar to RMB	2009	2008
Annual average rate	5.98	6.51
Year end rate	6.52	5.57

As the Company's subsidiaries in China are considered self sustaining, any impact on financial instruments due to foreign exchange fluctuations arising from the translation of the foreign subsidiary balances into Canadian dollars have been recognized as other comprehensive income, not as net income.

Summary Financial Information

Key Financial Data and Comparative Figures			
($ 000's) except per share amounts	31-Dec-09	31-Dec-08	31-Dec-07
Foreign exchange rate RMB (Average rate)	5.98	6.51	7.08
Revenue	17,876	13,014	9,240
Net Income	1,123	918	918
Earnings (loss) per share	0.017	0.014	0.031
Foreign exchange rate RMB (Year end rate)	7	6	7
Balance Sheet			
Cash and cash equivalents	3,782	5,477	2,598
Working capital (deficit)	(4,383)	(9,401)	(9,053)
Plant and equipment	29,214	31,664	21,548
Total assets	36,069	40,091	25,925
Long term liabilities	9,535	5,852	5,980
Shareholders' equity	9,595	9,859	1,668
Weighted average number of shares			
outstanding - basic (000's)	66,025	63,479	29,234

Quarterly data ($000's)	2009				2008			
except per share amounts	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Foreign exchange rate RMB	6.46	6.22	5.85	5.49	5.64	6.57	6.89	7.13
Revenue	5,696	4,101	3,742	4,337	4,184	2,896	2,968	2,966
Gross profit	3,093	2,420	2,322	2,878	2,710	1,708	1,606	1,765
Interest	230	(197)	(215)	(265)	27	(257)	(212)	(289)

Net income (loss)	606	93	(199)	623	590	83	2	243
Net income (loss) per share	0.009	0.002	(0.003)	0.009	0.009	0.001	0.000	0.005

The above financial information has been prepared in accordance with Canadian generally accepted accounting principles and is stated in Canadian dollars. The comparative data used, prior to the reverse takeover transaction completed on January 29, 2008, is that of HEL the operating entity.

Results of Operations

The Company generated revenues of $17,876,478 for the year ended December 31, 2009 compared to $13,014,236 in the year ended December 31, 2008. This 37% increase can be attributed to the growth in piped gas sales and connection fees as more customers are connected. The gross margin for the year was 60% which is unchanged from the comparable period in 2008.

The table below illustrates the increase in customers connected over the period and volume of gas sold.

YEAR	2009	2008	% change
Residential			
Customers connected during the year	12,654	13,295	-4.8%
Total customers at the end of the year	50,455	37,801	33.5%
Gas sold V. (m3) during year	3,221,900	2,430,000	32.6%
Commercial			
Customers connected during the year	65	94	-30.9%
Total customers at the end of the year	440	375	17.3%
Gas sold V. (m3) during the year	21,803,000	17,000,000	28.3%

Residential connections slowed marginally during the year as the rate of residential construction slowed in Sanya City. Year over year growth in total residential customers was a strong 33.5%.

General and administrative costs for the year ended December 31, 2009 were $5,628,096 compared to $3,889,140 for the comparable period in 2008. This increase can be attributed to the revenue growth of the Company and significant business development activities in mainland China and pre revenue administrative costs for our Changsha City CNG project.

Travel and promotion costs for the year ended December 31, 2009 were $1,320,618 compared to $1,193,510 for the comparable period in 2008. Increased travel costs relate to business development in mainland China

Interest on long term debt for the period ended December 31, 2009 was $446,503 compared to $733,414 for the comparable period in 2008. This reduction was due to lower interest rates and reduced principal amounts.

Amortization for the year ended December 31, 2009 was $1,096,689 compared to $920,078 for the comparable period in 2008. The increase was due to the investment in capital assets as the Company's infrastructure increases.

The net income for the year ended December 31, 2009 was $1,122,714 or $0.017 per share compared to a net income of $918,291 or $0.014 per share for the year ended December 31, 2008.

Quarterly Results

The table below illustrates the increase in customers connected in the period and the volume of gas sold.

