Changfeng Energy Inc.

Management's Discussion and Analysis
For the year ended December 31, 2011

Dated April 30, 2012

Advisory

This Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to understand the financial position and operations of Changfeng Energy Inc. ("Changfeng" or the "Company") as at and for the year ended December 31, 2011. This information should be read in conjunction with the accompanying audited Consolidated Financial Statements of the Company and the notes thereto for the year ended December 31, 2011. "Changfeng" or "the Company" includes Changfeng Energy Inc. and our subsidiaries, unless otherwise indicated.

Additional information related to Changfeng is available on SEDAR at www.sedar.com or on our website at www.changfengenergy.com.

As of January 1, 2011, the Company adopted International Financial Reporting Standards (IFRS), and the following disclosure, as well as the associated audited Consolidated Financial Statement, have been prepared in accordance with IFRS. The Company's date of transition to IFRS was January 1, 2010, to accommodate 2010 IFRS comparative figures. We have provided information throughout this document and other publicly filed documents to assist a reader in understanding the Company's transition from Canadian Generally Accepted Accounting Principles (Canadian GAAP). A comprehensive summary of all of the significant changes including the various reconciliations of Canadian GAAP financial statements to those prepared under IFRS is included in the transition to IFRS note in our Consolidated Financial Statements for the year ended December 31, 2011.

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".

Amounts are stated in Canadian dollars unless otherwise indicated.

Caution Regarding Forward-Looking Information

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

Overview

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

Currently, our operation are primarily located in Sanya City, Hainan province, China, where we have 30-year (2007-2037) exclusive concession rights to deliver and sell natural gas to both residential and commercial customers. Our customer base and exclusive operation in Sanya city are providing, through our well-established modern gas distribution networks, recurring revenue and solid operating cash flows to us. Since 2008, we have been actively exploring emerging-market opportunities in mainland China that resulted from commencement of construction of the PetroChina's Second West-East Pipeline.

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

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

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

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

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

2011 Accomplishments

- On November 23, 2011, Changfeng announced commencement of construction of pipelines and related facilities for the Xiangdong project. In addition, the Jiangxi Provincial Bureau of Energy approved our application of the natural gas quota for this project. Pursuant to the approval, from 2012 to 2015, the annual quota volume of natural gas to this project will be 15 million m3 in 2012, 35 million m3 in 2013 and up to 50 million m3 in 2014 and 2015.
- November 23, 2011, Changfeng announced, together with a company owned by the local municipality, Xiangtan Economic Construction and Development Investment Co. Ltd. and a private investment company, Zhuhai Hailian Investment Co., Ltd., establishment of a 50%-owned company Xiangtan Shin-Ko Energy Co., Ltd. ("Shin-Ko Energy"). The objective of Shin-Ko Energy is to develop and invest in urban natural gas utilization, including building and operating an LNG storage facility (the "LNG Plant") in Xiangtan City, Hunan Province, China.
- On October 25, 2011, Changfeng was awarded BS OHSAS 18001:2007 and ISO 9001:2008 certifications, demonstrating that our management system was recognized by the world's accredited certifications in the field of quality management and occupational health & safety management.
- On August 18, 2011, Changfeng announced, together with a local municipality, Xiangtan Economic Construction and Development Investment Co. Ltd. and a private investment company, Zhuhai Hailian Investment Co., Ltd., establishment of a 51%-owned company Xiangtan Changfeng Natural Gas Co., Ltd. ("Xiangtan CF"). The objective of Xiangtan CF is to (i) develop a natural gas pipeline network to serve industrial, commercial and residential customers; and (ii) develop CNG and LNG refueling stations in Xiangtan City, Hunan Province, China.
- On March 3, 2011, the Bank of China increased our loan facility by $4,848,000 (RMB 30,000,000) in the form of a one-year line of credit (the "Credit Line"), for which principal repayments are due one year from the date of

withdrawal. The Credit Line is secured by the same collateral as that for our 10-year long-term bank loan of $16.2 million (RMB 100 million) that was obtained from the Bank of China in January 2010.

Subsequent Events

- On March 30, 2012, Changfeng announced renewal of the RMB 30 million ($4.8 million) one-year line of credit (the "Credit Line") with the Bank of China (Sanya Branch) ("BOC") for an additional year, of which RMB 20 million ($3.2 million) was drawn down on March 28, 2012. This renewal allows us to continue to have access to the necessary financial resources to grow our business.
- On March 29, 2012, Changfeng announced a proposed joint venture with CNPC Kunlun Natural Gas Exploitation Company Limited ("CNPC Kunlun Exploitation"), a wholly-owned subsidiary of PetroChina (or "CNPC"), to jointly develop natural gas distribution business in four prefecture-level cities in Guangdong Province, China, including Zhaoqing City, Jiangmen City, Foshan City and Zhuhai City (collectively "Western Guangdong Area" or "Yuexi Area"). The intended joint venture will be named Guangdong CNPC Kunlun Changfeng Investment Co., Ltd. and will be based in Guangzhou city, the capital city of Guangdong province. Changfeng will own 49% and CNPC Kunlun Exploitation will own 51% of the intended joint venture. CNPC Kunlun Exploitation has received regulatory approval to develop this project. A formal joint venture agreement between the two parties is underway.

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

  CNPC Kunlun Exploitation has received regulatory approval from the Guangdong Provincial Development and Reform Commission ("Guangdong DRC") to develop this project.
- On March 13, 2012, Changfeng announced final regulatory approval of our project in Xiangdong District, Pingxiang City, Jiangxi Province, China ("Xiangdong project"). The provincial approval finally secures our 50-year concession rights in this region.
- On March 6, 2012, Changfeng announced title sponsorship of a provincial-level table tennis tournament that was held from the 17th to 20th March 2012 in Sanya City, Hainan Province, China. We are developing our business in some of these provinces and believe that the title sponsorship would improve our brand awareness and market recognitions.
- On February 22, 2012, Changfeng announced launch of a Gas & Electricity Exchange Program (the "Program") for our operation in Sanya City. The Program will allow us to acquire an additional annual gas quota of approximately 5 million m3 (176,573,000 cubic feet) until 2015. This additional quota gas will enable us to keep pace with the growing demand for gas in Sanya city.
- On January 4, 2012, Changfeng announced regulatory approval of our proposed gas utilization project (the "LNG Plant") in Xiangtan City, Hunan Province, China. The regulatory approval signals the operational launch to build the proposed LNG Plant.

  Pursuant to the approval, a 79.85-mu (approximately 5.3 hectares) piece of land will be assigned for Changfeng to build the LNG Plant. The proposed construction work comprises building an industrial metal cutting gas production line with designed daily processing capacity of 300,000 m3 of natural gas, and associated Liquefied Natural Gas (LNG) storage facilities, as well as sales and a distribution center to end users. The produced gas will be in liquid form for ease of transportation and storage. The total anticipated investment is approximately RMB 200 million ($32 million) including the proposed acquisition fee for the assigned land. The approval is valid for two years from the approval date, during which time the construction work must be commenced, otherwise, further extension application is required if the commencement of construction does not occur on or before December 23, 2013.

Business Segments

Changfeng's businesses are organized into three segments— Gas Connections, Pipeline Gas (together the Natural Gas Distribution Utility) and CNG refueling retail station.

Pipeline Gas Distribution Segment (Gas Connections and Pipeline Gas)

Gas connection and pipeline sales combine to form a gas distribution utility (the "Pipeline Gas Distribution") which is currently our primary operation.

