Changfeng Energy Inc.

Management's Discussion and Analysis
For The Three Months
Ended March 31, 2013

Dated May 30, 2013

Advisory

The Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to assess material changes in financial condition and results of operations of Changfeng Energy Inc. ("Changfeng" or the "Company") for the three months ended March 31, 2013. This information should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the quarter ended March 31, 2013 and the audited consolidated financial statements and related notes and the MD&A 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".

Unless otherwise noted, the Company's contractual obligations, commitments, and business risks and uncertainties, as described in its MD&A for the year ended December 31, 2012, are substantially unchanged.

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") with operations throughout southern China.

Currently the Company has three projects in operation, two of them are city piped natural gas distribution projects, and one compressed natural gas ("CNG") vehicle refueling station. Changfeng has a 30 year concession right to operate the gas distribution business in Sanya City, Hainan Province, and a 50 year operating right for its gas distribution business in the Xiangdong District, Pingxiang City, Jiangxi Province. Its customer base and exclusive operation provide recurring revenue and strong operating cash flows to the Company and let the Company, which allow it to pursue future expansion of its operations.

Since 2008 Changfeng has been actively exploring emerging market opportunities in mainland China which 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 104,000 residential and 700 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 three-year gas quota: 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 clients.

Recent Developments

- On December 21, 2012, the Company entered into a term loan with the Bank of China, Pingxiang Branch ("BOC, Pingxiang") for $3.3 million (RMB 20.0 million), maturing six years from the date of the first withdrawal, and bearing both fixed and variable interest at 120% of the prime rate of the People's Bank of China. The variable component of interest will be calculated initially on the date of withdrawal and will be reset every three months. This term loan is secured by the property and equipment of Pingxiang Changfeng Natural Gas Co., Ltd., a subsidiary of the Company, and guaranteed by Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd. The proceeds from this term loan will be used to fund the construction of pipelines and related property and equipment to be used in the Xiangdong project. As of the date of this MD&A, the Company has withdrawn $2.5 million (RMB 15.0 million).

- 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 $8.2 million (RMB50.0 million) (the "Term Loan"). The bank loan facility provides that the proceeds of the Term Loan will be used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City. 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). As of the date of this MD&A, the Company has withdrawn $6.5 million (RMB40.0 million).

- On January 23, 2013, the Company completed the pre-operational inspection and safety testing for the Xiangdong project.
- On January 30, 2013, the Company commenced the sale of natural gas to a ceramics manufacturer in the "Park", marking the beginning of the commercial operation of the Xiangdong project.

Selected Quarterly Financial Information

The following table provides selected financial information for the three months ended March 31, 2013 and 2012:

	Three month ended March 31,			
In thousands of Canadian dollars except percentages and per share amounts	2013	2012	Change	Change
Revenue	9,623	7,365	2,258	31%
Gross margin	**5,509**	**3,902**	1,607	41%
% of revenue	**57.2%**	**53.0%**	4.3%	
General and administrative	1,753	1,215	538	44%
% of revenue	18.2%	16.5%	-1.7%	
Travel and business development	1,307	1,078	229	21%
% of revenue	13.6%	14.6%	-1.0%	
Total expenses	**3,060**	**2,293**	767	33%
% of revenue	**31.8%**	**31.1%**	0.7%	
Income from operations	**2,449**	**1,609**	840	52%
% of revenue	**25.5%**	**21.9%**	3.6%	
Interest on long term debt	442	386	56	15%
% of revenue	4.6%	5.2%	-0.6%	
Interest income	9.0	2.8	6.2	221%
% of revenue	0.1%	0.0%	0.1%	
Share of loss of investment in associate	0.3	14.5	-14.2	-98%
Income before income taxes	**2,016**	**1,211**	805	66%
% of revenue	**20.1%**	**16.4%**	3.7%	
Income tax	744	385	359	93%
% of revenue	7.7%	5.2%	2.5%	
Net income(loss)	**1,273**	**826**	447	54%
% of revenue	13.2%	11.2%	2.0%	
EBITDA (1)	**3,001**	**2,114**	887	42%
% of revenue	**31.2%**	**28.3%**	2.9%	
Non-controlling interest	(18.6)	(7.2)	-11.4	158%
Basic EPS	0.020	0.013	0.007	54%
Diluted EPS	0.019	0.013	0.006	46%
Weighted average number of common shares outstanding - Basic	66,025	66,025	0	0%
Weighted average number of common shares outstanding - Diluted	66,686	66,025	661	1%

Note: (1) EBITDA is identified and defined under the section "Non-GAAP Financial Measures".