QUARTER	Q4 2009	Q4 2008	% change
Residential			
Customers connected during the quarter	5,563	3,895	42.8%
Total customers at the end of the quarter	50,455	37,801	33.5%
Gas sold V. (m3) during quarter	1,170,000	810,000	44.4%
Commercial			
Customers connected during the quarter	22	28	-21.4%
Total customers at the end of the quarter	440	375	17.3%
Gas sold V. (m3) during quarter	6,041,600	4,930,000	22.5%

The Company generated revenues of $5,696,254 for the quarter ended December 31, 2009 compared to $4,184,556 in the quarter ended December 31, 2008. This significant increase can be attributed to the year over year growth in piped gas sales and an increase in gas connection revenue particularly with the residential customers connected during the quarter.

The gross margin for the period decreased from 64.8% in Q4 2008 to 54.2% in Q4 2009. This was due to the significant increase in gas sales and the utilization of the Company's full allowance of 24 million cubic meters per anum. The gas supplied in excess of the 24 million was purchased at a higher price.

Commitments

Statutory Reserves

In accordance with PRC Company Law, Sanya Changfeng Offshore Natural Gas Supply Co., Ltd. ("CF China") is required to provide for certain statutory reserves commencing from the year it reports retained earnings. Prior to June 6, 2007, as a domestic limited liability company, CF China was required to allocate at least 10% of its after tax profits to a statutory surplus reserve with the right to discontinue allocations to the statutory surplus reserve if such reserves reach 50% of its registered capital. CF China was also required to designate 5% of after tax profit to a statutory welfare reserve to be used only for the collective benefits of CF China's employees. All statutory reserves are required to be calculated based on amounts reported in CF China's PRC statutory financial statements under China GAAP. Effective from June 6, 2007, as CF China became a foreign invested enterprise ("FIE"), in accordance with PRC Company Law for FIEs, CF China is required to provide for a surplus reserve fund, enterprise development fund, and employee welfare fund, each at a percentage of after tax profits, which is a discretionary percentage and is decided by the CF China's board of directors each calendar year. These reserves can only be used for specific purposes and are not transferred to the Company in the form of loans, advances, or cash dividends. These reserves can be distributed to the shareholder of CF China at the time when CF China is wound up.

As of December 31, 2009, CF China had not designated RMB to the above statutory reserve funds.

Pipeline Construction and Equipment

The Company has signed two contracts with a sub-contractor to construct pipelines to extend to the Haitang Bay area of Sanya City, for a total contract amount of RMB 5,922,660 ($902,944) (2008 – RMB 20,893,429; $3,750,371), of which RMB 1,237,980 ($189,782) (2008 – RMB 11,072,870; $1,987,580) was incurred as at December 31, 2009 and included in construction in progress.

The Company has signed two contracts with the same sub-contractor to construct some city pipelines within Sanya City for a total contract amount of RMB 1,968,060 ($301,704) (2008 - $nil). Construction has not commenced as at December 31, 2009.

The Company also has signed seven contracts with several equipment suppliers and construction supervisors for a total amount of RMB 5,940,639 ($910,700), of which RMB 50,000 ($ 7,665) was incurred as at December 31, 2009.

Purchase Commitments

See Note 15 of the December 31, 2009 audited consolidated financial statements .

In connection with the CNG contract described in Note 7 of the December 31, 2009 audited consolidated financial statements, the Company is required to pay a onetime charge of RMB 3,000,000 ($459,900) in addition to the price of the gas. As of December 31, 2009, RMB 1,000,000 ($153,300) has been paid with the balance payable at the time the gas is first supplied. As at December 31, 2009, the Company has not purchased any CNG pursuant to this agreement.

In addition, the Company has acquired the rights to a gas purchase contract from a third party to purchase 10,000 M^3 of CNG per day (3,650,000 M^3 per year) until September 12, 2027. Pursuant to this contract, the Company made a cash payment of RMB 500,000 ($76,650) that was recorded as part of the long term prepaids and will be required to pay a further one-time payment of RMB 500,000 ($76,650) at the time the gas is first supplied. As at December 31, 2009, the Company has not purchased any CNG pursuant to this agreement.