We operate as a Natural Gas Distribution Utility by selling gas connections to our pipeline networks and selling gas through our pipelines. We currently derive the majority of our revenue from the distribution of natural gas through our pipeline networks in Sanya City, Hainan Province, China.

Since 2003, we have been building extensive pipeline networks in the main district of Sanya City. Over the last three years, we have committed significant resources to extend our gas pipeline networks from the main district of Sanya City to the Haitang Bay area, a newly developing, high growth tourist district in Sanya City. The rapid growth of the Haitang Bay district is mainly attributable to the commitment made by the China Central Government in late 2009 to building Hainan province into an international tourism destination by 2020.

Since 2008, in order to add incremental value to our existing business, we have been actively pursuing our gas connections and pipeline gas business in selected cities in Jiangxi, Hunan, Hubei and Guangdong provinces in mainland China. These provinces represent potentially large, rapidly growing emerging-markets for Changfeng as a result of the upcoming full operation of the eight sub-lines of the PetroChina's Second West-East Gas Pipeline by mid-2012. Please refer to the Expansion Project section in this MD&A for further discussion of these projects.

CNG Refueling Retail Station Segment

CNG Refueling Retail Station is a gas service center mainly for public transport vehicles like buses and taxis in Changsha City, Hunan Province, China. Our first CNG refueling retail station was completed construction and commenced the supply of gas in April 2010.

Changsha city is the capital of Hunan Province with a population of approximately 6.5 million, and it is an important commercial and trade center in central-south China. In 2006, the Changsha municipal government began to encourage taxicab and public bus vehicles to be dual-fuel natural gas vehicles (gasoline and natural gas) in order to alleviate a serious air pollution problem.

Nature of Operations

Pipeline Gas Distribution (Gas Connections and Pipeline Gas Business)

Concession operating rights

China's natural gas distribution to end users has been operated mainly by local distribution companies ("downstream gas distributors") that are awarded exclusive concession rights by local governments to design, construct, own and operate natural gas pipelines which distribute natural gas in a specified geographic area. These downstream gas distributors also perform services such as billing, safety inspection, and pipeline connection for new customers and pipeline facilities maintenance. Please refer to the Overview in this MD&A for the list of our concession rights.

Entities subject to rate regulation:

We operate in an environment subject to certain regulations. The pricing mechanism is designed and implemented by the National Development and Reform Commission ("NDRC"), the top policymaker, in China. For the downstream gas distributors, the gas purchasing price is set by the NDRC and adjusted by each provincial Development and Reform Commission. And the sales price to the end users is determined by the gas companies and the local pricing authorities subject to the approval by the provincial pricing authorities. The pricing mechanism is designed to permit a fair and reasonable return on investment to encourage the gas companies to engage in natural gas business and eventually increase the natural gas consumption.

Natural gas quota

A gas quota is the amount of volume of natural gas a region or a local gas distributor can purchase from one of the three state-owned gas suppliers in China: (i) PetroChina, a subsidiary of the China National Petroleum Corp. ("CNPC"), China's largest state-owned onshore natural gas supplier, who own and operate more than 80% of the pipeline natural gas trunk lines in China; (ii) China National Offshore Oil Corp.("CNOOC"), the largest offshore natural gas supplier in China; and (iii) China Petroleum & Chemical Corp.("Sinopec"), the second largest onshore natural gas supplier. The allocation of gas quotas by the stated-owned gas suppliers differs by province. In general, there are two ways for the state-owned gas suppliers to coordinate and allocate their gas sources: (a) allocate to the provincial level energy authority, and then the energy authority divides the gas to each cities, regions or projects within its jurisdiction; and/or (b) allocate to each gas operators directly through its authorized subsidiaries. The amount will be determined based on a series of factors, such as population, general industrial development level, industrial sector and so on, and some social effect consideration.

Without the gas quota, a gas distribution operator would normally face a high operating risk and challenge of gas shortage or higher purchase pricing because it would need to purchase gas from third party gas suppliers at higher prices.

In Sanya City, we have a 24 million m3/year gas quota with CNOOC to purchase gas at approximately RMB 0.6/m3. The quota expires at the end of 2015. In Pingxiang City, from 2012 to 2015, we have an annual quota volume of gas 15 million m3 in 2012, 35 million m3 in 2013, and 50 million m3 in 2014 and 2015, respectively.

In addition, we have secured other gas in the form of LNG/CNG via long term gas contracts in order to keep pace with the increasing demand for gas. Please refer to the Contractual Obligations and Commitments in this MD&A for the list of our long term natural gas contracts.

Construction and operation of pipeline network

The design and construction of natural gas pipeline networks for a given region is the responsibility of a downstream gas distributor that is granted the exclusive concession operating right. Upon completion of the natural gas pipeline network, the downstream distributor also typically retains ownership of the network and continues to maintain its operations to ensure that natural gas can be delivered to customers without interruption. The distribution utility is also responsible for sales, marketing and billing and maintenance of the pipeline and associated facilities. One-time initial connection fees are usually charged to customers for their connection to our pipeline networks.

Vision and Strategy

Vision

Changfeng is committed to contributing to a cleaner China and improving the quality of life by providing a clean and safe energy to our customers.

Our vision is to become one of the predominant natural gas service providers in Southern China by the year 2015.

History

Changfeng was founded in 1995 as a privately-owned natural gas utility serving commercial, industrial and residential customers in Sanya City, Hainan Province. In 2007, 30-year exclusive concession rights were granted to Changfeng by the local government to operate pipeline construction and gas distribution business in this city.

Ever since 2003, we have been building an extensive pipeline network in the main district of Sanya city. In December 2010, we completed extension of a 26.6 km of high-to-medium pressure pipeline linking Sanya City with Haitang Bay region together with 21.2 km of low pressure pipeline, and commenced the supply of gas to this newly developed district of Sanya city. Please refer to the Expansion Project in this MD&A for more discussion.

Growth Strategy

Achieving our goal means that we must expand our geographic presence beyond our existing operation in Sanya city, Hainan Island, since there are extremely strong fundamentals for natural gas infrastructure growth in mainland China, as large volumes of new gas are brought to new markets by new, national pipelines such as the PetroChina's Second West-East Pipeline. The following initiatives are central to our growth strategy:

- Maximize operating cash flow from our Pipeline Gas Distribution in Sanya through securing additional gas quotas with more competitive purchase pricing;
- Develop existing projects under development into operations; and
- Focus on commercial-intensive, underdeveloped markets in medium and small cities in mainland China.

It is critical for us to successfully execute our growth strategies in order to achieve our vision. Below and throughout this MD&A, we will discuss the execution of our business strategy for 2011 and beyond.

Maximize operating cash flow from our Pipeline Gas Distribution in Sanya through securing additional gas quotas with more competitive purchase pricing

Firstly, our strategy is to continue to grow our business in the Sanya Region where we have strong secular growth trends in tourism and real estate development. However, ever since 2010, demand for natural gas in this region has greatly exceeded our annual 24 million m3 quota gas ("Quota Gas") due to both urban expansion and rapid development of coastal tourism. Our Quota Gas in Sanya Region, which was originally established in 2006 and is set to expire in 2015, at a relatively fixed purchase price, cannot fully meet the market demand. As a result, we periodically purchase additional volumes of gas in the form of CNG or LNG ("Other Gas") to fill our pipelines and most importantly, to avoid gas shortages in peak seasons. All of the Other Gas purchased is at current market based pricing. However, because of the overall gas shortage in China, the average price for additional volumes of Other Gas is much higher than our Quota

Gas' price, sometimes even close to or higher than our selling price. As a result, no profits can be generated from the additional volume of sales of Other Gas.

