Changfeng Energy Inc.

Management's Discussion and Analysis
For the year ended December 31, 2012

Dated April 25, 2013

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, 2012. 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, 2012. "Changfeng" includes Changfeng Energy Inc. and its subsidiaries, unless otherwise indicated. Additional information related to Changfeng is available on SEDAR at www.sedar.com or on its website at www.changfengenergy.com.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Changfeng bases its estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

This MD&A contains certain non-GAAP financial measures to assist users in assessing its 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 realize sales and the inability of the Company to attract sufficient financing and 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 distribution company (or natural gas utility) in the People's Republic of China ("the PRC or China").

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

Since 2008, Changfeng has been actively exploring emerging-market opportunities in mainland China that resulted from the construction of PetroChina's Second West-East Pipeline ("WEP II"). Today, Changfeng has grown through the responsible development and reliable operation of natural gas distribution pipelines and associated facilities in China. Highlights include:

- **In Sanya City, Hainan Province, China**
  - 30-year exclusive concession rights (2007-2037) in Sanya City with wholly-owned gas distribution pipeline networks and associated facilities;
  - Secured gas supply through its annual gas quota of 24 million cubic meters (m^3) (848 million cubic feet (ft^3)) until 2015 at a favorable price;
  - Serving more than 82,000 residential and 600 commercial/industrial customers (primarily hotels and restaurants);

- **In Xiangdong District, Pingxiang City, Jiangxi Province, China (Xiangdong Project)**
  - 50-year exclusive operation rights (2010-2060) in the administrative region of Xiangdong District, including the Pingxiang Industrial Ceramic Production Park (the "Park");
  - Secured gas supply through approval of a four-year gas quota: 15 million m^3 (530 million ft^3) for 2012, 35 million m^3 (1,237 million ft^3) for 2013 and 50 million m^3 (1,765 million ft^3) each for 2014 and 2015;

- **A potential significant player in the local gas distribution business sector in Southern China, especially within the emerging markets in Hunan, Jiangxi and Guangdong provinces along WEP II.**

The Company's primary goal is to become one of the predominant natural gas service providers in Southern China by 2015. In pursuit of this goal, Changfeng continually strives to advance effective execution of its growth strategy by exploring strategic business development opportunities in mainland China along WEP II. The Company believes that its ongoing projects will add value, generate revenues and leverage its strength to create long-term sustainable value for its shareholders and its clients alike.

Vision and Strategy

Vision

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

Its 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 residential, commercial and industrial customers in Sanya City. In 2007, 30-year exclusive concession rights were granted to Changfeng by the local government to operate pipeline construction and gas distribution operations in the city.

Since 2003, Changfeng has been building an extensive pipeline network in the main district of Sanya City. In December 2010, Changfeng completed the extension of a 26.6 km of high-to-medium pressure pipeline linking Sanya City with the 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.

Growth Strategy

Changfeng's corporate strategy is to maximize operating cash flow of its existing operations, and to pursue long-term growth opportunities that add long-term shareholder value while focusing on its core operations in the natural gas business in China. The following initiatives are central to Changfeng`s growth strategy:

- ❖ Maximize operating cash flow from its 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 to successfully execute its growth strategies in order to achieve its vision. Below and throughout this MD&A, Changfeng will discuss the execution of its business strategy for 2013 and beyond.

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

Firstly, its strategy is to continue to grow its business in the Sanya Region where Changfeng has strong secular growth trends in tourism and real estate development. However, ever since 2010, demand for natural gas in this region has greatly exceeded its annual 24 million m^3 quota gas ("Quota Gas") due to both urban expansion and rapid development of coastal tourism. Its 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. Changfeng anticipates 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, its strategy is to maximize the profits and operating cash flows from its Sanya's operation through the gas supply management, which aims to raise the profit proportionately to the sales volume of the extra gas beside the Quota Gas. This strategy will enable its existing operation in Sanya Region to provide continued solid free operating cash flows which in part, are funding its strategic business development and expansion endeavors that are currently underway in mainland China.

At the same time, Changfeng has been 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. Some practical measures to address the problem include a sales price increase to commercial customers, a government subsidy, and additional temporary gas quota, has been implemented successfully. And the Gas to Electricity Exchange Program which will provide a 5 million m^3 natural gas to the Company every year is under way.

Develop existing projects under development into operations

Changfeng has four projects that are at various stages of development along the WEP II. Over the next few years, its first priority is to successfully develop these projects into commercial operations. However, as new underdeveloped emerging markets in medium and small cities in southern China, 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 Changfeng are confident that Changfeng have the abilities and resources to bring all of these high-growth potential projects into operation which Changfeng anticipates will create long-term recurring revenues. Currently, two of those projects are in commercial operations, which are CNG refilling station in Changsha City, and Piped Gas Distribution in Xiangdong Distrit, Pingxiang City.

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

Finally, Changfeng will continue to leverage its track record, public listing and social networks to explore and develop gas distribution business opportunities in the emerging markets in mainland China, especially along WEP II. As a major national project of the China's 11th Five-Year Plan, Construction of WEP II started on 22 February 2008. The trunk pipeline of WEP II has been completed and commenced the supply of gas in June 2011, and is to bring 30 billion m^3 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.

The Company's focus continues to be on commercial-intensive, underdeveloped markets in medium and small cities in these regions. Changfeng believes that this focused growth strategy enables us to grow its business rapidly, but at the same time, to minimize its 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.

