Changfeng Energy Inc.

Management's Discussion and Analysis For The Three- and Nine-Month Periods Ended September 30, 2013

Dated November 13, 2013

Advisory

This 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 and nine months ended September 30, 2013. This information should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the three and nine months ended September 30, 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 or GAAP") 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, 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 107,900 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;
  - Commenced the sale of natural gas to four ceramics manufacturers in the Park;
  - Completed the installation of the main and service pipeline connecting to a gated community and started to sell natural gas to residential customers in the gated community in the downtown area;

- **In Changsha City, Hunan Province, China**
  - Upgraded CNG retail station's capacity to meet the increasing demand;
  - Effective August 13, 2012, the local natural gas pricing authority approved a 15% price increase for CNG retail stations in Changsha city.

- **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 July 2, 2013, the Company renewed its line of credit (the "Credit line") with Bank of China, Sanya Branch ("BOC") for $1.7 million (RMB 10.0 million), maturing 12 months from the date of the first withdrawal, and bearing interest of 110% of the prime rate set by the People's Bank of China. On July 2, 2013, the Company withdrew $1.7 million (RMB 10.0 million).
- On July 25, 2013, 200,000 of the options originally issued on September 8, 2011 were exercised for $0.23 per share resulting in total proceeds of $46,000.
- On August 2, 2013, the Company completed the installation of the main and service pipeline connecting to a gated community and started to sell natural gas to residential customers in the gated community in the downtown area of the Xiangdong district, Pingxiang city, Jiangxi Province, China.
- On August 26, 2013, the Company granted stock options (the "Options") to certain officers, directors, employees and consultants to acquire up to an aggregate of 3,400,000 common shares of the Company after the close of business on August 23, 2013. All the Options are exercisable at a price of 35 cents per share which was the closing price of the Company's shares on the TSX Venture exchange on August 23, 2013. The term of the Options is five years from the date of grant.
- On September 5, 2013, the Company entered into a natural gas purchase and sale agreement with Hainan Fuel Chemical Co., Ltd. a subsidiary of China National Offshore Oil Corporation ("CNOOC") to purchase 6.5 million cubic metres of natural gas during the remainder of 2013 (the "Additional Quota Gas"). The Additional Quota Gas will be added to the Company's existing 24 million cubic metre quota for the Sanya operations allowing the company to purchase significantly reduced quantities of relatively expensive CNG and LNG to supply its operations.
- In the third quarter of 2013, the Company has identified two gas fueled power plants as its phase I targeted customers ("Phase I"). The Company intends to establish a joint venture with PetroChina Kunlun Gas Co., Ltd ("CNPC Kunlun Gas"), a wholly owned subsidiary of PetroChina, to build high pressure transmission pipelines and associated facilities (the "Pipelines") to link the existing and/or planned provincial trunk lines to certain gas fueled power plants located in Guangdong province, China.

  The Company filed a feasibility study on the first potential gas fueled power plant in Phase I with CNPC Kunlun Gas and is now reviewing CNPC Kunlun Gas' feedback and preparing a revised feasibility study which will be submitted shortly.

  The Company has also submitted an initial project proposal on the second potential gas fueled power plant in Phase I to CNPC Kunlun Gas for its review. If the initial project proposal is accepted by CNPC Kunlun Gas, the company will then prepare a feasibility study for review by CNPC Kunlun Gas.

  The two potential gas fueled power plants in Phase I are located in Zhaoqing City and Jiangmen City, in Guangdong province, China, respectively. Phase I will include a 2 – kilometer (1.4 mile) pipeline and a 1 – kilometer (0.7 mile) pipeline for the two potential gas fueled power plants, respectively.