We anticipate that the gas shortage situation in Sanya Region will not be significantly mitigated until 2015 when CNOOC completes construction and commences operation of its LNG receiver terminal that is currently under construction in Hainan Island. As a result, in the short term until 2015, our strategy is to maximize the profits and operating cash flows from our Sanya's operation by limiting the volume of natural gas sold to our Quota Gas and Other Gas that can be purchased at reasonable cost. This strategy will enable our existing operation in Sanya Regioin to provide continued solid free operating cash flows which in part, are funding our strategic business development and expansion endeavors that are currently underway in mainland China.

At the same time, we are also working closely with the municipal government to find solutions to mitigate the negative effects of the gas shortage and higher gas pricing for Other Gas. Possible measures to address the problem include a sales prices increase to commercial customers, a government subsidy, additional temporary gas quota, and if necessary, temporary suspension of natural gas supplies to certain industrial customers.

On February 22, 2012, as one of the possible measures to address the problem discussed above, we launched a Gas & Electricity Exchange Program (the "Program"). The Program will ultimately secure an additional annual supply of natural gas totaling approximately 5 million m3 until 2015. In exchange for this gas supply, we will build infrastructure to link certain of the supplier's operations to the provincial power grid. The total anticipated capital expenditure related to the Program is $1,417,232 (approximately RMB 8,777,000). This additional gas supply is expected to be available to Changfeng by the third quarter of 2012, once $1,095,285 (approximately RMB 6,777,759) of the first phase of construction work is completed.

Develop existing projects under development into operations

As mentioned earlier in this MD&A, we have four projects that are at various stages of development along the PetroChina's Second West-East Pipeline. Over the next few years, our first priority is to successfully develop these projects into commercial operations. However, as new underdeveloped emerging markets, successfully developing these projects into commercial operations will depend on a number of timing factors which include but not limited to, regulatory approvals, gas quota, site preparations and proper sources of finance, but in the longer term we are confident that we have the abilities and resources to bring all of these high-growth potential projects into operations which we anticipate will create long-term recurring revenues to Changfeng.

Focus on commercial-intensive, underdeveloped markets in medium and small cities in mainland China

Finally, we will continue to leverage our track record, public listing and social networks to explore and develop gas distribution business opportunities in the emerging markets in mainland China, especially along the PetroChina's Second West-East Pipeline. As a major national project of the China's 11th Five-Year Plan, Construction of the Second West–East Gas Pipeline started on 22 February 2008. The trunk pipeline of the PetroChina's Second West-East Gas Pipeline was completed construction and commenced the supply of gas in June 2011, and is to bring 30 billion m3 annually of new gas to China over the next 30 years. As a result, there is a significant need for natural gas distribution utilities to provide a distribution solution to take new gas from national pipelines and deliver it to end users.

Our focus continues to be on commercial-intensive, underdeveloped markets in medium and small cities in these regions. We believe that this focused growth strategy enables us rapidly to grow our business, but at the same time, to minimize our capital expenditure requirements by limiting the potential size and length of gas pipelines through directly connecting the vast natural gas users such as industrial companies and gas-fired plants to the existing and/or planned national or provincial gas pipelines.

Selected Annual Financial Information

In thousands of Canadian dollars except percentages and per share amounts	2011	2010	Change	%
Revenue	28,176	22,135	6,040	27.3%
Gross profit (1)	**11,708**	**10,329**	**1,380**	**13.4%**
% of revenue	**41.6%**	**46.7%**	**-5.1%**	**-10.9%**
General and administrative	5,062	4,606	456	9.9%
% of revenue	18.0%	20.8%	-2.8%	-13.5%
Travel and business development	2,689	3,171	-482	-15.2%
% of revenue	9.5%	14.3%	-4.8%	-33.6%
Total expenses	**7,751**	**7,778**	**-26**	**-0.3%**
% of revenue	**27.5%**	**35.1%**	**-7.6%**	**-21.7%**
Interest on long term debt	1,403	642	761	118.5%
% of revenue	5.0%	2.9%	2.1%	72.4%
Interest income	5.2	4.9	0	-
% of revenue	0.0%	0.0%	0.0%	-
Share of loss of investment in associate	-19.1	0.0	-19	-
Income tax	1,170	958	212	22.1%
% of revenue	4.2%	4.3%	-0.2%	-2.3%
Net income	**1,371**	**956**	**415**	**43.4%**
% of revenue	4.9%	4.3%	0.5%	14.0%
EBITDA (2)	**5,900**	**4,018**	**1,882**	**46.8%**
% of revenue	**20.9%**	**18.2%**	**2.8%**	**15.4%**
Non-controlling interest	-13.8	-9.8	-4	-
Basic and diluted EPS	0.021	0.015	0.006	40.0%
Weighted average number of common shares outstanding Basic and diluted EPS	66,025	66,025		

Note: (1) Ever since 2010, the gas demand in the Sanya Region has exceeded our annual 24 million m3 quota (the "Gas Quota"), which provides gas at a cost of approximately 0.6 RMB per m3 versus a regulated selling price of RMB 3.8 per m3 to commercial and industrial customers and RMB 2.6 per m3 to residential customers, we have been forced to purchase additional gas at significantly higher market-based prices in the form of Liquefied Natural Gas ("LNG") and/or CNG (collectively the "Other Gas"). As a result, our gross profit fluctuates with (i) the cost of gas and the mix of gas sold in the period as between (high margin) Gas Quota and (low margin) Other Gas, and (ii) the timing of obtaining large value pipeline gas connection contracts and changes in the gas selling price.

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

Results of Operations

Revenue

Revenue for fiscal 2011 was $28.1 million, an increase of $6 million, or 27.3%, from $22.1 million in 2010. This significant increase reflects a combination of continued higher gas volume growth and increased connection fees from Sanya Region as more customers were connected, and increased sales from our first CNG refueling retail station, as well as higher selling prices.

A summary of the customers connected, volume of gas sold in Sanya Region, and volume of gas sold by the CNG refueling retail station during 2011 as compared to 2010 is presented below:

1. Sanya's operation:			
Residential customers	**2011**	**2010**	**% Change**
Customers connected during the year	15,166	17,326	-12%
Total customers at the end of year	82,947	67,781	22%
Gas volume sold (m3) during the year	5,050,800	4,340,000	16%
Commercial customers			
Customers connected during the year	78	80	-3%
Total customers at the end of year	598	520	14%
Gas volume sold (m3) during the year	26,566,100	24,780,000	7%
Sub-total Gas volume sold (m3) during the year	**31,616,900**	**29,120,000**	**9%**
2. Changsha's CNG refueling retail station			
Gas volume sold (m3) during the year	**4,952,744**	**1,755,916**	**182%**
Total Gas volume sold (m3) during the year	**36,569,644**	**30,875,916**	**18%**

Total revenue from our first CNG refueling retail station for 2011 was $2.5 million, an increase of $1.6 million, or 178%, from $0.9 million for same period of 2010. The significant increase was attributable to the combined effect of the increased gas volume sold (4,952,744 m3 in 2011 compared to 1,755,916 m3 sold in the same period of 2010) and higher average selling prices. This station was completed construction and commenced initial operation in April 2010 with full commercial operation beginning in June 2010.

