

Condensed Consolidated Interim Financial Statements  
(Expressed in Canadian dollars)

## **CHANGFENG ENERGY INC.**

Three-month and nine-month periods ended  
September 30, 2012 and 2011  
(Unaudited)

# CHANGFENG ENERGY INC.

Condensed Consolidated Interim Balance Sheets  
(Expressed in Canadian dollars)  
(Unaudited)

	September 30, 2012	December 31, 2011
<b>Assets</b>		
Current assets:		
Cash	\$ 5,245,554	\$ 5,061,517
Trade and other receivables	2,242,027	2,567,215
Prepaid expenses and deposits (note 6)	1,007,298	596,331
Inventories (note 5)	756,617	729,413
Due from related parties (note 14)	334,938	323,200
Total current assets	9,586,434	9,277,676
Non-current assets:		
Long-term deposits and advances	1,839,588	1,888,889
Investment in associate	741,255	787,821
Property and equipment (note 10)	44,068,010	43,364,393
Intangible assets (note 8)	649,223	299,181
Total non-current assets	47,298,076	46,340,284
Total assets	\$ 56,884,510	\$ 55,617,960
<b>Liabilities and Equity</b>		
Current liabilities:		
Bank indebtedness (note 11(c))	\$ 4,695,000	\$ 4,848,000
Trade and other payables	3,692,252	4,882,747
Deferred revenue	8,215,799	6,069,457
Interest payable	2,037,975	2,104,388
Current portion of long-term debt (note 11)	860,750	1,616,000
Due to related parties (note 14)	528,468	427,843
Total current liabilities	20,030,244	19,948,435
Non-current liabilities:		
Long-term debt (note 11)	14,193,555	15,022,232
Due to related parties (note 14)	6,729,500	6,948,800
Government grant (note 9(b))	782,500	—
Future income tax liability	197,220	142,059
Total non-current liabilities	21,902,775	22,113,091
Total liabilities	41,933,019	42,061,526
Equity:		
Share capital	12,121,808	12,121,808
Contributed surplus (note 12)	2,042,890	1,863,374
Deficit	(92,948)	(1,824,362)
Accumulated other comprehensive income	246,744	738,015
Total shareholders' equity	14,318,494	12,898,835
Non-controlling interest	632,997	657,599
Total equity	14,951,491	13,556,434
Going concern (note 2(a))		
Subsequent events (notes 6, 7 and 19)		
Total liabilities and equity	\$ 56,884,510	\$ 55,617,960

See accompanying notes to condensed consolidated interim financial statements.

On behalf of the Board:

"Graham Warren" \_\_\_\_\_ Director

"Wencheng Zhang" \_\_\_\_\_ Director

# CHANGFENG ENERGY INC.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)  
(Expressed in Canadian dollars)  
(Unaudited)

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2012	2011	2012	2011
Revenue	\$ 7,929,126	\$ 5,936,312	\$ 22,416,336	\$ 19,246,741
Cost of sales	4,764,634	3,876,917	11,928,812	11,822,952
Gross margin	3,164,492	2,059,395	10,487,524	7,423,789
Other operating income (note 9(a))	–	–	722,535	–
Expenses:				
General and administrative	1,697,939	1,388,533	4,437,800	3,586,733
Travel and business development	796,099	624,342	2,871,754	1,914,582
	2,494,038	2,012,875	7,309,554	5,501,315
Income from operations	670,454	46,520	3,900,505	1,922,474
Interest on bank loans	367,385	374,268	1,140,969	1,009,547
Interest income (expense)	(7,176)	2,877	(2,873)	7,359
Equity loss on investment in associate	2,710	–	21,995	–
Income (loss) before income taxes	293,183	(324,871)	2,734,668	920,286
Income taxes	238,346	1,561	1,027,856	436,260
Net income (loss)	54,837	(326,432)	1,706,812	484,026
Other comprehensive income (loss):				
Exchange differences on translation of foreign operations	(405,774)	1,115,482	(491,271)	977,393
Total comprehensive income (loss)	\$ (350,937)	\$ 789,050	\$ 1,215,541	\$ 1,461,419
Net income (loss) attributable to:				
Non-controlling interest	\$ (5,626)	\$ (4,895)	\$ (24,602)	\$ (12,527)
Common shareholders	60,463	(321,537)	1,731,414	496,553
	\$ 54,837	\$ (326,432)	\$ 1,706,812	\$ 484,026
Total comprehensive income (loss) attributable to:				
Non-controlling interest	\$ (5,626)	\$ (4,895)	\$ (24,602)	\$ (12,527)
Common shareholders	(345,311)	793,945	1,240,143	1,473,946
	\$ (350,937)	\$ 789,050	\$ 1,215,541	\$ 1,461,419
Earnings (loss) per share attributable to common shareholders:				
Basic (note 13)	\$ 0.001	\$ (0.005)	\$ 0.026	\$ 0.008
Diluted (note 13)	0.001	(0.005)	0.026	0.008