Results of Operations

Revenue

Revenue for the first quarter of 2013 was $ 9.6 million, representing an increase of $2.2 million, or 31%, from $7.4 million for the same period of 2012. This increase is mainly attributable to continued gas volume growth (22%) and higher average selling prices for both its CNG refueling retail station in Changsha City and the natural gas distribution utility in Sanya city for commercial and industrial customers.

The table below illustrates the customers connected during the three-month periods ended March 31, 2013 and 2012, and presents the volume of natural gas sold in the Sanya Region, as well as the volume of gas sold from the CNG refueling retail station in Changsha City for these periods.

	Q1 2013	Q1 2012	Change
1. Sanya's operation:			
Residential customers			
Customers connected during the quarter	4,819	2,839	70%
Total customers at the end of the quarter	103,988	85,786	21%
Gas volume sold (m^3) during the quarter	2,975,413	1,927,500	35%
Commercial customers			
Customers connected during the quarter	53	12	342%
Total customers at the end of quarter	699	610	15%
Gas volume sold (m^3) during the quarter	7,942,990	7,410,900	7%
Sub-total Gas volume sold (m^3) during the quarter	**10,918,403**	**9,338,400**	**17%**
2. Changsha's CNG refueling retail station			
Gas volume sold (m^3) during the quarter	2,786,281	1,887,919	48%
3. Xiangdong Operation			
Industrial customer connected	2	-	-
Gas volume sold (m^3) during the quarter	31,000	-	-
Total Gas volume sold (m^3) during the quarter	**13,735,684**	**11,226,319**	**22%**

Sales from gas distribution utility in the Sanya Region for the first quarter of 2013 were $7.9 million, an increase of $1.6 million, or 25%, from $6.3 million for same period of 2012. This increase was attributable to the combined effect of the increased gas volume sold (10.9 million m^3 in the first quarter of 2013 compare to 9.3 million m^3 sold in the same period of 2012), higher average selling prices and increased pipeline connection fees. Currently, the company has an annual gas quota of 24 million m^3 and an uncertain amount of extra gas quota in coordination with the local government every year. The Company will purchase extra gas in form of CNG and LNG to satisfy the gas demand of this area from time to time. Effective November 23, 2012, the local price authority approved a 24% price increase for its non-residential customers in Sanya City. 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% of the total annual volume of gas in Sanya City is sold to these non-residential customers. The Sanya Municipal government's approval of the sales price increase related to the implementation of the long term Budget Process (the "Budget Process") as part of the solution to address the ongoing gas deficit 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.

Total revenue from the CNG refueling retail station for the first quarter of 2013 was $1.7 million, an increase of $0.7 million, or 70%, from $1.0 million for same period of 2012. The significant increase was attributable to the combined effect of the increased gas volume sold (2.8 million m^3 in the first quarter of 2013 compared to 1.9 million m^3 sold in the same period of 2012) 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).

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 Renminbi ("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 net income.

One Chinese RMB to Canadian dollars	**Q1'2013**	**Q1'2012**	**% change**
Spot rate at March 31,	0.1634	0.1586	3.0%
Average rate for the period	0.1621	0.1587	2.1%

Gross margin

Gross margin for the first quarter of 2013 increased $1.6 million, or 41%, to $5.5 million from $3.9 for the comparable period in 2012. As a percentage of revenue, gross margin increased to 57% in the first quarter of 2013 from 53% in the same period of 2012.

As a percentage of revenue, the gross margin of the gas distribution utility improved 6% (64% for the first quarter of 2013 versus 58% for the same period of 2012) 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. As a percentage of revenue, the gross margin of the CNG refueling station improved 2% (24% for the first quarter of 2013 versus 22% for the same period of 2012) primarily due to increases in selling price and operating costs that increased at a lower rate than gas volume sold.

Operating expenses

General and administrative expenses for the first quarter of 2013 were $1.8 million, an increase of $0.5 million, or 44%, from $1.3 million in the same period of 2012. The increase was attributable to higher general expenses including higher employee salary and benefits as a result of a higher inflation rate in China, as well as because of the increase in sales. General and administrative expenses as a percentage of sales for the first quarter of 2013 were 18%, compared to 17% in the first quarter of 2012, representing an increase of 1%.

Travel and business development expenses for the first quarter of 2013 were $1.3 million, an increase of $0.2 million, or 21%, from $1.1 million in the first quarter of 2012. Travel and business development expenses as a percentage of sales for the first quarter of 2013 decreased to 14% from 15% in the first quarter of 2012. These expenses normally fluctuate with 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 the first quarter of 2013 and the same period of 2012 was $0.44 million and $0.39 million, respectively, an increase of $0.05 million. The increase is due to the additional long-term loans obtained by the Company in the fourth quarter of 2012 and the first quarter of 2013.