Lease Commitment

The Company signed a lease agreement for 3,000 M^2 of land for construction of a CNG gas station in Hunan Province. The lease term is for 20 years until October 2028. The annual rent is RMB 470,000 ($72,050) of which a deposit of RMB 100,000 ($15,330) and four years' rent (RMB 1,880,000 or $288,204) need to be made in advance. As at December 31, 2009, the Company has paid RMB 1,300,000 ($199,290). If the Company decides to terminate this agreement, a termination payment of RMB 1,000,000 ($153,300) will be payable. The minimum lease payments in the following years are as:

	RMB	$
2010	580,000	88,914
2014	470,000	72,051
Thereafter	7,050,000	1,080,765

Related Parties

A corporation controlled by a significant shareholder who is also an officer and director of the Company owed the Company a total of US$76,822 (Cdn$80,740) as at December 31, 2009 (2008 – US$62,889 (Cdn$76,599)) for various expenditures paid by the Company on behalf of this corporation. This amount is unsecured, non-interest bearing with no fixed terms of repayment. The amount is included in accounts receivable.

In addition, the Company owed this individual $200,510 for unpaid salary which amount is included in accounts payable as at December 31, 2009. The Company also had unpaid directors' fees of $33,000 included in accounts payable. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year ended December 31, 2007, a significant shareholder, who is also an officer and director of the Company advanced loans in the aggregate amount of RMB 40,000,000 (2009 - $6,132,000) (2008 - $7,180,000) 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 subordinate to the claims of all other creditors, including unsecured creditors, of the Company, and are due on demand; however, the lender cannot demand the repayment of the loans at any time until April 27, 2010. 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 every three years, in perpetuity.

A significant shareholder of the Company, who is also an officer and director of the Company, owns 2.4% of the equity in CF Engineering, a subsidiary of CF China, through a corporation which the individual controls.

Capital Stock and Share Issuances

During the year the Company granted options to new directors of the Company to acquire 400,000 common shares of the Company at an exercise price of $0.55 per share on or before June 28, 2014. The options vested immediately.

Liquidity and Capital Resources

The Company's cash and cash equivalents balance at December 31, 2009 was $3,782,250, compared to $5,477,208 at December 31, 2008. The Company had a working capital deficit of $4,383,700 as at December 31, 2009, compared to a working capital deficit of $9,401,191 as at December 31, 2008. The decrease in the working capital deficiency was primarily due to the reclassification of the term loan facility from the Sanya State Assets Management Corporation from current to long term.

The Company has sufficient capital resources generated through operations and the private placement completed in January, 2008 to satisfy its current capital expenditure requirements. The Company announced on January 25, 2010 receipt of a RMB 100 million (Cdn$ 15.3 million) which were used to repay the Sanya State Assets Management Corporation's and Bank of China's existing term loan facility and fund the expected capital expenditures in the Greater Sanya region.

Risk Factors

There are certain risks associated with an investment in Changfeng, including those listed below.

Substantial Initial Capital Expenditure Requirement

Due to the nature of the Company's business, the Company is required to make a substantial initial investment in the construction of gas pipeline infrastructure and the construction of its CNG filling stations. The initial investment must be financed by internal resources of the Company, bank loans or equity fund raising. There can be no assurance that external sources of financing will be available to fund the Company's capital expenditure program. The failure to obtain such financing may hinder the Company's ability to continue its existing investments or make new investments. In addition, there are risks associated with the construction of new facilities including risks that costs of construction may be greater than anticipated and that construction may be delayed by factors beyond the control of the Company.

Grant of Additional Licenses

The business objectives of the Company include the expansion of its operations by applying for distribution and construction permits for natural gas distribution rights in other cities in China. Applicants for such licenses are required to meet extensive criteria, and to submit to a detailed examination of their infrastructure and management by a special team appointed by the government body reviewing such applications. Notwithstanding the results of any such review, distribution and construction permits are granted to applicants only at the sole discretion of the government body reviewing such applications, and such grants occur on an infrequent basis. Accordingly, there can be no assurance that the Company will be granted any distribution and construction permits for which it applies, which may in turn have a material adverse effect upon the operations and growth strategy of the Company.