2012 Accomplishments

- On December 27, 2012, the Company entered into the first gas sales contract with a key customer at the Xiangdong ceramic industrial park, Pingxiang city, Jiangxi province, China (the "Xiangdong Project"). According to the contract, the Company will supply a total of 1 million m^3 (approximately 35.3 million ft^3) of natural gas per year to the customer. The Company collected a connection fee for installing the service pipeline and connecting the gas supply system to the customer within a month of the date the contract was signed.
- On December 21, 2012, the Company entered into a six-year secured term loan in the amount of $3.2 million (RMB 20.0 million) (the "Term Loan") with the Bank of China, Pingxiang Branch ("BOC, Pingxiang"). The Term Loan will be used to fund the construction of pipelines and associated facilities for the Xiangdong Project.
- On November 24, 2012, the Company received regulatory approval to increase natural gas sales price to its non-residential customers in Sanya City, Hainan province, China, Effectively on November 24, 2012. With the approval, the selling price to its non-residential customers will be increased to RMB 4.7 per m^3 from RMB 3.8 per m^3, representing an increase of approximately 24% over current price. The selling price to its residential customers will remain unchanged. The Company's non-residential customers include both its commercial and industrial customers, mainly comprising of the hotels, resorts and restaurants in Sanya City. Currently, approximately 80 percent of the total annual volume of gas in Sanya City is sold to these non-residential customers.
- On June 27, 2012, the Company received a $0.7 million (RMB 4.5 million) government subsidy from the municipal government of Sanya City to partially compensate the Company for high purchase costs of additional volume of LNG/CNG purchased at market prices in 2011 to satisfy customer demand in the Sanya Region. Going forward, the municipal government has indicated that it plans to implement a long-term Budget Process (the "Budget Process") to address the ongoing gas shortage issue in the Sanya Region. The Budget Process, based on the Company's actual purchase cost of Other Gas, is intended to provide (a) an annual subsidy for the loss, if any, on the gas sales to its residential customers, and this subsidy will be included in the municipal government's annual fiscal budget; and (b) periodic sales price adjustments for its commercial customers enabling the sales prices to reflect the interaction between supply and demand, however, there is no guarantee that the Budget Process will be successfully implemented by the government in the future.
- On May 28, 2012, the Company commenced the first phase of construction of the Gas & Electricity Exchange Program (the "Program") which was launched on February 22, 2012. The construction was carried out pursuant to the confirmation of the subsidiary of China National Offshore Oil Corporation ("CNOOC") and its partners who own and operate the Ya13-1 gas well in the South Sea China. The subsidiary of CNOOC is also the supplier of the Company's current annual 24 million m^3 (847 million ft^3) quota gas. The total investment related to the first phase of construction is estimated to be approximately $1.1 million (RMB 6.8 million), which was funded from its existing cash on hand.

  The Program was launched together with the Local Power Bureau and China National Offshore Oil Yacheng Operation Co., Ltd. The Program will enable the Company to acquire approximately 5 million m^3 (177 million ft^3) of natural gas annually until 2015 at a favorable price when compared to that which the Company currently pays for Other Gas in the form of LNG/CNG. In exchange for the exchanged gas supply, the Company will fund the building of infrastructure to link certain of the supplier's operations to the provincial power grid, although it will not own the constructed assets. The total anticipated capital expenditure related to the Program is $1.6 million (RMB 10.0 million), of which $0.9 million (RMB 5.5 million) has been made as at December 31, 2012.

  As of the date of this MD&A, the first phase of the construction has been completed and gone through the project acceptance. It is expected that the project will be closed out in May 2013 and the gas will be available for the Company's use.
- 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 ("CNPC"), to jointly develop a natural gas distribution business in four prefecture-level cities in Guangdong Province, China, including Zhaoqing City, Jiangmen City, Foshan City and Zhuhai City (collectively "the Yuexi Area") ("the Guangdong project"). Due to the merge of the subsidiary of CNPC, the potential joint venture partner has been changed from CNPC Kunlun Exploitation to PetroChina Kunlun Gas Co., Ltd, Southern China Branch ("CNPC Kunlun Gas"), a wholly owned subsidiary of CNPC. 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 Gas will own 51% of the intended joint venture. The Company is working with CNPC Kunlun Gas and waiting for the approval from the head office of CNPC. A formal joint venture agreement between the two parties has not been finalized. 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 the Yuexi Area, and (ii) delivering and selling natural gas to those users through the Pipelines and the provincial trunk lines.

- On March 16, 2012, Changfeng renewed its $4.8 million (RMB 30.0 million) one-year line of credit (the "Credit Line") with the Bank of China (Sanya Branch) ("BOC Sanya") for an additional year. The Company had drawn $4.8 million (RMB 30.0 million) against the Credit Line, of which $3.2 million (RMB 20.0 million) was due and repaid on March 28, 2013, and $1.6 million (RMB 10.0 million) is due on June 20, 2013.
- On March 13, 2012, Changfeng received final regulatory approval of Xiangdong project, securing its 50-year exclusive operation rights in this region.
- On January 4, 2012, Changfeng received regulatory approval of a proposed natural gas processing project (the "LNG Plant") in Xiangtan City, Hunan Province, China.

  Pursuant to the approval, a 79.85-mu (approximately 5.3 hectares) piece of land will be assigned for Changfeng to build the LNG Plant. The proposed construction work comprises building an industrial metal cutting gas production line with designed daily processing capacity of 0.3 million m^3 (10.6 million ft^3) of natural gas, and associated LNG storage facilities, as well as sales and distribution centre to end users. The produced gas will be in liquid form for easy transportation and storage purposes. The total anticipated investment is approximately $32.0 million (RMB 200.0 million) including the proposed acquisition fee for the assigned land. The approval is valid for two years from the approval date, during which the construction work must be commenced, otherwise, a further extension application is required.