Selected Quarterly Financial Information

The following table provides selected financial information for the three and nine months ended September 30, 2013 and 2012:

In thousands of Canadian dollars except percentages and per share amounts	Three months ended September 30, 2013	2012	Change	%	Nine months ended September 30, 2013	2012	Change	%
Revenue	10,240	7,929	2,311	29%	29,053	22,416	6,637	30%
Gross margin	**4,867**	**3,218**	1,649	51%	**14,768**	**10,643**	4,125	39%
% of revenue	**47.5%**	**40.6%**	6.9%		**50.8%**	**47.5%**	3.4%	
Other operating income	0	0	-	0%	0	723	(723)	-100%
General and administrative	2,276	1,693	583	34%	6,533	5,066	1,467	29%
% of revenue	22.2%	21.4%	0.9%		22.5%	22.6%	-0.1%	
Travel and business development	745	674	71	11%	2,423	2,220	203	9%
% of revenue	7.3%	8.5%	-1.2%		8.3%	9.9%	-1.6%	
Stock based compensation	294	180	114	63%	294	180	114	63%
% of revenue	2.9%	2.3%	0.6%		1.0%	0.8%	0.2%	
Total expenses	**3,315**	**2,547**	768	30%	**9,250**	**7,466**	1,784	24%
% of revenue	**32.4%**	**32.1%**	0.3%		**31.8%**	**33.3%**	-1.5%	
Income before interest, equity loss and income taxes	**1,552**	**670**	882	132%	**5,517**	**3,901**	1,616	41%
% of revenue	**15.2%**	**8.4%**	6.7%		**19.0%**	**17.4%**	1.6%	
Interest on long term debt	443	367	76	21%	1,322	1,141	181	16%
% of revenue	4.3%	4.6%	-0.3%		4.6%	5.1%	-0.5%	
Interest income (expense)	22	(7)	29.0	-414%	40	(3)	43	-1433%
% of revenue	0.2%	-0.1%	0.3%		0.1%	0.0%	0.2%	
Share of loss of investment in associate	-	3	(3)	-100%	1	22	(21)	-95%
Income before income taxes	**1,131**	**293**	838	286%	**4,235**	**2,735**	1,500	55%
% of revenue	**11.0%**	**3.7%**	7.3%		**14.6%**	**12.2%**	2.4%	
Income tax	560	238	322	135%	1,767	1,028	739	72%
% of revenue	5.5%	3.0%	2.5%		6.1%	4.6%	1.5%	
Net income	**571**	**55**	516	938%	**2,468**	**1,707**	761	45%
% of revenue	5.6%	0.7%	4.9%		8.5%	7.6%	0.9%	
EBITDA (1)	**2,450**	**1,349**	1,101	82%	**7,555**	**5,603**	1,952	35%
% of revenue	**23.9%**	**17.0%**	6.9%		**26.0%**	**25.0%**	1.0%	
Non-controlling interest	(21)	(6)	(15)	250%	(73)	(25)	(48)	192%
Adjusted net income (2)	**571**	**55**	516	938%	**2,468**	**984**	1,484	151%
% of revenue	5.6%	0.7%	4.9%		8.5%	4.4%	4.1%	
Basic EPS	0.01	0.00	0.01	809%	0.04	0.03	0.01	50%
Diluted EPS	0.01	0.00	0.01	800%	0.04	0.03	0.01	48%
Weighted average number of common shares outstanding - Basic	65,216	66,025	(809)	-1%	65,338	66,025	(687)	-1%
Weighted average number of common shares outstanding - Diluted	65,832	66,071	(239)	0%	65,944	66,025	(81)	0%

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

Results of Operations

Revenue

Revenue for the three months ended September 30, 2013 was $ 10.2 million, representing an increase of $2.3 million, or 29%, from $7.9 million for the same period of 2012. Revenue for the nine months ended September 30, 2013 was $ 29.1 million, representing an increase of $6.6 million, or 30%, from $22.4 million for the same period of 2012. This increase is mainly attributable to continued gas volume growth (13% for the three months ended September 30, 2013 and 17% for the nine months ended September 30, 2013) 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 and nine-month periods ended September 30, 2013 and 2012, and presents the volume of natural gas sold in the Sanya Region and Xiangdong District, as well as the volume of gas sold from the CNG refueling retail station in Changsha City for these periods.