Further increases in revenue for 2011 versus 2010 are attributable to the continued growth in new gas sales and connection fees in Sanay Region. For the fiscal year of 2011, gas connection fees increased by $2.1 million or 25.6% to $10.3 million, from $8.2 million in the same period of 2010. The year-to-year increase was mainly attributable to continued connections from the existing Sanay city, and new and higher-value connections from Haitang Bay district. In 2011, the pace of real estate development in the Sanya Region continued to slow due to Chinese government policy to tighten credit to address the inflation rate. As a result, we experienced a reduction in new customers connected for residential customers and commercial customer for 2011 versus the same period of 2010 by 12% and 3%, respectively. Residential connection fees were accordingly dropped as connection fees are relatively fixed per customer connected, partially offsetting the drop in residential connection revenue was increased connections of smaller restaurants in the Sanya Region, which are classified as residential connections.

We began to recognize connection and gas sales revenue in Haitang Bay in late 2010. Gas connection fees recorded from Haitang Bay district for 2011 were $2.0 million, an increase of $1.3 million, or 186%, from $0.7 million for same period of 2010.

Natural gas retail price

Natural gas retail prices in China were increased on July 1, 2010 as a response to gas wholesale price increases in June 2010 by the National Development and Reform Commission (NDRC), China's top economic policy planning agency. As a result, a natural gas retail price adjustment by local price authorities in individual provinces was made in Sanya City, Hainan province and Changsha City, Hunan province. Effective July 1, 2010, gas retail prices increased 8% to RMB 2.60 per cubic meter for residential customers; increased 22% to RMB 3.80 per cubic meter to commercial customers in Sanya City, Hainan Province; and increased 14% to RMB 3.75 per cubic meter at CNG refueling retail stations, in Changsha City, Hunan province.

We expect that natural gas retail prices in China may increase in the future because of the higher expected costs for China to purchase liquefied natural gas and piped gas oversea to meet growing demand.

Foreign exchange rates

Changfeng reports in Canadian dollars but earns all of our revenues and incurs most of our expenses in Chinese RMB. Accordingly, any fluctuation in the exchange rate between these two currencies will affect our reported financial information. The impact of the changes in foreign exchange rates has been recognized as other comprehensive income, and not in net income. Excluding foreign exchange effect, revenues for fiscal 2011 were RMB184 million, an increase of RMB39 million (27%), from RMB145 million in 2010.

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

One Canadian dollar to Chinese RMB	**2011**	**2010**	**% change**
Average rate for the year	6.53	6.63	-1.5%
Spot rate at December 31	6.19	6.57	-5.8%

Gross profits

Gross profits for fiscal 2011 were $11.7 million, an increase of $1.4 million, or 13.6%, from $10.3 million in 2010. Gross profits as a percentage of sales for 2011 decreased by 5.1% to 41.6% compared to 46.7% for 2010. The decrease in gross margin percentage is mainly due to a relatively higher procurement price for purchases of additional Other Gas in Sanya Region caused by growing demand in excess of our annual 24 million m3 quota. The decrease is also due to relatively lower gross margins on the CNG sales from the retail station.

Gross margin on gas sales from our CNG refueling retail station is normally much lower than the gross margin on pipelined gas sales. Gross margin for CNG sales was 14% in 2011 compared to negative 5% in the same period of 2010. The significant increase was mainly attributable to higher gas volume and gas prices as discussed earlier in this MD&A, as well as reduced LNG/CNG transportation cost. In 2011, in order reduce our operating cost, we bought one CNG/LNG truck which was used to replace one of our previous leased trucks.

Further decrease in gross margin percentage is attributable to increased amortization expense. Amortization for fiscal 2011 was $1.9 million, an increase of $0.7 million, or 58.3%, from $1.2 million in 2010 as a result of an additional depreciation expenses from the pipeline assets and associated facilities in Haitan Bay district that were put into operations in late 2010.

Operating expenses

General and administrative expenses for fiscal 2011 were $5.1 million, an increase of $0.5 million, or 9.9%, from $4.6 million in 2010. General and administrative expenses as a percentage of sales for 2011 was 18.0%, compared to 20.8% in 2010, representing a decrease of 2.8% as a result of increases in sales.

Travel and business development expenses for fiscal 2011 were $2.7 million, a decrease of $0.5 million, or 15.6%, from $3.2 million in 2010. Travel and business development expenses as a percentage of sales for 2011 decreased to 9.5% from 14.3% in 2010 as a result of increases in revenue. These expenses normally fluctuate with our travel and business development activities in mainland China as the Company seeks to develop new projects in close proximity to the new national pipelines. The majority of travel and business development expenses does not relate to the Company's business in Sanya City or the CNG retail station but instead relate to projects under consideration or development in mainland China.

Interest on long term debt for fiscal year 2011 and 2010 was $1.4 million and $0.6 million, respectively, an increase of $0.8 million as a result of drawls from the new line of credit. In addition, the Company had nil in capitalized interest in 2011 versus $0.6 million in 2010.

EBITDA for fiscal 2011 was $5.9 million, an increase of $1.9 million, or 47.5%, from $4.0 million for 2010 as a result of sales increases. EBITDA as a as a percentage of sales for 2011 was 20.9%, compared to 18.2% in 2010, representing an increase of 2.7% as a result of increases in revenue, partially offset by lower gross margin and increased business development expenses.

Expansion Projects

We have following projects under development as part of our growth strategy.

Haitang Bay Pipelined Gas Project, Sanya City, Hainan province

We are expanding our existing pipeline networks in Sanya city to Haitang Bay as the geographic boundaries of Sanya City expands and with it our exclusive concession rights.

Haitang Bay is one of the five major bays in Sanya City, Hainan province. It is a flagship project being promoted by the Hainan provincial government to build Hainan Island into an international tourism destination by 2020. The size of Haitang Bay development area is estimated at 98.7 square km and includes approximately 24 km of beachfront.

In December 2010, we completed an extension of a 26.6 km of high-to-medium pressure pipeline linking Sanya City with Haitang Bay district together with 21.2 km of low pressure pipeline and associated facilities, and began to supply gas for this district.

The pace of development in Haitang Bay district has been slowing down since 2010 due to the tightening of credit by the Central Government to address growing inflation in China, but in the longer term we are confident that the Haitang Bay would represent a high-growth potential area for our operation in Sanya Region as more luxury hotels are to be constructed and connected to our pipeline networks.

CNG Refueling Retail Stations Project, Changsha City, Hunan province

In 2006, the Changsha municipal government started to encourage new taxicab and public bus vehicles to be dual-fuel natural gas vehicles. The local government proposed that a total of approximately 25 CNG refueling stations will be constructed in Changsha region by 2015, of which 7 stations can be owned and operated by Changfeng.

We entered the CNG refueling retail station market in Changsha City, Hunan province in late 2008, and our first CNG refueling retail station was completed construction and commenced supplying gas in April 2010. In September 2010, we entered into a land lease agreement for construction of the second CNG refueling retail station.

We had two long-term CNG purchase agreements that were originally signed in 2008 and 2009 in connection with our acquisition of Hunan CNPC NEI to secure the long-term supply of CNG up to 11,000,000 m3 and 3,650,000 m3 per year, respectively; however, due mainly to a gas shortage in Changsha City, caused by surging demand for and limited sources of gas supply, we has not been able to purchase any CNG pursuant to its long-term CNG purchase contracts. On May 30, 2011, we entered into a supplementary agreement (the "Supplementary Gas Agreement") with a gas supplier with which it had previously signed the two agreements described above. Pursuant to the Supplementary Gas Agreement, the gas supplier agreed to supply CNG to Changfeng, once it is available. At that time, Changfeng and the gas supplier agree to enter into a one-year gas supply agreement, renewable annually, with annual gas volume not less than previous contractual amounts.