See accompanying notes to condensed consolidated interim financial statements.

# CHANGFENG ENERGY INC.

Condensed Consolidated Interim Statements of Changes in Equity  
(Expressed in Canadian dollars)  
(Unaudited)

Three-month period ended September 30, 2012	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Non-controlling interest	Total
Balance, June 30, 2012	\$ 12,121,808	\$ 1,863,374	\$ (153,411)	\$ 652,518	\$ 638,623	\$ 15,122,912
Net income (loss)	–	–	60,463	–	(5,626)	54,837
Stock-based compensation	–	179,516	–	–	–	179,516
Currency translation adjustment	–	–	–	(405,774)	–	(405,774)
<b>Balance, September 30, 2012</b>	<b>\$ 12,121,808</b>	<b>\$ 2,042,890</b>	<b>\$ (92,948)</b>	<b>\$ 246,744</b>	<b>\$ 632,997</b>	<b>\$ 14,951,491</b>

Three-month period ended September 30, 2011	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Non-controlling interest	Total
Balance, June 30, 2011	\$ 12,121,808	\$ 1,762,168	\$ (2,391,257)	\$ (201,851)	\$ 663,812	\$ 11,954,680
Loss for the period	–	–	(321,537)	–	(4,895)	(326,432)
Stock-based compensation	–	101,206	–	–	–	101,206
Currency translation adjustment	–	–	–	1,115,482	–	1,115,482
<b>Balance, September 30, 2011</b>	<b>\$ 12,121,808</b>	<b>\$ 1,863,374</b>	<b>\$ (2,712,794)</b>	<b>\$ 913,631</b>	<b>\$ 658,917</b>	<b>\$ 12,844,936</b>

Nine-month period ended September 30, 2012	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Non-controlling interest	Total
Balance, January 1, 2012	\$ 12,121,808	\$ 1,863,374	\$ (1,824,362)	\$ 738,015	\$ 657,599	\$ 13,556,434
Net income (loss)	–	–	1,731,414	–	(24,602)	1,706,812
Stock-based compensation	–	179,516	–	–	–	179,516
Currency translation adjustment	–	–	–	(491,271)	–	(491,271)
<b>Balance, September 30, 2012</b>	<b>\$ 12,121,808</b>	<b>\$ 2,042,890</b>	<b>\$ (92,948)</b>	<b>\$ 246,744</b>	<b>\$ 632,997</b>	<b>\$ 14,951,491</b>

Nine-month period ended September 30, 2011	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Non-controlling interest	Total
Balance, January 1, 2011	\$ 12,121,808	\$ 1,762,168	\$ (3,209,347)	\$ (63,762)	\$ 671,444	\$ 11,282,311
Net income (loss)	–	–	496,553	–	(12,527)	484,026
Stock-based compensation	–	101,206	–	–	–	101,206
Currency translation adjustment	–	–	–	977,393	–	977,393
<b>Balance, September 30, 2011</b>	<b>\$ 12,121,808</b>	<b>\$ 1,863,374</b>	<b>\$ (2,712,794)</b>	<b>\$ 913,631</b>	<b>\$ 658,917</b>	<b>\$ 12,844,936</b>

See accompanying notes to condensed consolidated interim financial statements.