Subsequent Events

- On January 30, 2013, the Company started to sell gas to a ceramics manufacturer in the Pingxiang Industrial Ceramic Park (the "Park") in the Xiangdong district, Pingxiang city, Jiangxi Province, China. It marked the beginning of the commercial operation of the Xiangdong project.
- On January 23, 2013, the Company completed the preoperational inspection and safety testing for the Xiangdong project.
- On January 15, 2013, the Company entered into an agreement with the Bank of China (Sanya Branch) ("BOC") to secure a bank loan facility in the amount of $7.9 million (RMB50.0 million) (the "Term Loan"). As a result, the BOC has increased the Company's total loan facility to RMB180.0 million. The bank loan facility provides that the proceeds of the Term Loan will be used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in the Sanya city, Hainan province, China. The Term Loan is secured by the same collateral as that of the existing RMB130.0 million loan facilities with BOC as announced on April 4, 2011. It has a ten-year term from the date of the first initial withdrawal, and bears interest of 110% of the prime rate set by the People's Bank of China (the central bank of China).

Business Segments

Changfeng's businesses are organized into two segments -Natural Gas Distribution Utility and CNG refueling retail station.

Natural Gas Distribution

The Natural Gas Distribution segment consists of gas pipeline installation and connection and Piped gas sales, which is currently its primary operation.

Changfeng operates by installing and connecting gas pipelines and selling gas through its pipeline networks to the end users. Changfeng currently derives the majority of its revenue from the distribution of natural gas through its pipeline networks in Sanya City, Hainan Province, China.

Since 2003, Changfeng has been building extensive pipeline networks in the main district of Sanya City. Over the last three years, Changfeng has committed significant resources to extend its 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 build Hainan Province into an international tourism destination by 2020.

Since 2008, in order to add incremental value to its existing business, Changfeng has been actively pursuing its 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 full operation of the eight sub-lines of WEP II in 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 serves mainly for public transportation vehicles like buses and taxis in Changsha City, Hunan Province, China. Its first CNG refueling retail station was completed 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 City 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. In 2012, the municipal government allowed private owners to switch to natural gas fueled vehicle.

Selected Annual Financial Information

In thousands of Canadian dollars except percentages and per share amounts	2012	2011	Change	Change
Revenue	33,273	28,176	5,097	18%
Gross margin (1)	**15,659**	**11,708**	3,951	34%
% of revenue	**47%**	**42%**	5%	
Other operating income	717	-	717	100%
General and administrative	6,875	5,062	1,813	36%
% of revenue	21%	18%	3%	
Travel and business development	3,634	2,689	945	35%
% of revenue	11%	10%	1%	
Total expenses	**10,509**	**7,751**	2,758	36%
% of revenue	**32%**	**28%**	4%	
Income from operations	**5,867**	**3,957**	1,910	48%
% of revenue	**18%**	**14%**	4%	
Interest on long term debt	1,453	1,403	50	4%
% of revenue	4%	5%	-1%	
Interest (income) expense	26	-5	31	-620%
% of revenue	-	-	-	
Share of loss of investment in associate	24	19	5	26%
Income before income taxes	**4,364**	**2,541**	1,823	72%
% of revenue	**13%**	**9%**	4%	
Income tax	1,886	1,170	716	61%
% of revenue	6%	4%	2%	
Net income(loss)	**2,478**	**1,371**	1,107	81%
% of revenue	7%	5%	2%	
EBITDA (2)	**8,006**	**5,861**	2,145	37%
% of revenue	**24%**	**21%**	3%	
Non-controlling interest	-30	-14	-16	114%
Basic and diluted EPS	0.038	0.021	0.017	81%
Weighted average number of common shares outstanding Basic and diluted	66,025	66,025		

Note: (1) Since 2010, the gas demand in the Sanya Region has exceeded its annual 24 million m^3 quota (the "Gas Quota"), which provides gas at a cost of approximately RMB 0.6 per m^3 versus a regulated selling price of RMB 3.8 per m^3 to commercial and industrial customers and RMB 2.6 per m^3 to residential customers. As a result, Changfeng has been forced to purchase additional gas at significantly higher market-based prices in the form of LNG and/or CNG. The Company's 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 2012 was $33.3 million, an increase of $5.1 million, or 18%, from $28.2 million in 2011. This increase is mainly attributable to continued gas volume growth (16%) and higher average selling prices for both its CNG refueling retail station in Changsha city and the natural gas distribution utility in Sanya city.

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 2012 as compared to 2011 is presented below:

1. Sanya's operation:			
Residential customers	**2012**	**2011**	**% Change**
Customers connected during the year	16,222	15,166	7%
Total customers at the end of year	99,169	82,947	20%
Gas volume sold (m^3) during the year	6,071,000	5,050,800	20%
Commercial customers			
Customers connected during the year	48	78	-38%
Total customers at the end of year	646	598	8%
Gas volume sold (m^3) during the year	26,262,000	26,566,100	-1%
Sub-total Gas volume sold (m^3) during the year	**32,333,000**	**31,616,900**	**2%**
2. Changsha's CNG refueling retail station			
Gas volume sold (m^3) during the year	**10,097,716**	**4,952,744**	**104%**
Total Gas volume sold (m^3) during the year	**42,430,716**	**36,569,644**	**16%**

Total revenue from the CNG refueling retail station for 2012 was $5.6 million, an increase of $3.1million, or 126%, from $2.5 million for same period of 2011. The significant increase was attributable to the combined effect of the increased gas volume sold (10.1 million m^3 in 2012 compared to 5.0 million m^3 sold in the same period of 2011) and higher average selling prices. Effective August 13, 2012, the local price authority approved a 15% price increase for CNG retail stations in the Changsha City as a response to a gasoline price increase. In addition, the Company has been upgrading its station's refueling capacity to keep up with the increasing demand which is primarily driven by both rising gasoline prices and continued government support for clean energy vehicles. It is expected that more existing gasoline-fueled buses in this city will be converted into dual-fuel vehicles (gasoline/CNG).