CNG refueling stations represent our first growth project in mainland China. However, further expansion and development of CNG refueling retail stations in Changsha beyond the first station is delayed pending for secured gas source at a price that will provide for a reasonable margin. In addition, other issues such as pricing of the lands to be either leased or purchased for construction of the CNG refueling stations, market size/development and capital budgeting are expected to play a role in the evolution of our CNG station initiative in Changsha City.

CNG and Pipelined Gas Project, Xiangdong district, Pingxiang City, Jiangxi province

Pingxiang city is located in the west of Jiangxi Province. It is approximately 50 km from Changsha City. It is considered the industrial ceramic capital of China.

Ceramic companies need a huge amount of heat energy for their kilns. Currently, coal and coal methane gas, a by-product that is produced by two local metallurgy manufacturers and water gas, are the main sources of energy for ceramic manufacturing companies in this region. The reliance on coal and coal methane gas not only contribute to serious air pollution problems, but also affects the quality and value of ceramics due to the low temperature and unstable supply of coal methane gas. As a result, in early 2006, the Xiangdong District government initiated construction of the Pingxiang Industrial Ceramic Production Park (the "Park") in order to integrate the ceramic industry in the area and create efficiencies such as logistics and R&D, as well as to alleviate environmental problems, because the Government would like to encourage ceramic companies in the Park to use natural gas as the main heat source when the natural gas from the Second West-East Gas Pipeline is available to this region. In addition, as a superior heat source, the properties of the natural gas also allow ceramic companies to produce higher value, more differentiated products which are less like commodities.

The Park is approximately 28 square km with space for 72 companies. Currently, there are more than 24 companies operating in the Park with more expected to move in.

We have been in discussion with several potential gas customers in the Park, many of which have provided serious expressions of interest in purchasing gas when available. We believe that many ceramic manufacturing companies in the Park will convert/use natural gas as their heating energy when we commence the supply gas to this region.

Currently, this project is at its construction stage. We anticipate that further increases in our revenue in 2012 and beyond would be possible from this project given the strong gas demand from the ceramic companies in the Park:

Project key milestones

- March, 2012 – received regulatory approval from the Jiangxi Provincial Development and Reform Commission of China. The approval finally secured our exclusive concession rights (2010-2060) to operate the natural gas distribution business in the existing administrative region of Xiangdong district and the Park.
- November, 2011 – received gas quota approval from the Jiangxi Provincial Energy Bureau. Pursuant to the approval, from 2012 to 2015, the annual quota volume of natural gas will be 15 million m3 in 2012, 35 million m3 in 2013 and up to 50 million m3 in 2014 and 2015, respectively. This natural gas quota is allocated from the Province's Twelfth Five-Year Plan's gas quota that was assigned from, and will be supplied from the PetroChina's Second West-East Pipeline. At the same time, we are negotiating with PetroChina's subsidiary in Jiangxi province to purchase CNG from its transmission substation in Pingxiang City as an alternative gas source before the pipelined gas is available for this region and/or also as a supplementary gas source in the future.
- November, 2011– commenced construction of pipelines and associated facilities in this region. The construction consists of approximately 10 km of mid-pressure pipeline in the Xiangdong downtown area, a 10 km mid-pressure pipeline in the Park, and a gate station with CNG storage and gasification facilities to link the Xiangtan sub-line of the Second West-East Pipeline. The construction work involves two phases in order to coincide with both the project financing and commencement of the construction of a 25 km high-pressure pipeline. This 25 km high-pressure pipeline, connecting our gate station in Xiangdong District with Xiangtan sub-line of the Second West-East Pipeline, will be built and operated by Jiangxi Provincial Natural Gas Investment Co., Ltd. a state-owned company.

  The total anticipated capital expenditures are approximately RMB34 million ($5.4 million), of which approximately RMB 6 million ($1 million) for the first phase of construction and will be funded from our existing cash on hand, and the remaining capital requirement will be funded through project loan financing with local banks. Upon completion of the first phase of construction by the fourth quarter of 2012, we will be able to gradually supply gas for this region through our CNG facilities built even before the pipelined gas arrives.
- July 2010 – entered into an agreement with the Pingxiang Ceramic Industry Park Management Committee to purchase 20 mu (approximately 1.33 hectare) of land. This land will be used for construction of a gas gate station.
- May 2010 – established an 80%-owned company Pingxiang Changfeng Natural Gas Co. Ltd. ("Pingxiang CF") to develop this project.

CNG and Pipelined Gas Project, Xiangtan city, Hunan province

Xiangtan City has a population of approximately 2.7 million and is the hometown of Chairman Mao ZeDong, the founder, architect and ruler of the People's Republic of China from 1949-1977. It is about 120 km from Changsha City, the capital of Hunan Province. Xiangtan City is connected to the Second West-East Pipeline's major line via the Xiangtan sub-line.

On July 19, 2011, we established a 51%-owned company Xiangtan Changfeng Xiangtan Natural Gas Co., Ltd. ("Xiangtan CF"), together with a company owned by the local municipality, Xiangtan Economic Construction and Development Investment Co. Ltd. and a local investment company, to jointly develop pipelined gas business, CNG (Compressed Natural Gas) and LNG (Liquefied Natural Gas) refueling stations in designated regions of Xiangtan City.

Xiangtan CF has a registered capital of $1.6 million (RMB 10 million).

Currently, we are working with the municipal government to secure exclusive concession rights. We are also working to secure a natural gas supply agreement from the PetroChina's Hunan subsidiary.

Investment in Associate

In October 2011, Changfeng, together with Xiangtan Economic and a Zhuhai Hailian Investment Co., Ltd., a private investment company, established Shin-Ko Energy with a total registered capital of $1,628,000 (RMB 10,000,000), of which the Company owns 50%. The objective of Shin-Ko Energy is to develop and invest in urban natural gas utilization, including building and operating an LNG storage facility (the "LNG Plant") in Xiangtan City, Hunan Province, China. As of December 31, 2011, Changfeng contributed our share of registered capital of $323,200 (RMB 2,000,000), and the remaining balance of $484,800 (RMB 3,000,000) is required to be contributed by October 24, 2013.

We have determined that Changfeng is in a position of significant influence and have accounted the investment in Shin-Ko Energy as an equity investee. Changfeng's share of the loss for the year was $19,118.

Summary financial information, not adjusted for percentage ownership, is as follows:

Current assets	$ 294,484
Non-current assets	1,292,800
Current liabilities	(9,995)
Non-current liabilities	–
Equity	$ 1,577,289
Revenue	$ –
Expenses	(38,236)
Loss	$ (38,236)

Currently, Shin-Ko Energy is working for other regulatory requirements such as the project design, project safety assessment and environmental impact assessment, all of which are required to be submitted prior to the commencement of construction. Shin-Ko Energy is also working with the local government to secure both the location and purchase price of the land for the Project.

Changfeng believes that, once completion of construction and commencing operation of this LNG Plant, it will also be able to provide an important supplementary gas source in the form of LNG to support our operations located in other cities.

Pending Business Acquisitions or Joint Ventures

In order to seize the rapid growing market of natural gas business in China, we have the following proposed business acquisitions or joint venture, however, moving forward with these potential acquisitions or joint venture depend upon, among other factors, acquisition of a secure, long term gas contract satisfactory to Changfeng that will come from gas supplied by the Second West-East Pipeline.