# CHANGFENG ENERGY INC.

Condensed Consolidated Interim Statements of Cash Flows  
(Expressed in Canadian dollars)  
(Unaudited)

	Three-month period ended September 30,		Nine-month period ended September 30,	
	2012	2011	2012	2011
<b>Cash flows from operating activities:</b>				
Net income (loss)	\$ 54,837	\$ (326,432)	\$ 1,706,812	\$ 484,026
Items not involving cash:				
Deferred income taxes	(132,830)	(42,641)	55,316	(6,476)
Amortization	498,651	463,979	1,522,422	1,364,417
Equity loss on investment in associate	2,710	–	21,995	–
Income tax	371,176	44,202	972,540	442,736
Stock-based compensation	179,516	101,206	179,516	101,206
Interest expense	367,385	374,268	1,140,969	1,009,547
Income taxes paid	(205,839)	(68,249)	(847,943)	(1,001,752)
Interest expense paid	(336,003)	(359,213)	(1,062,514)	(965,059)
Change in non-cash operating working capital (note 16)	(150,551)	1,345,335	1,153,216	(646,308)
<b>Net cash flows from operating activities</b>	<b>649,052</b>	<b>1,532,455</b>	<b>4,842,329</b>	<b>782,337</b>
<b>Cash flows from financing activities:</b>				
Long-term debt	(626,400)	(229,200)	(1,103,700)	3,882,200
Due to related parties	–	(764,000)	–	(764,000)
Government grant	783,000	–	783,000	–
<b>Net cash flows from (used in) financing activities</b>	<b>156,600</b>	<b>(993,200)</b>	<b>(320,700)</b>	<b>3,118,200</b>
<b>Cash flows from investing activities:</b>				
Acquisition of property and equipment	(1,320,620)	(1,561,592)	(3,540,267)	(4,494,057)
Acquisition of intangible assets (note 8)	(8,006)	–	(371,331)	–
Long-term deposits and advances	(110,246)	498,861	(237,846)	454,191
<b>Net cash flows used in investing activities</b>	<b>(1,438,872)</b>	<b>(1,062,731)</b>	<b>(4,149,444)</b>	<b>(4,039,866)</b>
Increase (decrease) in net cash	(633,220)	(523,476)	372,185	(139,329)
Effects of foreign exchange on cash balances	(150,137)	247,618	(188,148)	209,757
Net cash, beginning of period	6,028,911	3,016,399	5,061,517	2,670,113
<b>Net cash, end of period</b>	<b>\$ 5,245,554</b>	<b>\$ 2,740,541</b>	<b>\$ 5,245,554</b>	<b>\$ 2,740,541</b>

See accompanying notes to condensed consolidated interim financial statements.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

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## 1. Corporate information:

Changfeng Energy Inc. (the "Company") was incorporated under the Canada Business Corporations Act on May 4, 2006. Through its subsidiaries, the Company's core business activity is the distribution of natural gas for industrial, commercial and residential users in the People's Republic of China ("China" or "PRC"). The registered office of the Company is located at 25 Adelaide Street East, Suite 1612, Toronto, Ontario, M5C 3A1, and the principal operations of its business are in China.

The ability to build and operate gas pipeline infrastructure and distribute piped gas in China is established by concession rights obtained from the applicable municipal and provincial governments. Natural gas distribution operations in China are subject to certain government regulations regarding the purchase and sale of natural gas, including pricing.

## 2. Basis of presentation:

### (a) Going concern:

The Company's condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplate the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. As at September 30, 2012, the Company had a working capital deficiency of \$10,443,810.

Included in the working capital deficiency is \$2,037,975 of interest payable and a \$4,695,000 one-year line of credit. Deferred revenue primarily relates to gas connection fees which are deferred when the Company receives the payments from customers, and are recognized on the percentage-of-completion method, measured by reference to the value of work carried out during the period. Interest payable is due on demand to Sanya State Assets Management Corporation (a state-owned company) and originated in years prior to 2007. Sanya State Assets Management Corporation has not requested payment for more than four years and the Company believes that it will not seek repayment in 2012 or the first two quarters of 2013. The Company's line of credit (the "Credit Line") has historically been a one-year facility, which requires annual renewals or replacement when it becomes due and the Company believes that it will be able to renew the line of credit when it becomes due. Excluding the two items above, the Company's adjusted working capital deficit as at September 30, 2012 was \$3,710,835 (December 31, 2011 - \$3,718,371). The Company continues to explore various sources of financing opportunities such as long-term debt and/or equity financing to support its operations.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

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## 2. Basis of presentation (continued):

While management believes that sustainable operating cash could be generated in the short- and-long term to provide liquidity, there is no guarantee that they will materialize as planned. Furthermore, there is no guarantee that the interest payable to Sanya State Assets Management Corporation will not be required to be repaid within the next 12 months, or that the renewal of the line of credit in future periods will be successful.