Sales from gas distribution utility from the Company's operation in the Sanya Region for 2012 were $27.7 million, an increase of $2.0 million, or 8%, from $25.7 million for same period of 2011.

The increase for gas distribution utility was attributable to the combined effect of the increased gas volume sold (32.3 million m^3 in 2012 compare to 31.6 million m^3 sold in the same period of 2011),higher average selling prices and increased pipeline connection fees. Currently, the volume of gas sold from the Sanya Region is mainly limited to quota gas, because the high purchase cost of additional amount of Other Gas makes it unprofitable for the Company to significantly increase gas supply at current regulated sales prices. Effective November 23, 2012, the local price authority approved a 24% price increase for its non-residential customers in Sanya City, and the selling price to its residential customers remains unchanged. The Company's non-residential customers include both its commercial and industrial customers, mainly comprising of the hotels, resorts and restaurants in Sanya City. Currently, approximately 80 percent of the total annual volume of gas in Sanya City is sold to these non-residential customers. The Sanya Municipal government approval of the sales price increase related to the implementation of the long term Budget Process as part of the solution to address the ongoing gas deficit issue in the Sanya Region. Pipeline connection fees from the Company's operation in the Sanya Region for 2012 were affected by the continued slowdown in the pace of real estate development in China due to the tightening of credit by the Central Government to address growing inflation in China. Commercial customers connected for 2012 decreased by 38%, compared to 2011, but residential customers connected for 2012 increased by 7%, compared to 2011 due primarily to the timing of completing connections and increased demand.

Foreign exchange rates

Changfeng reports its financial results in Canadian dollars but earns all of its revenues and incurs most of its expenses in Chinese RMB. Accordingly, any fluctuation in the exchange rate between these two currencies will affect the reported financial information. The impact of the changes in foreign exchange rates has been recognized as other comprehensive income, and not as in net income. Excluding the foreign exchange effect, revenues for fiscal 2012 were RMB 210.0 million, an increase of RMB 26.0 million (14%), from RMB 184.0 million in 2011.

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

One Canadian dollar to Chinese RMB	2012	2011	% change
Average rate for the year	6.31	6.53	-3.37%
Spot rate at December 31	6.26	6.19	1.13%

Gross margin

Gross margin for 2012 was $15.7 million, an increase of $4.0 million, or 34%, from $11.7 million in 2011. Gross margin as a percentage of sales for 2012 increased by 5% to 47% compared to 42% for 2011. The increase in gross margin percentage is mainly due to higher selling prices and improved margin on the CNG sales from the refueling station.

Gas distribution utility gross margin as a percentage of sales year-over-year improved 8% (52% for 2012 VS 44% for 2011) reflecting the reduced volume of gas purchased at market rate prices and higher-value commercial customers from the Haitang Bay district in the Sanya Region. The CNG refueling station gross margin as a percentage of sales year-over-year improved 9% (22% for 2012 VS 13% for 2011) primarily to selling price increases and lower operating costs as a result of gas volume increase.

Other operating income

During 2012, the Company received $0.7 million (RMB 4.5 million) as a government grant from the municipal government of Sanya City to partially compensate the Company for certain gas purchases at unfavorable prices in 2011 that were made to satisfy customer demand in the Sanya Region. This government grant was recognized as other operating income in 2012.

Operating expenses

General and administrative expenses for fiscal 2012 were $6.9 million, an increase of $1.8 million, or 36%, from $5.1 million in 2011. The increase was attributable to general expenses including employee salary and benefits as a result of a higher inflation rate in China, and sales increase. General and administrative expenses as a percentage of sales for 2012 were 21%, compared to 18% in 2011, representing an increase of 3%.

Travel and business development expenses for fiscal 2012 were $3.6 million, an increase of $0.9 million, or 35%, from $2.7 million in 2011. Travel and business development expenses as a percentage of sales for 2012 increased to 11% from 10% in 2011 as a result of increases in revenue. These expenses normally fluctuate with its 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 refueling station but instead to projects under consideration or development in mainland China.

Interest on long term debt for fiscal year 2012 and 2011 was $1.5 million and $1.4 million, respectively, an increase of $0.1 million. In addition, the Company had $0.05 million in capitalized interest in 2012 versus nil in 2011.

EBITDA for fiscal 2012 was $8.0 million, an increase of $2.1 million, or 37%, from $5.9 million for 2011 as a result of sales increases. EBITDA as a as a percentage of sales for 2012 was 24%, compared to 21% in 2011, representing an increase of 3% due to the reasons noted above relating to the sales increases, higher gross margins and a $0.7 million one-time government grant, partially offset by higher operating expenses.

The net income for 2012 was $2.5 million or $0.038 per basic and diluted share compared to $1.4 million or $0.021 per basic and diluted share for the same period in 2011, primarily due to the reasons stated above.

Expansion Projects

Changfeng has the following projects under development as part of its growth strategy.