1. In 2010, we paid a good faith deposit to the existing shareholder of Hunan CNPC, Guangda Gas Co., Ltd. ("Guangda Gas"), a company that Changfeng is considering for acquisition. Guangda Gas owns a CNG primary filling station in Changsha City. The deposit is refundable if Changfeng is not satisfied with its due diligence procedures or a reasonable purchase price cannot be negotiated.
2. In 2010, we paid a good faith deposit to the existing shareholders of Jiangxi Pingxiang Huaneng Energy Co. Ltd. ("Pingxiang Huaneng"), a company that Changfeng is considering for acquisition. Pingxiang Huaneng is a natural gas distributor in the Xiangdong district, Pingxiang City, Jiangxi Province. The deposit is refundable if Changfeng is not satisfied with its due diligence procedures or a reasonable purchase price cannot be negotiated.

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)	2011				2010			
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
except per share amounts	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Foreign exchange rate RMB	6.22	6.54	6.71	6.68	6.57	6.51	6.64	6.56
Revenue	8,929	5,936	6,776	6,534	7,157	5,393	4,495	5,089
Gross profit	4,285	2,059	1,830	3,534	3,341	2,301	1,793	2,894
Interest	393	374	340	295	153	166	185	138
Net income (loss)	888	(326)	(300)	1,110	583	283	(345)	435
Net income (loss) per share	0.013	(0.005)	(0.005)	0.017	0.009	0.005	(0.005)	0.007

Financial Condition and Liquidity

Key Financial Data and Comparative Figures	December 31, 2011	December 31, 2010
($000's)		
Cash and cash equivalents	5,062	2,670
Working capital (deficit)	(10,671)	(5,994)
Adjusted working capital (deficit) (1)	2,351	655
Plant and equipment	43,364	37,318
Total assets	55,618	44,756
Long term liabilities	22,113	21,487
Shareholders' equity	13,556	11,282

Notes: (1) These financial measures are identified and defined under the section "Non-GAAP Financial Measures".

Cash and cash equivalents increased by $2.4 million to $5.1 million at December 31, 2011 from $$2.7 million at December 31, 2010, primarily resulting from cash provided during 2011 by operating activities of $4.2 million and $4.8 million (RMB 30.0 million) cash drawn from our line of credit, offset by cash used during 2011 for capital expenditure of $6.0 million and $1.0 million of principal payment on our bank term loans.

Adjusted Working Capital

Our adjusted working capital (see "Non-GAAP Financial Measures") was $2.4 million at December 31, 2011. Adjusted working capital excludes $6.1 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), $4.8 million of line of credit.

Liquidity and Capital Resources

Overview

Our principal sources of short-term funding are our existing cash balances, operating cash flows and borrowing under our renewable credit facility. Our principal source of long-term funding is our bank term loans that entered into in January 2010 and January 2008, respectively. See the "Note to the Consolidated Financial Statements" for further details around these bank term loans.

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

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

2011 Credit Agreement

In connection with our 10-year long-term bank loan of $16.2 million (RMB 100 million) that was obtained from the Bank of China in January 2010, on March 3, 2011, the Bank of China agreed to increase our loan facility by $4.8 million (RMB 30 million) in the form of a one-year line of credit (the "Credit Line"). The Credit Line is secured by the same collateral as that for the long-term bank loan. As a result, the Bank of China has increased our total loan facility to $20.8 million (RMB 130.0 million).

On March 10, 2011, $3.3 million (RMB 20.0 million) of the Credit Line was drawn, and the remaining balance of $1.6 million (RMB 10.0 million) was further drawn in June 2011. The interest rate on the Credit line is based on the variable rate set by the People's Bank of China and is due in one year.

Cash Flow from Operations

Net cash provided by operations was $4.2 million in 2011 compared to $4.8 million in 2010. Net cash provided by operations reflects cash generated from operations, net of changes in operating working capital.

Changes in operating working capital accounts generated $0.7 million in cash in fiscal 2011, compared to $3.5 million in 2010. Increased accounts receivable, accounts payable and increased deferred revenue generated cash in 2011 as a result of substantial increases in sales volume and increases in gas retail prices. Starting from late 2010, Changfeng began supplying gas to hotels in Haitang Bay, Sanya City that were newly connected to our pipelines, resulting in gas and connection-fee revenue.

Financing Activities

Cash flow provided by financing activities in 2011 was $3.8 million, compared to $4.9 million in 2010. The decrease was mainly attributable to the 10-year long term bank loan of $15 million (RMB 100 million) that was obtained in January 2010, offset by the new line of credit of $4.8 million (RMB 30.0 million) drawn in 2011.

Capital Expenditures

Capital expenditures in property, plant and equipment totaled $5.0 million in 2011 compared to $10.0 million in 2010. The significant decrease was mainly attributable to the reduced capital expenditures in 2011 after completion of the extension of pipeline networks and associated facilities in Haitang Bay, as well as completion of construction of our first CNG refueling retail station in 2010. Continued expenditures in 2011 and 2010 related primarily to the construction of new pipeline and associated facilities.

In connection with establishment of the 50%-owned joint venture of Xiangtan Shin-Ko Energy Co., Ltd in 2011, the first phase contribution to our share of registered capital in an amount of $0.3 million was contributed.

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

Contractual Obligations and Commitments

Estimated losses from contingencies are accrued by a charge to income when information available prior to the issuance of the financial statements indicates that it is likely that a future event will confirm that an asset has been impaired or a liability incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Pipeline Construction and Equipment:

The Company has signed contracts with several equipment suppliers and construction supervisors for a total amount of $3,470,049 (RMB 21,473,076) (2010 - $8,649,910 (RMB 57,322,135)), of which $2,139,222 (RMB13,237,762 has been paid as at December 31, 2011.

Natural Gas Purchase Commitments:

The following tables summarize our contractual obligations and commitments as of December 31, 2011 in connection with our natural gas purchase contracts:

Year	Gas source supplier	Gas volume quota	Location
2006-2015	Ya13-1 Gas Well (CNOOC)	24 million m^3 a year	Sanya city
2010-2015	Shennan LNG	LNG unlimited supply is variable within Changfeng's forecast demand	Sanya city
2010-2014	Xinxing CNG	CNG unlimited supply is variable within Changfeng's forecast demand	Sanya city
2015 and beyond	Yangpu LNG Receiving terminal (CNOOC)	Letter of intent for up to 150 million m^3 a year	Sanya city
2008-2027	Petro-China's subsidiary in Changsha city (a)	14.6 million m^3 a year	Changsha City

Note (a): As of December 31, 2011, we had not been able to purchase any CNG pursuant to our long term CNG gas purchase contract.

See the "Note to the Consolidated Financial Statements" for further details around these contracts.

Lease Commitment:

On September 8, 2008, Changfeng signed a land lease agreement for 3,000 m2 of land for the construction of a CNG refueling retail station in Changsha City, Hunan Province. The lease term is for 20 years until October 2028.

On September 28, 2010, Changfeng signed a land lease agreement for the construction of our second CNG refueling station in Changsha City. The lease term is for 21 years, ending September 27, 2032. A deposit of $16,000 (RMB 100,000) and the first year's rent of $54,000 (RMB 336,000) is required to be paid upon commencement of construction. If the Company decides to terminate this agreement, a termination payment of $161,000 (RMB 1,000,000) will be payable. As at December 31, 2011, a deposit of $16,000 (RMB 100,000) was paid.