	Three months ended September 30,			Nine months ended September 30,		
	2013	2012	Change	2013	2012	Change
1. Sanya's operation:						
Residential customers						
Customers connected during the period	1,000	2,968	-1,968	8,813	12,512	-3,699
Total customers at the end of the period	107,982	95,459	12,523	107,982	95,459	12,523
Gas volume sold (m^3) during the period	1,120,000	1,160,000	-40,000	5,280,000	4,020,000	1,260,000
Commercial customers						
Customers connected during the period	4	14	-10	24	32	-8
Total customers at the end of period	707	630	77	707	630	77
Gas volume sold (m^3) during the period	5,690,000	5,680,000	10,000	19,420,000	18,830,000	590,000
Sub-total Gas volume sold (m^3) during the period	**6,810,000**	**6,840,000**	-30,000	**24,700,000**	**22,850,000**	1,850,000
2. Xiangdong Operation						
Residential customers						
Customers connected during the period	5	-	5	5	-	5
Total customers at the end of the period	5	-	5	5	-	5
Gas volume sold (m^3) during the period	260	-	260	260	-	260
Industrial customers						
Industrial customers connected during the period	-	-	-	4	-	4
Industrial customers at the end of the period	-	-	-	4	-	4
Gas volume sold (m^3) during the period	481,200	-	481,200	621,400	-	621,400
Sub-total Gas volume sold (m^3) during the period	**481,460**	**-**	481,460	**621,660**	**-**	621,660
3. Changsha's CNG refueling retail station						
Gas volume sold (m^3) during the period	**3,598,440**	**2,820,000**	778,440	**9,678,382**	**6,990,000**	2,688,382
Total Gas volume sold (m^3) during the period	**10,889,900**	**9,660,000**	1,229,900	**35,000,042**	**29,840,000**	5,160,042

Gas distribution utility

Sales from the gas distribution utility for the three months ended September 30, 2013 were $8.2 million, an increase of $1.9 million, or 30%, from $6.3 million for same period of 2012. Sales from the gas distribution utility for the nine months ended September 30, 2013 were $23.3 million, an increase of $4.6 million, or 25%, from $18.7 million for same period of 2012. This increase was attributable to the following:

- increased gas volume sold of 24.7 million m^3 in the Sanya operation in the first nine months of 2013 compared to 22.9 million m^3 sold in Sanya operation in the same period of 2012. For the three months ended September 30, 2013 and 2012, gas volume sold was 6.8 million m^3;
- higher average selling prices in the Sanya operation;
- increased pipeline connection fees in the Sanya operation; and

- increased gas volume sold of 0.62 million m^3 in the Xiangdong operation in the first nine months of 2013 compared to 0.0 million m^3 sold in the same period of 2012 (of which 0.48 million m^3 was sold in the third quarter of 2013, compared to 0.0 million m^3 sold in the third quarter of 2012);

Currently, the Company has an annual gas quota of 24.0 million m^3 and an uncertain amount of extra gas quota made available each year through coordination with the local government in Sanya region. During the quarter, the Company entered into a natural gas purchase and sale agreement with Hainan Fuel Chemical Co., Ltd. a subsidiary of China National Offshore Oil Corporation ("CNOOC") to purchase 6.5 million m^3 of natural gas during the remainder of 2013. Effective November 23, 2012, the local natural gas pricing authority approved a 24% price increase for its non-residential customers in Sanya city. The selling price to its residential customers remained unchanged.

The Company's non-residential customers include both commercial and industrial customers, mainly comprised of the hotels, resorts and restaurants in Sanya City. Currently, approximately 79% of the total annual volume of gas in Sanya City is sold to these non-residential customers. Sanya municipal government's approval of the sales price increase related to the implementation of the long-term Budget Process (the "Budget Process"), which was implemented as part of the solution to address the ongoing gas deficit issue in the Sanya region. The Budget Process is intended to provide (a) an annual subsidy for the loss, if any, on the gas sales to its residential customers; 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.

The Company commenced the sale of natural gas to four industrial customers in the Xiangdong region and completed the installation of the main and service pipeline connecting to a gated community and started to sell natural gas to residential customers in the gated community in the downtown area of Xiangdong region. The Company is expecting to eventually connect 2,000 new residential customers and to serve another 8,000 residential customers by upgrading their coke gas fueled facilities to natural gas fueled facilities in the downtown of Xiangdong region.

CNG vehicle refueling station
Total revenue from the CNG refueling retail station for the three months ended September 30, 2013 was $2.0 million, an increase of $0.4 million, or 25%, from $1.6 million for same period of 2012. Total revenue from the CNG refueling retail station for the nine months ended September 30, 2013 was $5.7 million, representing an increase of $2 million, or 54%, from $3.7 million for same period of 2012.