Haitang Bay Pipelined Gas Project, Sanya City, Hainan province

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 the Haitang Bay development area is estimated at 98.7 square km and includes approximately 24 km of beachfront. It is planned to build this area into a new township and house more than twenty (20) five-star hotels by 2020.

In December 2010, Changfeng 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.

During 2012, the construction of pipeline networks in this district was affected by continued slowdown of the pace of development in this Bay district due mainly to the tightening of credit by the Central Government of China to address growing inflation in China, but in the long term, Changfeng believe that the Haitang Bay would represent a high-growth potential area for its operation in Sanya Region as more luxury hotels are to be constructed and connected to its pipeline networks.

Currently, there are five (5) newly built hotels, including the Hilton, and Sheraton-chains, in operation and use the natural gas supplied by the Company for cooking purpose. The gas consumption in 2012 was 2.3 million cubic meters, accounting for 7 percent of the total gas sales in Sanya operation.

CNG Refueling Retail Stations Project, Changsha City, Hunan province

CNG refueling stations represent Changfeng's first growth project in mainland China. However, further expansion and development of CNG refueling retail stations in Changsha beyond the first station was delayed pending a secured gas source at a price that will provide 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 its CNG station initiative in Changsha City.

CNG and Piped Gas Distribution-Project, Xiangdong district, Pingxiang City, Jiangxi province

In 2012, the Company completed construction of 8 kilometers of pipeline in the Park and a set of CNG depressure facility and start the construction of the citygate. The pipeline and the CNG depressure facility has passed the safety testing.

In January 2013, the Company started to supply gas for its customers in the Park through the purchase of CNG. The gas quota as previously announced on November 23, 2011 will be saved and accumulated until the Company can access the gas from the WEP II.

During 2012, the Company also made various efforts on coordinating the approved Quota Gas as previously announced on November 23, 2011, and applying for an alternative source of gas for the upcoming commencement of gas supply before the interprovincial sub-pipeline linking to WEP II is accessible for this region. The Company successfully secured a long-term bank loan financing for the upcoming second phase of construction. Further, the Company received a final confirmation that a 24 kilometer pipeline connecting the Company's citygate to the existing intra-provincial pipeline network will be built by a state-owned company, and the construction is expected to commence in 2013. Upon completion of the construction, this pipeline will be able to transit the gas from WEP II to the Xiangdong district.

The construction of the 25 kilometers (Approximately 15 miles) pipeline, sub branch of WEP II, to ship the gas from WEP II to the Company's Citygate in Park, has been approved by the Jiangxi Energy Board, and will commenced in the second half of the year of 2013. This section of pipeline will be built by a state owned Company in Jiangxi Province.

CNG and Pipelined Gas Project, Xiangtan City, Hunan Province

On July 19, 2011, Changfeng 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 and LNG refueling stations in designated regions of Xiangtan City.

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

Investment in Associate

In October 2011, Changfeng, together with Xiangtan Economic and a Zhuhai Hailian Investment Co., Ltd., a private investment company, established Xiangtan Shin-Ko Energy Co., Ltd. ("Shin-Ko Energy") with a total registered capital of $1.6 million (RMB 10.0 million), 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, 2012, Changfeng contributed its share of registered capital of $0.3 million (RMB 2.0 million), and the remaining balance of $0.5 million (RMB 3.0 million) is required to be contributed by October 24, 2013.

Changfeng have determined that the Company 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 2012 was $0.02 million (2011- $0.02 million)

Currently, Shin-Ko Energy is working towards satisfying certain 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.

Pipelined Gas Project, in the Western Guangdong Area ("Yue Xi") of Guangdong province, China

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 ("CNPC"), to jointly develop a natural gas distribution business in four prefecture-level cities in Guangdong Province, China, including Zhaoqing City, Jiangmen City, Foshan City and Zhuhai City (collectively "the Yuexi Area") ("the Guangdong project"). Due to the merge of the subsidiary of CNPC, the potential joint venture partner has been changed from CNPC Kunlun Exploitation to PetroChina Kunlun Gas Co., Ltd, Southern China Branch ("CNPC Kunlun Gas"), a wholly owned subsidiary of Petro China. 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 Kunlun Gas will own 51% of the intended joint venture. The Company is working with CNPC Kunlun Gas and waiting for the approval from the head office of CNPC. A formal joint venture agreement between the two parties has not been finalized.

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 the Yuexi Area, and (ii) delivering and selling natural gas to those users through the Pipelines and the provincial trunk lines.

As of the date of its MD&A, an arm's-length pipeline project research firm had finalized a project feasibility study for supplying gas for one of the targeted industrial customers in these regions. The proposed joint venture is expected to be established in 2013, and is subject to the final approval of PetroChina.

Other Strategic Matters:

(i) In 2010, the Company paid a deposit of $0.2 million (RMB 1.0 million) to the existing shareholder of Hunan CNPC, Guangda Gas Co., Ltd. ("Guangda Gas"), a company that Changfeng has been considering for acquisition. Guangda Gas owns a CNG primary filling station in Changsha City. In 2012, the Company determined it would not proceed with the acquisition. Pursuant to an agreement dated October 24, 2012, the deposit will be repaid to the Company by way of partially offsetting gas purchases to be made from Guangda Gas over a ten-month period starting in November 2012. As at December 31, 2012, $0.1 million (RMB 0.8 million) had not yet been repaid.