The minimum lease payments in successive years are as follows:

	RMB	Cdn. $
2012	654,250	$ 105,727
2013	829,500	134,047
2014	829,500	134,047
2015	829,500	134,047
2016	863,100	139,477
Thereafter	13,446,916	2,173,022
	17,452,766	$ 2,820,367

Other obligations and commitments are incurred in the normal course of business operations.

Off-Balance Sheet Arrangements

As a policy, 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.

Related Parties Transactions

1. As at December 31, 2011, a corporation, which is controlled by a significant shareholder who is also an officer and director of the Company, owed the Company a total of $78,076 (U.S. $78,928) as at December 31, 2011 (December 31, 2010 - $78,501 (U.S. $78,928); January 1, 2010 - $80,740 (U.S. $76,822)) for various expenditures paid by the Company on behalf of this corporation.
2. As at December 31, 2011, the Company had an outstanding loan of $323,200 (RMB 2,000,000) (December 31, 2010 - $301,800 (RMB 2,000,000); January 1, 2010 - 304,400 (RMB 2,000,000) due from this minority shareholder of 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.
3. During the third quarter of 2011, the Company made a short-term loan of $814,000 (RMB 5,000,000) (2010 - nil) to Xiangtan Economic Construction and Development Investment Co., Ltd., a minority shareholder of Xiangtan CF. The loan was secured and bore an annual interest rate of 15%. It was subsequently repaid on October 21, 2011.
4. In 2007, a significant shareholder, who is also an officer and director of the Company advanced loans in the aggregate amount of $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.
5. As at December 31, 2011, the Company owed an officer and director of the Company $427,843 (December 31, 2010 - $320,879; January 1, 2010 - $200,510) for unpaid salary.

6. 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. As at December 31, 2011, the full $10,000 was outstanding and is included in trade and other receivables.
7. During 2011 and 2010, key management personnel did not exercise share options granted under the Company's stock option plan.

Outstanding Share Data

As at the date of this report, the Company has 66,025,000 common shares outstanding, 5,300,000 stock options outstanding and 5,300,000 stock options outstanding and exercisable at a weighted average exercise price of $0.51 per share. The Company has no warrants outstanding.

Risks and Uncertainties

The Company is exposed to a variety of risks in the normal course of operations that could significantly affect its operating cash flow and profitability of operations and could cause its actual results to differ in material respects from our anticipated results. These risks may include, but are not limited to, those listed below. The Company seeks to manage the risks associated with its business operations; however, many of the factors affecting these risks are beyond the Company's control. The future effect of these risks and uncertainties cannot be quantified or predicted.

Country risks

Since substantially all of the business of the Company is operated in the China, the profitability, financial position and prospects of the Company are subject to the consideration and risks of operating in China. These include risks associated with the political and economic environment, foreign currency exchange and the legal system in China. Any changes in the policies of the China 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 China government has been pursuing economic reforms since it first adopted its "open-door" policy in 1978. The current reforms are unprecedented, producing effects that are unpredictable, and are subject to further refinement and improvement. New political, economic and social developments and considerations may lead the China government to make adjustments to these reform measures. Any change in governmental policies or any unfavourable change in the political, economic or social conditions, the laws or regulations, or the rate or method of taxation in China may have a material adverse effect on the business of the Company.

Many laws and regulations dealing with economic matters in general, and foreign investment in particular, have been enacted in China. However, China still does not have a comprehensive system of laws, and enforcement of existing laws may be uncertain and sporadic. In China, 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 Labor 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 China is highly regulated and pricing is controlled by China 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 favorable 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 the Chinese renminbi ("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 Polices, 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 on loans denominated in foreign currency shall be approved by SAFE in advance. Such approval requirements 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 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.

Development projects and acquisitions

Changfeng continues to focus on growing its business segments through organic development projects or acquisitions. The Company capitalizes costs incurred on certain of its projects during the development period when the project meets specific criteria and is expected to proceed through to completion. The related capital costs of a project that does not proceed through to completion are expensed at the time it is discontinued to the extent that these costs and underlying materials cannot be utilized on another project. With respect to the Company's acquisition of assets and operations, there is a risk that certain business opportunities may not materialize as expected, resulting in asset impairment.

Substantial initial capital expenditure requirement

The nature of the Company's operations require it to make a substantial initial investment in the construction of gas pipeline infrastructure and the construction of CNG filling stations. The initial investment must be financed by internal resources of the Company, bank loans and/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 due to 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 to 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 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 or 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, such that its profitability may be adversely impacted.

Obligations to purchase gas

The Company currently has a letter of intent with CNOOC for the purchase of 150 million m^3. 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 by 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 M3 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 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 that 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 that 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. As 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 segments. 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, 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. Changfeng 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 favorable 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 that are required to be equipped with natural 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 other 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 of, may lose its interest in, or may be forced to sell, some of its interests.

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 that 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.

Non-GAAP Financial Measures

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

EBITDA

EBITDA is defined herein as earnings before income tax expense (recovery), (loss) gain on sale of assets, interest income (expense), depreciation and amortization, share of loss of investment in associate, as well as non-cash stock-based compensation expense. EBITDA does not have any standardized meaning prescribed by IFRS and therefore may not conform to the definition used by other companies. The adoption of IFRS did not have a significant impact on EBITDA as previously reported under Canadian GAAP.

A reconciliation of net earnings (loss) to EBITDA for each of the periods presented in this MD&A follows:

As at $ thousands	**December 31, 2011**	**December 31, 2010**	**Change**	**%**
Net Income	1,371	956	415	43.4%
Add:				
Income tax	1,170	958	212	22.1%
Interest income	(5)	(5)	(0)	–
Share of loss of investment in associate	(19)	–	(19)	–
Stock-based compensation	101	250	(149)	−59.6%
Amortization	1,879	1,217	662	54.4%
Interest on long term debt	1,403	642	761	118.5%
EBITDA	**5,900**	**4,018**	**1,882**	**46.8%**

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.

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

As at $ thousands	**December 31, 2011**	**December 31, 2010**
Current assets	9,278	5,993
Less: Current liabilities	19,948	11,987
Working capital (deficit)	(10,670)	(5,994)
Plus: Deferred revenue	6,069	4,684
Interest payable	2,104	1,965
Line of credit	4,848	-
Adjusted working capital (deficit)	**2,351**	**655**

Financial Instruments

Changfeng 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 the notes to the Consolidated Financial Statements. See the "Note to the Consolidated Financial Statements" for further details around these contracts.

Critical Accounting Policies and Estimates

To prepare financial statements that conform to IFRS, Changfeng is required to make estimates and assumptions that affect both the amount and timing of recording assets, liabilities, revenues and expenses, since the determination of these items may be dependent on future events. Each of these estimates varies with respect to the level of judgment involved and the potential impact on the Company's reported financial results. Estimates are deemed critical when the Company's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the consolidated financial statements of future periods.

All of the Company's significant accounting policies are discussed in Note 3 of the Audited Consolidated Financial Statements, which are incorporated by reference and can be found on the regulator's web site at www.sedar.com

Critical Accounting Estimates

Valuation of intangible assets

The Company has intangible assets acquired in a business acquisition that were recorded at their fair values at the acquisition date. The identification and valuation of these intangible assets at the time of acquisition require the use of management judgment and estimates, which were believed to be reasonable under the circumstances. The use of alternative estimates and assumptions could increase or decrease the estimated fair value of recorded intangible assets, and potentially result in a different impact to our results of operations.