The significant increase was attributable to the combined effect of the increased gas volume sold (3.6 million m^3 in the three months ended September 30, 2013 compared to 2.8 million m^3 sold in the same period of 2012 and 9.7 million m^3 sold in the nine months ended September 30, 2013 compared to 7.0 million m^3 sold in the same period of 2012) and higher average selling prices. Effective August 13, 2012, the local natural gas pricing authority approved a 15% price increase for CNG retail stations in Changsha city as a response to a gasoline price increase. In addition, the Company has been upgrading its station's refueling capacity to meet the increasing demand that 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 the 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	Q3'2013	Q3'2012	% change	Q2'2013	Q2'2012	% change
Spot rate at the end of the quarter	0.1680	0.1565	7.3%	0.1713	0.1604	6.8%
Average rate for the quarter	0.1694	0.1564	8.3%	0.1642	0.1595	2.9%

Gross margin

Gross margin for the three months ended September 30, 2013 increased $1.6 million, or 51%, and increased $4.1 million or 39% for the nine months ended September 30, 2013, compared to the same periods in 2012. As a percentage of revenue, gross margin increased to 51% in the nine months ended September 30, 2013 from 48 % in the same period in 2012.

As a percentage of revenue, the gross margin of the gas distribution utility improved 8% (53% for the three months ended September 30, 2013 versus 45% for the same period of 2012) primarily due to increases in selling prices and operating costs that increased at a lower rate than gas volume sold. As a percentage of revenue, the gross margin of the CNG refueling station slightly improved 4% (26% for the three months ended September 30, 2013 versus 22% for the same period of 2012).

Other operating income

Other operating income for the three and nine months ended September 30, 2013 was nil, compared to $0.7 million for the same periods of 2012. On June 27, 2012, the Company received a $0.7 million government grant from the municipal government of Sanya City to partially compensate the Company for certain 2011 gas purchases made at unfavourable prices in order to satisfy customer demand in the Sanya region.

Operating expenses

General and administrative expenses for the three months ended September 30, 2013 were $2.3 million, an increase of $0.6 million, or 34%, from $1.7 million in the same period of 2012. For the nine months ended September 30, 2013, general and administrative expenses were $6.5 million, an increase of $1.5 million, or 29%, from $5.0 million in the same period of 2012. The increase was attributable to higher general expenses, including higher employee salaries and benefits as a result of a higher inflation rate in China and higher conference fees, audit fees and legal counsel expenses, as well as an increase in sales. General and administrative expenses as a percentage of sales for the three and nine month periods ended September 30, 2013 were 22% and 23%, compared to 21% and 23% for the same periods of 2012, respectively.

Travel and business development expenses for the three months ended September 30, 2013 were $0.8 million, an increase of $0.1 million, or 11%, from $0.7 million in the same period of 2012. Travel and business development expenses for the nine months ended September 30, 2013 were $2.4 million, an increase of $0.2 million, or 9%, from $2.2 million in the same period of 2012. As a percentage of sales, travel and business development expenses for the three and nine month periods ended September 30, 2013 were 7% and 8% respectively, a decrease from 9% and 10% in the same periods 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 do not relate to the Company's business in Sanya City or the CNG refueling station, but to projects under consideration or development in mainland China.

Interest on long term debt for the three months ended September 30, 2013 and the same period of 2012 was $0.4 million and $0.3 million, respectively. Interest on long-term debt for the nine months ended September 30, 2013 and the same period of 2012 was $1.3 million and $1.1 million, respectively, an increase of $0.2 million. The increase is due to additional long-term loans obtained by the Company in the fourth quarter of 2012 and the first nine month of 2013.

EBITDA

EBITDA (non-GAAP measure as identified and defined under section "Non-GAAP Measures") for the three months ended September 30, 2013 was $2.5 million, an increase of 1.1 million, or 82%, from $1.3 million for the same period of 2012. EBITDA for the nine months ended September 30, 2013 was $7.6 million, an increase of $2.0 million, or 35%, from $5.6 million for the same period of 2012. The increase was driven primarily by higher sales. EBITDA as a percentage of revenue for the three months ended September 30, 2013 was 24%, compared to 17% in the same period in 2012. EBITDA as a percentage of revenue for the nine months ended September 30, 2013 was 26%, compared to 25% in the same period of 2012, representing an increase of 1%. This increase was due to higher sales partially offset by higher operating expenses.