Price Control

Any increase in gas usage charges exceeding the original approved charge requires the approval of the local state price bureau. There is no assurance that any increases (except for an increase to offset the rise in the Company's purchase price of gas) will be approved.

There is no assurance that the Company will be able to offset any increase in the purchase price of gas with an increase in the sales price, with the result that its profitability may be adversely impacted by decisions made by government pricing bureaus.

Obligations to Purchase Gas

The Company currently has an agreement in principle with CNOOC. The Company may, at its option, enter into a take or pay agreement with CNOOC which will leave it financially committed to purchase gas without any assurance that it will have sales to offset the purchase obligations. In addition, the agreement in principle between the Company and CNOOC is conditional upon the completion of a plant to be constructed by CNOOC, which is in turn subject to the receipt of various regulatory and governmental approvals. Failure of CNOOC to obtain the required approvals and/or to complete construction of its proposed plant may have a material adverse effect on the Company.

Reliance on the Suppliers of Natural Gas

At present, the Company purchases natural gas solely from Hainan Petrol pursuant to the Supply Agreement. Currently, the Company has a contract to purchase 24 million M^3 gas a year from this supplier until December 31, 2015. There can be no assurance that the Company will be able to obtain natural gas from suppliers on terms similar to those of the Supply Agreement or without material interruption.

Limited Insurance Coverage

As natural gas is an inherently flammable and explosive substance, the Company has implemented strict safety measures for the operation and maintenance of its facilities. However, the Company cannot guarantee that industry-related accidents will not happen in the future. Significant operational hazards and natural disasters may cause interruptions in the Company's operations that could have a material adverse impact on the financial condition of the Company.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not be available or may not be adequate to cover any resulting liability. A successful claim made against the Company that is not covered by any of the Company's insurance policies or is in excess of its insurance coverage could have a material adverse effect on the Company's business and financial position.

Environmental Risks and Hazards

All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist in connection with the pipelines and distribution networks in which the Company holds interests which are unknown to the Company at present.

Government approvals and permits are currently and may in the future be required to be obtained or renewed in connection with the Company's operations. To the extent such approvals are required and not obtained or existing permits are not renewed, the Company may be curtailed or prohibited from continuing its operations or from proceeding with planned development of its proposed projects.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing current or proposed operations and activities of the Company, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in development expenses, capital expenditures or production costs, or require abandonment or delays in development of new projects.

The Company is subject to the PRC environmental protection laws and regulations which impose fines for violations of laws, regulations or decrees and provide for the shutdown by the central, provisional or municipal governments of any facility not in compliance with governmental orders requiring the cessation or cure of certain activities causing environmental damage. Since natural gas is an environmentally friendly form of fuel, the Company has not adopted any special environmental protection measures other than the measures taken in the ordinary course of business by companies in the industry.

Key Executives

The Company is dependent upon the services of key executives, management of the Company and a small number of highly skilled and experienced executives and personnel. In addition, in the event that the Company expands its operations to other jurisdictions in the Hainan and Guangdong Provinces as presently contemplated, it will be required to hire additional skilled personnel. Due to the relatively small size of the Company, the loss of these persons or the Company's inability to attract and retain additional highly-skilled employees may adversely affect its business and future operations.

Infrastructure

Natural gas distribution activities depend on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations. Any increase in the operating costs of the natural gas distribution networks of the Company could have a material adverse effect on the Company.

Competition

The natural gas distribution industry is competitive in all of its phases. The Company faces strong competition from other natural gas distribution companies in connection with the development of pipelines and acquisition of distribution rights for natural gas. Many of these companies have greater financial resources, operational experience and technical capabilities than the Company. As a result of this competition, the Company may be unable to maintain or acquire distribution rights on terms it considers acceptable or at all.

The ability of the Company to acquire natural gas distribution rights depends upon whether the Company is able to meet certain qualifications criteria, the extent of competition, and the discretion of the MCC and other applicable government bodies. Factors beyond the control of the Company may affect its ability to obtain or retain distribution rights, or to secure exclusive concession rights with local municipalities, as well as the marketability of natural gas distributed by the Company. As a result of these and other factors, competitors of the Company may be granted shared or exclusive natural gas distribution rights in the target markets of the Company, either of which may adversely affect the Company's future growth plans and operations.