The Company's intangible assets consist of gas purchase contract rights, which are amortized over their contractual useful lives. As at December 31, 2011 and 2010, the Company had intangible assets of $299,181and $528,150, respectively.

Revenue recognition

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

Revenue from gas connection contracts is recognized on the percentage of completion method, measured by reference to the value of work carried out during the year. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense immediately. Sales of gas appliances are recognized when goods are delivered and title has passed.

As at December 31, 2011 and 2010 the Company had deferred revenue of $6,069,457 and $4,683,502, respectively, with respect to deposits received from customers in excess of the value of work carried out during the year.

Amortization expense

The Company's plant and equipment are amortized on a straight-line basis over their estimated useful lives once they are ready for their intended use. The estimation of useful lives requires management's judgment regarding the period of time the assets will be in use based on engineering studies, experience and industry practice.

Plant and equipment are recorded at cost. Land use rights are recorded at cost and amortized over the term of the agreement. The useful lives of the Company's assets are as follows:

Pipelines	30 - 35 years
Land use rights	Term of agreement
Motor vehicles	3 - 10 years
Furniture and equipment	3 - 20 years
Computer equipment	3 - 5 years
CNG refuelling station	20 years

Amortization expense in 2011 was $1.88 million (2010 — $1.22 million).

Impairment evaluation

The Company assesses intangible assets with indefinite lives for impairment annually or when an event or change in circumstances may indicate impairment. This assessment includes a comparison of the carrying value of the indefinite life intangible asset to its estimated fair value to ensure that the fair value is greater than the carrying value. The Company calculates the estimated fair value using valuation methods such as discounted cash flow analysis. These valuation methods employ a variety of assumptions, including future revenue growth, expected earnings, and earnings multiples. Estimating the fair value of an indefinite life intangible asset is a subjective process and requires the use of our best estimates. If our estimates or assumptions change from those used in our current valuation, we may be required to recognize impairment losses in future periods.

The Company assesses the carrying value of long-lived assets, which include property, plant and equipment and intangible assets subject to amortization, for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated future cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, current income taxes are recognized for the estimated taxes payable for the current year. Future income taxes are determined based on the temporary differences between the accounting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. These income tax assets and liabilities are measured using the enacted or substantively enacted tax rates in which the income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances, which are not clearly defined. There is no statute of limitations in the case of tax evasion. The tax returns of the Company's PRC subsidiaries for the 2010 tax year are subject to examination by the relevant tax authorities.

Adoption of International Financial Reporting Standards

Effective January 1, 2011, Canadian publicly accountable enterprises were required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with a transition date of January 1, 2010.

The first quarter of 2011 ended March 31, 2011 with comparative information for 2010 was the Company's first interim period reported under IFRS. All comparative figures in this annual report have been restated to be in accordance with IFRS, unless specifically noted otherwise.

Note 25 of the Company's audited consolidated financial statements provide more detail on its key Canadian GAAP to IFRS differences, the Company's accounting policy decision and IFRS 1, First-Time Adoption of International Financial Reporting Standards, optional exemptions for significant or potentially significant areas that have had an impact on the Company's financial statements on transition to IFRS or may have an impact in future periods.

Transitional Financial Impact

As a result of the policy choices the Company has selected and the changes it was required to make under IFRS, we had no material impact in its opening balance as at January 1, 2010. The table below outlines adjustments to equity and net income on adoption of IFRS on January 1, 2010 and December 31, 2010 for comparative purposes.

Reconciliation of shareholders' equity as reported under Canadian GAAP to total equity under IFRS:

	December 31, 2010	January 1, 2010
Shareholders' equity reported under Canadian GAAP	$ 10,801,374	$ 9,595,110
Reclassification of non-controlling interest to total equity under IFRS	671,444	681,197
Differences increasing reported total equity:		
Plant and equipment	(190,507)	(136,597)
Total equity under IFRS	$ 11,282,311	$ 10,139,710

Reconciliation of net income as reported under Canadian GAAP to IFRS:

	Year ended December 31, 2010
Net income under Canadian GAAP	$ 1,020,091
Add back non-controlling interest	(9,754)
Difference decreasing reported amount:	
Amortization of assets components	(53,910)

Net income under IFRS	$	956,427

There was no material cash flow impact.

Financial statement presentation changes

Amortisation – under IFRS, Cost of sales include amortization expense.

Stock-based compensation– under IFRS, General and administrative expenses include stock-based compensation.

Interest on long-term debt– under IFRS, Interest on long-term debt are excluded from the income from operations.

Post-Implementation

The post-implementation phase will involve continuous monitoring of changes in IFRS in future periods. We note that the standard setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies that the Company has selected. In particular, we expect that there may be additional new or revised IFRSs or International Financial Reporting Interpretations Committee ("IFRIC") in relation to consolidation, financial instruments, and leases. The Company also notes that the International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact its financial statements primarily in the areas of capitalization of exploration costs and disclosures. The Company has processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC interpretations will be evaluated as they are drafted and published.

Future Accounting Changes

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these consolidated 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 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.

Financial Instruments – Disclosures

In October 2010, the IASB issued amendments to IFRS 7 Financial Instruments: Disclosures. These amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the Company's continuing involvement in derecognized financial assets. The amendments are effective for annual periods beginning on or after January 1, 2012 and therefore the Company will apply the amendments in the first quarter of 2012. There is no significant expected impact to the Company as a result of implementing this standard.

Financial Assets and Liabilities

In December 2011 the IASB published amendments to IAS 32 Financial Instruments: Presentation and issued new disclosure requirements in IFRS 7 Financial Instruments: Disclosures. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.
The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The Company intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of the amendments has not yet been determined.

Consolidated Financial Statements

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

Joint Arrangements

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

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

Disclosure of Interests in Other Entities

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

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

Fair Value Measurement

In May 2011, the IASB published IFRS 13 Fair Value Measurement, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

Presentation of Financial Statements

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

Employee Benefits

In June 2011, the IASB published an amended version of IAS 19 Employee Benefits. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted. The amendment is generally applied retrospectively with certain exceptions. The amendment will require the calculation of expected return on plan assets to be based on the rate used to discount the defined benefit obligation. The amendment also requires other additional disclosures. The Company intends to adopt the amendment in its financial statements for the annual period beginning on January 1, 2013. Where required, the Company will apply this amendment retrospectively. The extent of the impact of adoption of the amendment has not yet been determined.

Outlook

China is entering into a "Natural Gas Era". Natural gas supply is expected to grow from 100 billion m3 (bcm) in 2010 to 240 bcm by 2015. That's an additional 140 bcm that needs to reach new customers and requires a distribution solution that we provide. We believe that Changfeng is well positioned to achieve a larger share in this fast growing sector.

Our outlook for 2012 is very positive. We expect to continue to add both residential and commercial customers to our existing pipeline networks in the Sanya Region, including the Haitang Bay district, although the pace of its development is slowing down. We anticipate that the volume of gas sold during 2012 will continue to increase from both our operations in the Sanya Region and our CNG refueling retail station in Changsha city.

In addition, with the upcoming full operation of the eight sub-lines of the PetroChina's Second West-East Gas Pipeline by mid-2012, we believe that further increases in our revenue in 2012 may be possible from our Xiangdong project.

We also expect there are opportunities to continue to grow our business through our proposed joint venture with CNPC Kunlun Natural Gas Exploitation Company Limited in Guangdong province, China.