EBITDA

EBITDA (non-GAAP measure as identified and defined under section "Non-GAAP Measures") for the first quarter of 2013 was $3.0 million, an increase of $0.9 million, or 42%, from $2.1 million for the same period of 2012. The increase was driven primarily by higher sales. EBITDA as a percentage of revenue for the first quarter of 2013 was 31%, compared to 28% in the first quarter of 2012, representing an increase of 3% due to the sales increases but was partially offset by higher operating expenses, as discussed above.

Net income

Net income for the first quarter of 2013 was $1.3 million, or $0.020 per share (basic) and $0.019 per share (diluted) compared to $0.8 million or $0.013 per share (basic and diluted) for the same period in 2012, primarily due to the reasons discussed above.

Selected Quarterly Results

The following sets out the Company's consolidated quarterly results for the most -recently completed quarters:

Quarterly data ($000's)	2013	2012				2011		
except per share amounts	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Foreign exchange rate One Chinese RMB to Canadian dollars	0.1621	0.1584	0.1564	0.1595	0.1587	0.1607	0.1527	0.1488
Revenue	9,623	10,857	7,929	7,122	7,365	8,929	5,936	6,776
Gross profit	5,509	5,172	3,164	3,421	3,902	4,285	2,059	1,830
Interest	442	313	367	387	386	393	374	340
Net income (loss)	1,273	771	55	826	826	888	(326)	(300)
Net income (loss) per share - basic - diluted	 0.020 0.019	 0.011 0.011	 0.001 0.001	 0.013 0.013	 0.013 0.013	 0.013 0.013	 (0.005) (0.005)	 (0.005) (0.005)

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
($000's)	**March 31, 2013**	**December 31, 2012**
Cash	**11,563**	**6,377**
Working capital (deficit)	**(4,151)**	**(12,205)**
Adjusted working capital (deficit) (note1)	**7,259**	**1,497**
Plant and equipment	**49,010**	**46,247**
Total assets	**69,219**	**61,200**
Long term liabilities	**31,345**	**21,620**
Shareholders' equity	**16,981**	**16,068**

Note 1: This financial measure is identified and defined under the section "Non-GAAP Financial Measures".

Cash increased by $5.2 million to $11.6 million at March 31, 2013 from $6.4 million at December 31, 2012, primarily resulting from cash provided during the quarter by operating activities of $1.7 million, cash flow from financing activities of 5.5 million, offset by cash used during the quarter for capital expenditures of $2.2 million.

The working capital deficit as at March 31, 2013 decreased to $4.2 million from $12.2 million as at December 31, 2012, primarily resulting from the repayment of a portion of the Company's line of credit and the increase in current assets from long term debt financing.

Adjusted Working Capital

The adjusted working capital (see "Non-GAAP Financial Measures") was $7.4 million at March 31, 2013. Adjusted working capital excludes $9.8 million of deferred revenue in connection with gas connection fees and $1.6 million of line of credit.

Liquidity and Capital Resources

Overview

The Company's principal sources of short-term funding are its existing cash balances, operating cash flows and borrowing under its line of credit. Its principal source of long-term funding is its bank term loans into which it entered in January 2010, December 2012 and January 2013.

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 the remainder of its outstanding withdrawals on its line of credit, which is due in June 2013.

The Company's medium and long-term cash requirements are to fund construction of its pipeline networks and gas distribution facilities, to acquire capital and intangible assets for its growth initiatives in mainland China and to repay its long-term loans from the BOC and the Bank of China, (Pingxiang Branch) ("BOC Pingxiang").

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, which provide liquidity. The Company has not experienced any 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 BOC, Pingxiang for $3.3 million (RMB 20 million). As of March 31, 2013, the Company had withdrawn $2.5 million (RMB 15 million).

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 $8.2 (RMB 50 million) (the "Term Loan"). As of March 31, 2013, the Company had withdrawn $6.5 million (RMB40 million).

Cash flow from operations

Net cash provided by operations was $1.7 million for the first quarter of 2013 compared to $0.6 million for the same period of 2012.

Changes in non-cash working capital used $0.2 million in cash for the first quarter of 2013 compared to $0.5 million used for the same period of 2012. The primary drivers of this usage were decreased accounts payable and increased inventories offset by the decreased accounts receivable, prepaid expenses and deposits and increased deferred revenue.

Cash Flow from Financing Activities

Cash provided by financing activities in the first quarter of 2013 included an $8.9 million increase in long term debt. Cash used by financing activities for the first quarter of 2013 was $3.2 million, entirely for the repayment on the line of credit.

Investing Activities

Capital expenditures in property and equipment totaled $2.2 million in the first quarter of 2013 compared to $0.5 million in the same period of 2012. The expenditures were mainly related to the purchase of equipment for the Xiangdong project and the on-going construction of pipeline networks to connect new customers in the Sanya Region.