Net income

Net income for the three months ended September 30, 2013 was $0.6 million, or $0.01 per share (basic and diluted) compared to $0.05 million or $0.00 per share (basic and diluted) for the same period in 2012. Net income for the nine months ended September 30, 2013 was $2.5 million, or $0.04 per share (basic and diluted) compared to $1.7 million or $0.03 per share (basic and diluted) for the same period in 2012.

Adjusted net income

Adjusted net income (non-GAAP measure as identified and defined under section "Non-GAAP Measures") for the three months ended September 30, 2013 was $0.6 million, compared to $0.05 million for the same period in 2012. Adjusted net income for the nine months ended September 30, 2013 was $2.5 million, compared to $1.0 million for the same period in 2012.

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	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Foreign exchange rate one Chinese RMB to Canadian dollars	0.1694	0.1642	0.1621	0.1584	0.1564	0.1595	0.1587	0.1607
Revenue	10,240	9,190	9,623	10,857	7,929	7,122	7,365	8,929
Gross profit	4,867	4,260	5,509	5,172	3,217	3,421	3,902	4,285
Interest	443	437	442	313	367	387	386	393
Net income (loss)	571	625	1,273	771	55	826	826	888
Net income (loss) per share								
- basic	0.01	0.01	0.02	0.01	0.00	0.01	0.01	0.01
- diluted	0.01	0.01	0.02	0.01	0.00	0.01	0.01	0.01

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
($000's)	30-Sep-13	31-Dec-12
Cash	13,110	6,377
Working capital (deficit)	(6,656)	(12,205)
Adjusted working capital (deficit) (note1)	7,999	1,497
Plant and equipment	53,019	46,247
Total assets	76,072	61,200
Long term liabilities	31,954	21,620
Shareholders' equity	19,335	16,068

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

Cash increased by $6.7 million to $13.1 million at September 30, 2013 from $6.4 million at December 31, 2012, primarily resulting from cash of $7.0 million provided by operating activities, cash flow from financing activities of 5.9 million, offset by cash used for capital expenditures of $6.8 million.

The working capital deficit as at September 30, 2013 decreased to $6.7 million from $12.2 million as at December 31, 2012, primarily resulting from a decrease in the Company's line of credit effectively converted to long term debt and an increase in current assets.

Adjusted Working Capital

Adjusted working capital (see "Non-GAAP Financial Measures") was $8.0 million at September 30, 2013. Adjusted working capital excludes $13.0 million of deferred revenue in connection with gas connection fees and $1.7 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 are its three term loans into which Changfeng entered in January 2010, December 2012 and January 2013, respectively.

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 withdrawal on its line of credit.

The Company's medium and long-term cash goals 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 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. 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 facility with BOC, Pingxiang for $3.4 million (RMB 20.0 million). As of September 30, 2013, the Company had withdrawn $3.4 million (RMB 20.0 million).

On January 15, 2013, the Company entered into an agreement with BOC to secure a bank loan facility in the amount of $8.4 million (RMB 50.0 million) (the "Term Loan"). As of September 30, 2013, the Company had withdrawn $6.7 million (RMB 40.0 million).

Cash flow from operations

Net cash provided by operations was $4.4 million for the three months ended September 30, 2013 compared to $0.6 million for the same period of 2012. Net cash provided by operations was $7.0 million for the nine months ended September 30, 2013 compared to $4.8 million for the same period of 2012.

Changes in non-cash working capital was $2.7 million for the three months ended September 30, 2013 compared to $0.2 million outflows for the same period of 2012. Changes in non-cash working capital was $2.3 million for the nine months ended September 30, 2013 compared to $1.2 million for the same period of 2012. The primary drivers of this usage were decreased accounts payable and increased prepaid expenses and deposits and increased inventories offset by decreased accounts receivable, and increased deferred revenue.