(ii) In 2010, the Company paid a deposit of $0.1 million (RMB 0.5 million) to the existing shareholders of Jiangxi Pingxiang Huaneng Energy Co. Ltd. ("Pingxiang Huaneng"), a company that Changfeng has been considering for acquisition. Pingxiang Huaneng is a natural gas distributor in the Xiangdong district, Pingxiang City, Jiangxi Province. In 2012, the Company determined it would not proceed with the acquisition. As at December 31, 2012, the Company did not expect to recover its deposit and recorded a provision for the full amount of the deposit in net income

Selected Quarterly Results

The following sets out the Company's consolidated quarterly results for the most recent eight quarters:
In thousands of Canadian dollars, except per share amounts:

Quarterly data ($000's)	2012				2011			
except per share amounts	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Foreign exchange rate RMB	6.31	6.39	6.27	6.30	6.22	6.54	6.72	6.68
Revenue	10,857	7,929	7,122	7,365	8,929	5,936	6,776	6,534
Gross profit	5,172	3,164	3,421	3,902	4,285	2,059	1,830	3,534
Interest	313	367	387	386	393	374	340	295
Net income (loss)	771	55	826	826	888	(326)	(300)	1,110
Net income (loss) per basic and diluted share	0.011	0.001	0.013	0.013	0.013	(0.005)	(0.005)	0.017

Financial Condition and Liquidity

Key Financial Data and Comparative Figures	December 31, 2012	December 31, 2011
($000's)		
Cash and cash equivalents	6,377	5,062
Working capital (deficit)	(12,205)	(10,670)
Adjusted working capital (deficit) (1)	1,497	247
Plant and equipment	46,247	43,364
Total assets	61,200	55,618
Long term liabilities	21,620	22,113
Shareholders' equity	16,068	13,556

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

Cash increased by $1.3 million to $6.4 million at December 31, 2012 from $5.1 million at December 31, 2011, primarily resulting from cash provided during 2012 by operating activities of $8.4 million and $0.8 million of government grant, offset by cash used during 2012 for capital expenditure of $6.3 million and $1.6 million of principal payment on the bank term loans.

Adjusted Working Capital

Its adjusted working capital (see "Non-GAAP Financial Measures") was $1.5 million at December 31, 2012. Adjusted working capital excludes $8.9 million of deferred revenue in connection with gas connection fees and $4.8 million of line of credit.

Liquidity and Capital Resources

Overview

The Company's principal sources of short-term funding are its existing cash balances, operating cash flows and borrowing under the credit line. Its principal source of long-term funding is its bank term loan into which it entered in January 2010.

The Company's principal sources of liquidity are cash provided by operations, including advance payments from residential and commercial and industrial customers related to construction contracts for gas connection, and access to credit facilities and capital resources. The Company's primary short-term cash requirement is to fund working capital, and repay principal payments of its loan from the China Development Bank, which is fully repaid at December 31, 2012.

The Company's medium- and long-term cash requirements will be used to repay its Credit Line, fund construction of its pipeline networks and gas distribution facilities, acquire capital and intangible assets for its growth initiatives in mainland China and repay its long-term loan from the Bank of China.

During 2012, 2011 and 2010, the Company's financial position was strengthened by the positive cash flow from operating activities of $8.4 million, $4.2 million and $4.8 million, respectively.

In the short-term, management does not expect to face any liquidity problems considering its ability to generate sustainable cash flow from operations in the short- and long-term to provide liquidity. The Company has not experienced any significant difficulties in collecting its outstanding receivables from its customers and expects no such difficulties in the foreseeable future.

Long-term bank loans

On December 21, 2012, the Company entered into a term loan with the Bank of China, Pingxiang Branch ("BOC, Pingxiang") for $3.2 million (RMB 20.0 million), maturing six years from the date of the first withdrawal, and bearing interest at 120% of the prime rate of the People's Bank of China. This term loan is secured by the property and equipment of Pingxiang CF and guaranteed by CF China. The proceeds from this term loan will be used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang City, Jiangxi province. As of the date of this report, the Company withdrew $2.4 million (RMB 15.0 million).

Subsequent to the year-end, on January, 15, 2013 the Company entered an agreement with BOC, Sanya Branch to secure a bank loan facility in the amount of $8.0 million (RMB 50.0 million) (the "Term Loan"). The Term Loan agreement requires that the proceeds be used to fund continued construction of pipeline and associated facilities for the Haitang Bay project in Sanya city, Hainan province, China. The Term Loan is secured by the same collateral as that of the existing term loan and the Credit Line described in note 13(a)(ii) and 13(b)(i) of the Consolidated Financial Statements, respectively. It has a ten-year term from the date of the first initial withdrawal, and bears interest of 110% of the prime rate set by the People's Bank of China. Upon execution of the agreement, the Company made a withdrawal of $6.4 million (RMB 40.0 million).

The Company believes that its ability to obtain funding from these long-term debt bank loans and solid operating cash flows will continue to provide the cash flows necessary to satisfy our working capital and capital expenditure requirements, as well as meet its debt repayments and other financial commitments.

Government grants

Due to the limited Quoted Gas and higher purchase prices for additional volume of Other Gas for its operation in the Sanya Region, the Company receives government grants to fund its operation. During 2012, the Company received two government grants in a total amount of $1.5 million (RMB9.5 million), of which $0.7 million (RMB4.5 million) was to compensate the Company for certain gas purchased at unfavorable prices in 2011, and the remaining $0.8 million (RMB5.0 million) was to subsidize the Company's expenses to connect its pipeline network to a remote community that is currently under development.