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

Contractual Obligations and Commitments

As of March 31, 2013, there have been no significant changes to contractual obligations and commitments since December 31, 2012.

Off-Balance Sheet Arrangements

Changfeng does not enter into off-balance-sheet arrangements.
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Share Capital

As at the date of this MD&A, the Company has 66,025,000 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.

On November 22, 2012, the Company received approval from the TSX-V to make a normal-course issuer bid (the "Bid") to periodically purchase, for cancellation, up to 3,000,000 common shares. The Bid commenced on November 27, 2012, to conclude on or about the earlier of November 26, 2013 or the date on which the Company purchases 3,000,000 common shares, although the Company may terminate the bid at an earlier date. The common shares will be purchased on the open market. During the first quarter of 2013, the Company purchased 421,800 of its common shares under its normal-course issuer bid (the "Bid") for cash proceeds of $135,924. These shares have been accounted for as treasury stock. Subsequent to March 31, 2013, the company purchased 234,500 shares pursuant to the Bid for cash proceeds of $75,040.

Seasonality of Operations

Seasonality can impact the Company's pipeline natural gas sales. The Company's current operations are mainly located in the Sanya Region, a tourist area in the PRC's only tropical province that attracts more tourists in winter than the rest of the year. As a large portion of the Company's natural gas sales are made to hotels and restaurants, the Company's sales are affected by tourism.

Seasonality can also impact the Company's CNG retail station sales due to vehicles being in need of more gas during the warmer seasons for air conditioning.

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 provides 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.

A reconciliation of net income to EBITDA for each of the periods presented in this MD&A follows:

In thousands (except for % figures)	Q1, 2013	Q1, 2012	Change	%
Net Income	1,273	826	447	54%
Add (less):				
Income tax	744	385	359	93%
Interest income	(9)	(3)	(6)	200%
Share of loss of investment in associate	0.3	14	(14)	-98%
Amortization	551	506	45	9%
Interest on borrowing	442	386	56	15%
EBITDA	3,001	2,114	887	42%

Adjusted working capital

Adjusted working capital is calculated as current assets less adjusted current liabilities. Adjusted current liabilities are calculated as current liabilities, excluding:

i) 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; and

ii) the line of credit, as in China, typically, lines of credit are renewed when due.

Changfeng believes 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.

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

As at $ thousands	**March 31, 2013**	**December 31, 2012**
Current assets	16,132	11,306
Less: Current liabilities	20,283	23,511
Working capital (deficit)	(4,151)	(12,205)
Add: Deferred revenue	9,776	8,911
Line of credit	1,634	4,791
Adjusted working capital (deficit)	**7,259**	**1,497**

Financial Instruments

The Company does not have complex financial instruments, and the various risks related to these financial instruments, including foreign currency risk, commodity price risk, interest rate risk, concentration of credit risk and liquidity risk have been disclosed in our audited Consolidated Financial Statements and MD&A for the year ended December 31, 2012 and the notes thereto that are available at www.sedar.com.

Transactions With Related Parties

I. As at March 31 2013, 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.

II. As at March 31, 2013, the Company had an outstanding loan of $0.3 million (RMB 2 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 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.

III. Included in current due to related parties as at March 31, 2013, was a required capital contribution of $0.5 million (RMB 3 million) (December 31, 2012 - $0.5 million (RMB 3 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 March 31, 2013, was $0.2 million (RMB 1.3 million) (December 31, 2012 - $0.2 million (RMB 1.3 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.

IV. In 2007, a significant shareholder, who is also an officer and director of the Company, advanced loans in the aggregate amount of $6.5 million (RMB 40 million) (December 31, 2012 - $6.4 million (RMB 40 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 are due on demand to April 27, 2015. The Company has not made any repayments during the period ended March 31, 2013.

V. As at March 31, 2013, the Company owed an officer and director of the Company $0.6 million (December 31, 2012 - $0.5 million) for unpaid salary and director's fees.

Risk Factors

The Company manages a number of risks to achieve an acceptable level of risk without appreciably hindering its ability to maximize returns. Management has procedures in place to identify and manage significant operational and financial risks. A discussion of the Company's risks is included in the Company's MD&A for the year ended December 31, 2012.

Significant Accounting Policies

Accounting standards adopted during the quarter

During the quarter, the Company adopted several new accounting standards and amendments; however, they impact neither the Company's annual consolidated financial statements nor its condensed consolidated interim financial statements, beyond certain additional disclosure requirements expected for the 2013 annual consolidated financial statements.

Recent accounting pronouncements

There have been no new accounting pronouncements issued in the first quarter of 2013. For a summary of recent pronouncements, see note 3(g) in the Company's condensed consolidated interim financial statements for the three-month periods ended March 31, 2013 and 2012.