Cash Flow from Financing Activities

Cash provided by financing activities for the three months ended September 30, 2013 was $1.5 million, and included a cash inflow of $1.7 million from an increase in bank indebtedness resulting from drawing on an available term loan facility. Cash provided by financing activities for the nine months ended September 30, 2013 was $5.9 million, and included a cash inflow of $10 million from an increase in long-term debt resulting from drawings on available term loan facility and a cash inflow of $1.7 million from an increase in bank indebtedness resulting from drawing on an available term loan facility offset by repayment of bank indebtedness of $5.0 million.

Investing Activities

Capital expenditures totaled $2.5 million for the three months ended September 30, 2013 compared to $1.4 million in the same period of 2012. Capital expenditures totaled $6.8 million for the nine months ended September 30, 2013 compared to $4.1 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 the BOC and BOC, Pingxiang, as well as operating cash flow from its existing operations.

Contractual Obligations and Commitments

As of September 30, 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.

Share Capital

As of the date of this MD&A, the Company has 64,815,700 common shares outstanding, 6,300,000 stock options outstanding and exercisable at a weighted average exercise price of $0.34 per share. The Company has no warrants outstanding.

During the first nine months of 2013, the Company purchased for cancellation 1,218,300 of its common shares under its normal-course issuer bid (the "Bid") for cash of $403,889. These shares were cancelled automatically after the company purchased them. Subsequent to September 30, 2013, the Company purchased 191,000 shares pursuant to the Bid for cash of $66,140.

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	Three months ended September 30,				Nine months ended September 30,			
(except for % figures)	2013	2012	Change	%	2013	2012	Change	%
Net Income	571	55	516	938%	2,468	1,707	761	45%
Add (less):								
Income tax	560	238	322	135%	1,767	1,028	739	72%
Interest (income) expense	(22)	7	(29)	-414%	(40)	3	(43)	-1433%
Share of loss of investment	-	3	(3)	-100%	1	22	(21)	-95%
Stock-based compensation	294	180	114	63%	294	180	114	63%
Amortization	604	499	105	21%	1,743	1,522	221	15%
Interest on borrowing	443	367	76	21%	1,322	1,141	181	16%
EBITDA	2,450	1,349	1,101	82%	7,555	5,603	1,952	35%

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	**September 30,**	**December 31,**
$ thousands	**2013**	**2012**
Current assets	18,128	11,306
Less: Current liabilities	24,784	23,511
Working capital (deficit)	(6,656)	(12,205)
Add: Deferred revenue	12,975	8,911
Line of credit	1,680	4,791
Adjusted working capital (deficit)	**7,999**	**1,497**

Adjusted net income

Adjusted net income is calculated as net income before other operating income. Other operating income represents a government grant received by the Company. There is no guarantee that the Company will receive this government grant every year. Changfeng believes that adjusted net income is a useful supplemental measure of the Company's operating results.

The calculation of adjusted net income is provided in the table below:

In thousands of Canadian dollars	Three months ended September 30,		Nine months ended September 30,	
except percentages and per share amounts	2013	2012	2013	2012
Net income	571	55	2,468	1,707
Less: Other operating income, net of tax	-	-	-	723
Adjusted net income	**571**	**55**	**2,468**	**984**

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 September 30, 2013, the Company had an outstanding loan of $0.3 million (RMB 2.0 million) due from the minority shareholder, Mr. Du Zhou, of Hunan Changfeng CNPC Energy Co., Ltd. ("Hunan CF CNPC"), which used the funds to contribute the capital it owed to that subsidiary.

II. Included in current due to related parties as at September 30, 2013, is a required capital contribution of $0.5 million (RMB 3.0 million) (December 31, 2012 - $0.5 million (RMB 3.0 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 September 30, 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.

III. In 2007, a significant shareholder, Mr. Huajun Lin, who is also an officer and director of the Company, advanced loans in the aggregate amount of $6.7 million (RMB 40.0 million) (December 31, 2012 - $6.4 million (RMB 40.0 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. The Company has not made any repayments on the loans during the period ended September 30, 2013 which are due on April 27, 2015.

IV. As at September 30, 2013, the Company owed Mr. Huajun Lin, 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 period

During the nine months ended September 30, 2013 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 of the nine months ended September 30, 2013. For a summary of recent pronouncements, see note 3(g) in the Company's condensed consolidated interim financial statements for the three- and nine-month periods ended September 30, 2013 and 2012.