The Company also competes for financing with other companies, many of whom have greater financial resources and/or more advanced operations. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.

Substitute Products

Coal, gas, liquid propane gas, liquid natural gas and electricity are the main substitutes for natural gas. Ultimate consumers will consider factors such as cost, reliability, convenience and safety when choosing a fuel. Connection fees, gas usage charges and heat content are the major factors affecting customers' choice of fuel. Save for newly built residential apartments which are required to be equipped with gas supply for cooking stoves, in most of the locations in which the Company has established a presence, there is no assurance that existing fuel users will shift to use piped natural gas. Continued growth of the Company is dependent upon the continued conversion by Chinese residential and business consumers to natural gas as a fuel source.

Commodity Prices

The price of the securities of the Company, the Company's financial results and development activities may in the future be significantly and adversely affected by declines in the price of natural gas and other commodities. The price of natural gas and other commodities fluctuates widely and is affected by numerous factors beyond the Company's control such as the sale or purchase of natural gas by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, the political and economic conditions of major oil-producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges. Future serious price declines in the market value of natural gas and other commodities could cause continued development of the Company's projects to be impracticable. Depending on the price of natural gas and other commodities, cash flow from operations may not be sufficient and the Company could be forced to discontinue development and may lose its interest in, or may be forced to sell, some of its interests.

Political and Economic Considerations

Since substantially all of the business of the Company is operated in the PRC, the profitability, financial position and prospects of the Company may be affected by the PRC's economic, political and regulatory regime.

The PRC economy is currently evolving from a planned economy into a market-oriented economy. Although the PRC has adopted an open door policy, changes in the policies of the PRC government regarding the domestic economy (for example, changes affecting foreign exchange rates, inflation, taxation and trade) may have a material effect on the overall economy. The current reforms are unprecedented, produce effects that are unpredictable, and are subject to further refinement and improvement. New political, economic and social developments and considerations may lead the PRC government to make adjustments to these reform measures. Such amendments and adjustments may not have a favorable effect on the Company's business. Any change, variation or adjustment to the reform measures taken by the PRC government may have a material adverse effect on the business of the Company.

Changes in Laws, Regulations and Policies

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little precedential value. In 1979, the PRC began to promulgate a comprehensive system of laws and has since introduced many laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. The promulgation of new changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Company. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement involve significant uncertainty.

In the PRC, gas distribution companies invest in and operate the piped gas supply business in urban areas under the supervision of a number of government ministries and departments, including the Ministry of Commerce, the MCC, the Ministry of Labour and Social Security and the Ministry of Public Security. The Company must comply with the relevant requirements of certain regulations, including the City Fuel Gas Administration Regulations, the Tentative Regulations in relation to the Supervision and Administration of the Safety of Petroleum and Natural Gas Pipelines and the Regulations of the Safety of City Fuel Gas Administration. In addition, the Company must comply with the relevant requirements and policies of local authorities where the Company's projects are situated.

Rights or rights of first refusal to provide piped gas are granted by local governments pursuant to policies of promoting environmental protection and encouraging the use of natural gas and the construction of natural gas supply facilities.

In addition, the natural gas distribution business in the PRC is highly regulated and pricing is controlled by the PRC government. Any change in such laws or regulations could have a material adverse effect on the business of the Company.

There can be no assurance that the above regulatory regime and policies (including the granting of rights or rights of first refusal to supply piped gas) will not be changed. The Company's operations and profitability may be materially adversely affected if changes that occur are not favourable to the Company.

Changes in Foreign Exchange Regulations

Since 1996, the PRC government has promulgated various foreign exchange rules, regulations and notices (the "Policies") to raise the convertibility of renminbi. According to the Policies, a foreign-invested enterprise ("FIE") must open a "current account" and a "capital account" at a bank authorized to trade foreign exchange. A FIE may convert renminbi in the capital account into any foreign currency at any authorized bank with the prior approval of the State Administration for Foreign Exchange ("SAFE").