2012 Credit Agreement

On March 16, 2012, the Company's $4.8 million (RMB 30.0 million) one-year line of credit (the "Credit Line") with the Bank of China was renewed for an additional year, for which principal repayments are due one year from the date of withdrawal. As part of the renewal, the Company is subject to a financial covenant that requires the Company's subsidiary Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd.'s debt-to-total-assets ratio to be maintained below 80%. All other terms remain unchanged. The Credit Line has variable interest rates based on prime rate prescribed by the People's Bank of China.

The Company had drawn $4.8 million(RMB 30.0 million) against the Credit Line, of which $3.2million (RMB 20.0 million) was due and repaid on March 28, 2013, and $1.6 (RMB 10.0 million) that was redrawn on June 19, 2012 will be due on June 20, 2013.

Cash Flow from Operations

Net cash provided by operations was $8.4 million in 2012 compared to $4.2 million in 2011, primarily due to the improved margins and $0.7 million of one-time government grant, as well as $2.8 million of change in working capital.

Changes in operating working capital accounts generated $2.8 million in cash in 2012, compared to $0.7 million in 2011. Decreased accounts receivable, accounts payable and increased deferred revenue generated cash in 2012 as a result of substantial increases in sales volume and increases in gas retail prices.

Cash Flow from Financing Activities

Cash provided by financing activities in 2012 included $0.8 million of one-time government grant received to fund construction of pipeline facilities in the Sanya Region. Cash used by financing activities for 2012 was $1.6 million for the repayment on the primary bank loan.

Investing Activities

Capital expenditures in property, plant and equipment totaled $5.3 million in 2012 compared to $5.0 million in 2011. The expenditures were mainly related to the purchase of land and equipment for the Xiangdong project and the on-going construction of pipeline networks to connect new customers in the Sanya Region, as well as the construction work related to the Gas & Exchange Program.

Changfeng will finance the majority of the upcoming construction of projects under development in mainland China through its long-term bank loans with the Bank of China, as well as operating cash flow from its existing operations.

Contractual Obligations and Commitments

Pipeline Construction and Equipment:

The Company has signed contracts with several equipment suppliers and construction supervisors for a total amount of $5.5 million (RMB 34.6 million) (2011 - $3.5 million (RMB 21.5 million), of which $2.0 million (RMB12.5million (2011-$2.1 million (RMB 13.2 million)) has been paid as at December 31, 2012.

Natural Gas Purchase Commitments:

The following tables summarize its contractual obligations and commitments as of December 31, 2012 in connection with its 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
2011-2015	Chengmaisanyou CNG	Maximum of 5 million m^3 a year,	Sanya city
2015 and beyond	Yangpu LNG Receiving terminal (CNOOC)	Letter of intent for up to 150 million m^3 a year	Sanya city

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

Lease Commitment:

On September 28, 2010, the Company signed a land lease agreement for the construction of its second CNG refuelling station in Changsha City, Hunan Province. The lease term is for 21 years, ending September 27, 2033. Upon signing the agreement, the Company paid a deposit of $0.02 million (RMB 0.1 million), which is expected to be refunded when the agreement expires. The first year's rent of $0.05 million (RMB 0.3 million) is required to be paid upon commencement of construction. As at December 31, 2012, construction of the refueling station had not commenced.

On September 8, 2008, the Company signed a land lease agreement for 3,000 square metres of land, on which the Company built its CNG refuelling station in Changsha City, Hunan Province. The lease term is for 20 years, expiring in October 2027. At the inception of this agreement, the Company paid a deposit of $0.02 million (RMB 0.1 million) and four years advanced rent of $0.3 million (RMB 1.9 million). As at December 31, 2012, the four years advanced rent and the deposit had been fully utilized.

The minimum lease payments in successive years are as follows:

	RMB	Cdn. $
2013	829,500	132,471
2014	829,500	132,471
2015	829,500	132,471
2016	829,500	132,471
2017	854,175	136,412
Thereafter	13,298,341	2,123,745
	17,470,516	$ 2,790,041

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, nor does it have any unconsolidated affiliates.

Related Parties Transactions

- As at December 31, 2012, a company (Sanya Changkai Industrial Development Co, Ltd.) controlled by a significant shareholder who is also an officer and director of the Company, owed the Company a total of $0.02 million for various expenditures paid by the Company on behalf of this company.
- As at December 31, 2012, the Company had an outstanding loan of $0.3 million (RMB2.0 million) due from the minority shareholder of Hunan Changfeng CNPC Energy Co., Ltd. ("Hunan CF CNPC"), which used the funds to contribute the capital it owed to that subsidiary. The loan is unsecured and non-interest bearing. The minority shareholder has waived its right to any future profit that it would otherwise be allocated until the loan is repaid. The Company will begin recording this shareholder's profit allocation prospectively at the time the loan has been repaid. On May 4, 2012, the Company entered into supplementary agreements with this minority shareholder. Pursuant to the supplementary agreements, the loan will be due on June 8, 2015, secured by this minority shareholder's 40% equity interest in Hunan CF CNPC and bearing interest at 120% five-year term loan prescribed by the People's Bank of China.
- During the third quarter of 2011, the Company made a short-term loan of $0.8 million (RMB5 million) (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.
- Included in current due to related parties as at December 31, 2012, is a required capital contribution of $0.5 million (RMB3.0 million) (December 31, 2011 - $0.5 million (RMB3.0 million in long-term)) to be made to Shin-Ko Energy by October 24, 2013. Also, included in current due to related parties as at December 31, 2012, was $0.2 million (RMB1.3 million) (2011 - $0.3 million (RMB1.6 million)) relating to a loan made to the Company by Shin-Ko Energy. The loan is interest-free and is not secured. It is payable on demand.
- In 2007, a significant shareholder, who is also an officer and director of the Company, advanced loans in the aggregate amount of $6.4 million (RMB40.0 million) (December 31, 2011 - $6.5 million (RMB40.0 million)) to the Company, through wholly owned corporations, in accordance with a Subordination and Forbearance Agreement dated April 27, 2007, Consignment Loan Agreements dated May 23, 2007 and June 26, 2007, and other ancillary documentation. These loans are unsecured, non-interest bearing, subordinate to the claims of all other creditors, including unsecured creditors of the Company, and were due on demand only after April 27, 2010.

