CHANGFENG ENERGY INC
长丰能源有限公司

Changfeng Reports Second Quarter 2012 Financial Results and Provides Business Updates

August 29, 2012

Toronto, Ontario, August 29, 2012 – Changfeng Energy Inc. ("Changfeng" or the "Company") (TSX-V: CFY), a natural gas utility in China, today reported its unaudited interim consolidated financial results for the second quarter ended June 30, 2012. All figures are in Canadian dollars unless otherwise stated. The unaudited interim consolidated financial statements and Management Discussion and Analysis can be downloaded from www.SEDAR.com or from the Company's website at www.changfengenergy.com.

Summary of Q2 2012 Consolidated Financial Results

(in thousands in $Cdn) except percentages and per share data	Q2 2012	Q2 2011	Change	%	YTD 2012	YTD 2011	Change	%
Revenue	7,122	6,776	346	5%	14,487	13,310	1,177	9%
Gross profit	3,421	1,830	1,591	87%	7,323	5,364	1,959	37%
EBITDA	2,130	552	1,578	286%	4,217	2,776	1,441	52%
Net income (loss)	826	(300)	1,126	375%	1,652	810	842	104%
Adjusted net income (loss) (Note a)	193	(300)	493	164%	1,019	810	208	26%
Basic and diluted EPS	0.013	(0.005)	0.018	360%	0.025	0.012	0.013	108%

Note: (a) The adjusted net income excludes a one-time government grant of $722,535 and associated income tax provision of $90,000.

Financial Results

Revenue

Revenue for Q2-2012 was $7.1 million, an increase of $0.3 million, or 5%, from $6.8 million for Q2-2011. Revenue for the six months ended June 30, 2012 was $14.5 million, an increase of $1.2 million, or 9%, from $13.3 million for the same period in 2011. Sales growth during the quarter and YTD were driven primarily by continued gas volume growth of 109% in Q2'12 and 119% YTD, from the CNG refueling retail station, and 7% appreciation of the Chinese RMB against the Canadian dollar, partially offset by a slight decrease of 11% in Q2-2012 and 3% YTD, in the piped gas sales from the Company's Sanya operation primarily due to limited gas sources.

Other operating income

During the quarter, the Company received a $0.7 million government subsidy from the municipal government of Sanya City, Hainan Province, to partially compensate the Company for high purchase costs of additional volume of Other Gas purchased at market-based prices in 2011 to satisfy customer demand in 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 Sanya Region. The Budget Process, based on the Company's actual purchase cost of additional Other Gas, is intended to provide (i) an annual government subsidy to partially compensate the Company for the loss, if any, on the gas sales to its residential customers, and this subsidy will be included in the municipal government annual fiscal budget; and (ii) periodical sales price adjustments for its commercial customers enabling the sales prices to reflect interaction between supply and demand.

Gross profit

Gross profit for Q2-2012 increased by $1.6 million (or 87%) and for the six months ended June 30, 2012 increased by $2.0 million (or 37%), compared to the same periods in 2011. Gross profit as a percentage of sales for the second quarter and YTD of 2012 increased accordingly by 21% to 48% and by 11% to 51%, compared to 27% and 40%, respectively, for the same periods of 2011. CNG refueling retail station gross margins year-over-year improved 8% due primarily to lower operating costs resulting from gas volume increases. Piped gas gross margins year-over-year improved 27% reflecting a reduced volume of Other Gas purchased at market-based prices. Pipeline connection fee margins year-over-year improved 23% which varied with the timing of obtaining large value pipeline gas connection contracts.

Operating expenses

General and administrative expenses for Q2-2012 increased by $0.4 million (or 32%) to $1.5 million and for the six months ended June 30, 2012 increased by $0.5 million (or 25%) to $2.7 million, compared to the same periods in 2011. The increase was attributable to general expenses including employee salary and benefits as a result of a high inflation rate in China and sales increases. General and administrative expenses as a percentage of sales for the second quarter and YTD of 2012 increased accordingly by 4% to 21% and by 2% to 19%, compared to 17% and 17%, respectively, for the same periods of 2011.

Travel and business development expenses for Q2-2012 increased by $0.5 million (or 87%) to $1.0 million and for the six months ended June 30, 2012 increased by $0.8 million (or 61%) to $2.1 million, compared to the same periods of 2011. The increase was attributable to the travel and business development activities in mainland China and a $0.2 million one-time sponsorship fee for a provincial-level table tennis tournament. The majority of the travel and business development expenses do not relate to the Company's business in Sanya City or the CNG retail station but instead relate to projects under consideration or development in mainland China.

EBITDA

Earnings before interest, tax, depreciation and amortization ("EBITDA") as defined in the Management Discussion and Analysis for Q2-2012 increased by $1.6 million, or 286%, to $2.1 million and for the six months ended June 30,2012 increased by $1.4 million, or 52%, to $4.2 million, compared to the same periods in 2011. The increase was attributable primarily to the improved gross margin and a $0.7 million government grant, partially offset by the higher operating expenses.