The income and expenditures of the Company are denominated in renminbi. At present, renminbi cannot be freely converted into other currencies. According to the Policies, upon producing the board resolution on the authorization of the distribution of profits or dividends or the commercial documents evidencing foreign exchange transactions, the Company may purchase the foreign exchange required for the distribution from a designated authorized bank. The Company cannot guarantee that the Policies will not be withdrawn or amended.

The Company continues to have substantial requirements for foreign currency, including foreign currency denominated loans and purchases of imported equipment and materials. Repayment of the principal and interest of loans denominated in foreign currency shall be approved by SAFE in advance. Such approval requirement could affect the Company's ability to obtain foreign exchange through debt financing or to obtain foreign exchange for capital expenditure.

In addition, according to the current foreign exchange control system, there can be no assurance that sufficient foreign exchange can be obtained pursuant to a specific exchange rate in order to satisfy the Company's entire needs. A shortage in the foreign exchange may prevent the Company from obtaining sufficient currency to pay dividends or limit its ability to satisfy its needs for foreign exchange.

Currency, Interest Rate and Exchange Fluctuations

The value of renminbi is subject to changes in the PRC government's policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of renminbi to US dollars has generally been stable, and renminbi has appreciated slightly against the US dollar. Any devaluation of renminbi may adversely affect the value of, and dividends payable on, the securities of the Company in foreign currency terms since the Company receives its revenues in renminbi. Results of operations and the financial condition of the Company may also be affected by changes in the value of certain currencies other than renminbi in which the Company's obligations are denominated. In particular, a devaluation of the renminbi is likely to increase the portion of the Company's cash flow required to satisfy its foreign currency-denominated obligations.

Government Regulation

The construction and distribution activities of the Company are subject to various laws governing development, construction, distribution, taxes, labour standards and occupational health, toxic substances, land use, water use, and other matters**.** Although the Company's operations are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or distribution activities. Amendments to current laws and regulations governing natural gas distribution and related matters or more stringent implementation thereof could have a substantial adverse impact on the Company.

Share Capital

As of March 24, 2010, the Company has 66,025,000 common shares outstanding and 3,450,000 stock options outstanding at an average exercise price of $.60 per share.

New Accounting Policies

Entities Subject to Rate Regulation

The Company is a rate regulated natural gas distribution utility and operates within Hainan Province, PRC. The utility operation of the Company is subject to regulation. Rate schedules are approved periodically by the provincial government and are designed to permit a fair and reasonable return on the utility investment.

Effective January 1, 2009, the temporary exemption from CICA Handbook Section 1100, "Generally Accepted Accounting Principles", which permits the recognition and measurement of assets and liabilities arising from rate regulation, was withdrawn. The Company did not have any rate regulated assets or liabilities as at December 31, 2009 and 2008 and the adoption of the revised standard did not impact the Company's earnings or cash flows.

Fair Value Hierarchy and Liquidity Risk Disclosure

In June 2009, the Canadian Accounting Standards Board issued an amendment to CICA Section 3862, "Financial Instruments Disclosures" in an effort to make Section 3862 consistent with IFRS Section 7 - Disclosures ("IFRS 7"). The purpose was to establish a framework for measuring fair value under Canadian GAAP and expand disclosures about fair value measurements. To make the disclosures an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The adoption of the new standard resulted in additional disclosures in the notes to the consolidated financial statements.

Goodwill and Intangible Assets

Intangible assets with definitive useful lives are recorded at their fair value at the acquisition date. Amortization is calculated using the straight-line method for all intangibles over their estimated useful lives. In November 2007, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces the existing Handbook Section 3062, Goodwill and Other Intangible Assets and Handbook Section 3450, Research and Development Costs. This standard was adopted by the Company effective January 1, 2009. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

The Company's intangible assets consist of gas purchase contract rights, which are amortized over the expected life of the contract.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks and the adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

Business Combinations

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company expects to adopt this standard on January 1, 2011. Early adoption is permitted.

Consolidations

CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company expects to adopt this standard on January 1, 2011. Early adoption is permitted.

Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175 – "Multiple Deliverable Revenue Arrangements" replacing EIC 142 – "Revenue Arrangements with Multiple Deliverables". This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the company's fiscal period of adoption. The Company expects to adopt EIC 175 effective January 1, 2011.

Preparing for IFRS conversion

International Financial Reporting Standards ("IFRS") Implementation Plan

The AcSB has confirmed that IFRS will replace current Canadian GAAP for publicly accountable enterprises, effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company will report interim and annual financial statements (with comparatives) in accordance with IFRS beginning with the quarter ended March 31, 2011.

The Company has commenced the development of an IFRS implementation plan to prepare for this transition, and is in the process of analyzing the key areas where changes to current accounting policies may be required. While an analysis will be required for all accounting policies, the initial key areas of assessment will include:

- Plant and equipment
- Stock-based compensation;
- Accounting for income taxes; and
- First-time adoption of International Financial Reporting Standards (IFRS 1).

As the analysis of each of the key areas progresses, other elements of the Company's IFRS implementation plan will also be addressed, including: the implication of changes to accounting policies and processes; financial statement note disclosures on information technology; internal controls; contractual arrangements; and employee training. The table below summarizes the expected timing of activities related to the Company's transition to IFRS.

Initial analysis of key areas for which changes to accounting policies may be required	Completed December 31, 2009

Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives	Throughout fiscal 2010
Assessment of first-time adoption (IFRS 1) requirements and alternatives	Throughout fiscal 2010
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	Q2 (June 30, 2010)
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements	Q2 (June 30, 2010)
Management and employee education and training	Throughout the transition process
Quantification of the Financial Statement impact of changes in accounting policies	Throughout fiscal 2010

The AcSB has confirmed January 1, 2011 as the date IFRS will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable companies. The transition to IFRS may materially affect the Companies reported financial position and results of operations. The Company has initiated the process to identify the differences in accounting standards that are relevant to the Companies business. The Company is currently assessing the future impact of these new standards on its consolidated financial statements.

Subsequent Events

a) Subsequent to December 31, 2009, 1,000,000 warrants expired unexercised.

b) Subsequent to December 31, 2009, the Company received a long term bank loan from the Bank of China in the amount of RMB 100 million ($15.3 million). The loan bears interest at the prescribed lending rate of the People's Bank of China (5.94% as of January 5, 2010), due monthly, and principal repayments commencing 2012, due January 2019. The loan is secured by 60% of the interest in CF China held by HEL and certain gas connection rights. The proceeds of the loan will be used to advance the Company's Haitang Bay Project and to retire certain existing loans. Subsequent to year-end, the Company repaid its loan from Sanya State Assets Management Corporation in the amount of RMB 42.2 million described in Note 9(b) of the December 31, 2009 audited consolidated financial statements and repaid the Bank of China loan in the amount of RMB 10 million described in Note 9(c) of the December 31, 2009 audited consolidated financial statements.

   Principal payments over successive years ending December 31 are as follows:

	RMB	$
2012	5,000,000	766,500
2013	5,000,000	766,500
2014	10,000,000	1,533,000
2015 and successive years	80,000,000	12,264,000

c) On March 8, 2010, the Company entered into an agreement to purchase liquid natural gas from an arm's length party for a period of five years. Pursuant to this agreement, the Company is not permitted to acquire liquid natural gas from outside suppliers without the consent of the other party to this agreement.

Outlook

The Company continues to add both residential and commercial customers to its existing networks as well as expand its medium pressure pipelines.

The Company has recently commenced construction of a LNG regasification station in conjunction with its planned Haitang Bay extension, which includes a 25 km medium pressure pipeline. Construction has commenced on local distribution pipelines. Currently over 20 km of pipeline has been completed. In addition two major hotels have signed contracts for gas delivery in 2010.

The Company's joint venture with CNPC and other parties to construct CNG filling stations in Changsha continues to progress. The first of a planned 7 CNG stations has commenced operations. A further two have been approved and are expected to start construction shortly. This partnership will establish a solid foundation for Company developing natural gas distribution markets in Mainland China cities and also support securing natural gas supply for future projects.

The Company continues to explore other expansion opportunities both on Hainan Island and in mainland China.