  On April 27, 2010, these loans were renewed for another three years with the same terms and conditions and are due on demand only after April 27, 2013. The significant shareholder extended the date on which these loans are due on demand to April 27, 2015. The Company has not made any repayments during the year.
- As at December 31, 2012, the Company owed an officer and director of the Company $0.5 million (2011- $0.4 million) for unpaid salary and director's fees.
- During 2012 and 2011, the Company owed certain directors $0.05 million (2011 - $0.05 million) for unpaid director's fees.
- On November 22, 2010, the Company loaned $0.01 million to an officer of the Company. This loan is unsecured, non-interest bearing and has no fixed terms of repayment. The loan was repaid in February 2012.
- During 2012 and 2011, 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 65,603,200 common shares outstanding, 3,250,000 stock options outstanding and exercisable at a weighted average exercise price of $0.34 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 its 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

As 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 Chinese 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 Chinese 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 Chinese 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 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 the Chinese 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 Chinese 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 m^3 gas a year from this supplier until December 31, 2015. There can be no assurance that the Company will be able to obtain natural gas from suppliers on terms similar to those of the supply agreement or without material interruption.

Limited insurance coverage

As natural gas is an inherently flammable and explosive substance, the Company has implemented strict safety measures for the operation and maintenance of its facilities; however, the Company cannot guarantee that industry-related accidents will not happen in the future. Significant operational hazards and natural disasters may cause interruptions in the Company's operations that could have a material adverse impact on the financial condition of the Company. Although the Company may maintain insurance to protect against certain risks in such amounts as considered 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 Chinese 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 ("US") 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 Chinese 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 the 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 that these measures should not be construed as alternatives to net income or to cash provided by operating, investing, and financing activities determined in accordance with IFRS, as indicators of its performance. Changfeng provide these measures to assist investors in determining its ability to generate income 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 income before income tax expense, interest 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 income to EBITDA for each of the periods presented in this MD&A follows:

In thousands *(except for % figures)*	2012	2011	Change	%
Net Income	2,478	1,371	1,107	81%
Add back:				
Income tax	1,886	1,170	716	61%
Interest (income) expense	26	-5	31	620%
Share of loss of investment in associate	24	19	5	26%
Stock-based compensation	180	101	79	78%
Amortisation	1,959	1,802	157	9%
Interest on long term debt	1,453	1,403	50	4%
EBITDA	8,006	5,861	2,145	37%

Adjusted working capital

Adjusted working capital is calculated as current assets less adjusted current liabilities. Adjusted current liabilities is calculated as current liabilities, excluding deferred revenue in connection with gas connection fees, which are deferred when Changfeng receives payments from customers in advance of work having commenced and are recognized on the percentage of completion method, as well as the credit line. As is the practice with lines of credit in China, typically, they are renewed when due.

Changfeng believe that adjusted working capital is a useful supplemental measure as it provides an indication of its ability to settle its debt obligations as they come due.

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

As at **$ thousands**	**December 31, 2012**	**December 31, 2011**
Current assets	11,306	9,278
Less: Current liabilities	23,511	19,948
Working capital (deficit)	(12,205)	(10,670)
Plus: Deferred revenue	8,911	6,069
Line of credit	4,791	4,848
Adjusted working capital (deficit)	**1,497**	**247**

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

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, 2012 and 2011 the Company had deferred revenue of $8.9 million and $6.1 million, respectively, with respect to deposits received from customers for the value of work carried out in 2013 and beyond.

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:

Buildings	30 - 35 years
Pipelines	30 - 35 years
Land use rights	Term of agreement
Motor vehicles	3 - 10 years
Furniture and equipment	3 - 20 years
Leasehold improvement	Term of agreement

Amortization expense in 2012 was $2.0 million (2011 — $1.8 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 its best estimates. If its estimates or assumptions change from those used in its current valuation, Changfeng 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.

Share-based payments:

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the dates at which they are granted. Determining fair value for share-based payment transactions requires the use of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The determination of fair value requires estimating the expected life of the share option, volatility and dividend yield.

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

The outlook for 2013 is very positive. The Company expects to continue to add both residential and commercial and industrial customers to its existing pipeline networks in the Sanya Region, and the volume of gas sold during 2013 will continue to increase especially from its operations in the Sanya Region with the upcoming additional volume of gas supply to be obtained from the Gas & Electricity Exchange Program. The Company also expects a positive impact on its 2013 earnings and operating cash flows due to the higher sales prices.

In January 2013, the Xiangdong Project began to supply gas for the industrial customers in the Park. In 2013 and beyond, the Company will continue expanding its pipeline network in this region and expects to commence supply gas for the residential customers in this region in 2013.

In 2013, Changfeng will continue to implement its long-term growth strategy through its proposed joint venture for the pipelined gas project in the Western Guangdong Area of the Guangdong province, China as discussed in the Expansion Project section in this MD&A on page 12.