Net income (loss)

The net income for Q2-2012 was $0.8 million or $0.013 per share compared to net loss of $0.3 million or $0.005 per share for the same period in 2011, primarily due to the reasons stated above. The net income for the six months ended June 30, 2012 was $1.7 million, or $0.025 per share compared to $0.8 million or $0.012 per share for the same period of 2011. The adjusted earnings for this quarter, excluding $0.7 million one-time government grant, was $0.2 million or $0.003 per share, compared to net loss of $0.3 million in the same period of 2011.

Financial position

Cash and cash equivalents increased by $0.9 million to $6.0 million at June 30, 2012 from $5.1 million at December 31, 2011, primarily from cash provided by operating activities of $4.2 million, offset by cash used for capital expenditure of $2.7 million and $0.5 million of principal repayment on the bank term loan.

Working capital deficit as at June 30, 2012 was $10.8 million, relatively constant when compared to $10.7 million as at December 31, 2011.

The adjusted working capital as defined in the Management Discussion and Analysis was $4.2 million as at June 30, 2012, compared to $2.4 million as at December 31, 2012.

Business Updates

Xiangdong project, Xiangdong District, Pingxiang City, Jiangxi Province

The Company continues to accelerate the first phase of construction at Xiangdong project. During the first half of the year, the Company completed construction of 7km main pipelines in the Park. The construction of the citygate is underway. However, the construction work was delayed due to unseasonal weather in this region. For the second half of the year, the Company will continue with its first phase of construction plan, which is expected to be completed by late 2012, and thereupon will commence supplying gas to the ceramic manufacturers in the Park.

The Company also made various efforts in coordinating the approved quota gas, and applying for an alternative source of gas for the upcoming commencement of gas supply before the interprovincial sub-pipeline linking to the Petro-China's Second West-East Pipeline is accessible for this region.

Sanya Operation, Sanya City, Hainan Province

During the quarter, the Company commenced the first phase of construction of the Gas & Electricity Exchange Program (the "Program") as previously announced on February 22, 2012. The total investment related to the first phase of construction is estimated to be approximately RMB 6.8 million ($1.1 million), which will be funded by internal cash flow. Upon completion of the first phase of construction, the Program will enable the Company to acquire approximately 5 million m^3 (177 million ft^3) of natural gas annually until 2015. The construction was rescheduled to be completed by late 2012 due to a modification of the engineering design as requested by the other party of the Program.

In addition, other progress has been made in addressing the ongoing gas shortage and high purchase prices for Other Gas in the Sanya Region. Based on the Budget Process as stated above, the Company's proposal to raise the sales prices to its commercial customers is pending the final approval by the Hainan Provincial Pricing Bureau.

Subsequent to the quarter end, the Company prepaid $641,600(RMB 4,000,000) for the purchase of additional volume of natural gas (over quota) in amount of 4 million m^3 (141 million ft^3) for a total purchase cost of $1,914,107(RMB 11,933,333), which will be fully delivered and consumed before December 31, 2012. This additional volume of gas is reallocated from a gas quota originally belonging to a local gas-fired power plant. The purchased price for the additional gas is favorable when compared to what the Company currently pays for Other Gas in the form of LNG/CNG.

Proposed Joint Venture for a Pipeline Project, Guangdong Province

As previously announced on March 29, 2012, the proposed joint venture is still under development. An arm's length pipeline project research firm is finalizing the project feasibility study. The establishment of the proposed joint venture will be subject to satisfaction of the feasibility study and approval from the head office of PetroChina.

"Our performance in this quarter continues to demonstrate the long-term sustainability of our business model with a reliable and stable operating cash flow, while a growth was recorded. We are pleased to advance our business development plan by developing our projects as scheduled and optimize our operating cash flow from our current operations." stated Mr. Huajun Lin, Chairman and CEO, "We continue working with local government to address the gas issue in our Sanya operation, and diligently move forward the proposed pipeline project in Guangdong Province and the natural gas liquid processing project in Xiangtan City with our partners."

About Changfeng Energy Inc.

Changfeng Energy Inc., is a local natural gas distribution company ("LDC" or natural gas utility) with operations located throughout the southern part of People's Republic of China. The Company serves industrial, commercial and residential customers, providing them with natural gas for heating purposes and fuel for transportation. The Company has developed a significant natural gas pipeline network as well as urban gas delivery networks, stations, substations and gas pressure regulating stations in Sanya City & Haitang Bay. Through its network of pipelines, the Company provides safe and reliable delivery of natural gas to both homes and businesses. The Company is headquartered in Toronto, Ontario and its shares trade on the Toronto Venture Exchange under the trading symbol "CFY". For more information, please visit the Company website at www.changfengenergy.com

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