Furthermore, the Company may not be successful in obtaining additional financing on acceptable terms, on a timely basis, or at all, if the interest payable must be paid, if the line of credit is not renewed in future periods and/or projected operating cash flows do not materialize as planned.

The above conditions have resulted in a material uncertainty that may cast significant doubt over the Company's ability to finance its operations to permit it to continue as a going concern. These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern basis of presentation was not appropriate. If the going concern basis of presentation was not appropriate for these condensed consolidated interim financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported net income (loss) for the period and the balance sheet classifications used.

### (b) Statement of compliance:

The condensed consolidated interim financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), including International Accounting Standard ("IAS") 34, Interim Financial Reporting.

The condensed consolidated interim financial statements should be read in conjunction with the Company's 2011 annual audited consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB.

The condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2011 annual audited consolidated financial statements.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

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## 2. Basis of presentation (continued):

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 19, 2012.

### (c) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on a historical cost basis for all its recognized assets and liabilities, except for certain financial instruments measured at fair value.

### (d) Presentation and functional currencies:

The condensed consolidated interim financial statements are presented in Canadian dollars. The functional currencies of the Company's subsidiaries include the Canadian dollar and the Chinese Renminbi ("RMB").

## 3. Significant accounting policies:

The condensed consolidated interim financial statements should be read in conjunction with the Company's 2011 annual audited consolidated financial statements. These condensed consolidated interim financial statements have been prepared in accordance with IFRS using the same accounting policies as were applied for the 2011 annual audited consolidated financial statements. In addition, the Company has adopted the following new accounting policies:

### (a) Government grants:

Government grants are recognized where there is reasonable assurance that the grant will be received and that the Company will comply with all necessary conditions to earn the grant. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset. Where the grant relates to expenses or losses already incurred, it is recognized in the condensed consolidated interim statements of comprehensive income (loss) in of the period in which it becomes receivable.



# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

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## 3. Significant accounting policies (continued):

### (b) Recent accounting pronouncements:

#### (i) 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.

#### (ii) Financial assets and liabilities:

In December 2011, the IASB published amendments to IAS 32, Financial Instruments - Presentation ("IAS 32"), and issued new disclosure requirements in IFRS 7, Financial Instruments - Disclosures ("IFRS 7"). The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. Certain of the amendments to IFRS 7 were adopted by the Company during the first quarter of 2012 and had no material impact; the remainder of the amendments are to be adopted for 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 offset, 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 balance sheet 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.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

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### 3. Significant accounting policies (continued):

#### (iii) Consolidated financial statements:

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"). IFRS 10 replaces portions of IAS 27, Consolidated and Separate Financial Statements ("IAS 27"), that addresses consolidation, and supersedes Standing Interpretation Committee ("SIC") 12, Consolidation - Special Purpose Entities ("SPE") ("SIC-12"), 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.

#### (iv) Joint arrangements:

In May 2011, the IASB issued IFRS 11, Joint Arrangements ("IFRS 11"). 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 ("IAS 28"), has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

#### (v) Disclosure of interests in other entities:

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), 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.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

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### 3. Significant accounting policies (continued):

However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 10 and IFRS 11, and amendments to IAS 27 and IAS 28. The Company intends to adopt IFRS 10, IFRS 11 and IFRS 12, and the amendments to IAS 27 and IAS 28 in its 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.

#### (vi) Fair value measurement:

In May 2011, the IASB published IFRS 13, Fair Value Measurement ("IFRS 13"), 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 IFRS 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.

#### (vii) Presentation of financial statements:

In September 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.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

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## 4. Significant accounting judgments, estimates and assumptions:

The preparation of the condensed consolidated interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the periods in which the estimates are revised and in any future periods affected. Information about significant areas of estimation and critical judgments in applying accounting policies that have significant effects on the amounts recognized in the condensed consolidated interim financial statements is included in the following notes:

### (a) Allowance for doubtful accounts:

The Company establishes a provision for doubtful receivables when there is objective evidence that the Company will not be able to collect all amounts due to it. The allowance is based on management's best estimates of specific losses on individual exposures, as well as a provision on historical trends of collections. The provision is recorded against the trade and other receivables balance, with a corresponding charge recorded in the condensed consolidated interim statements of comprehensive income (loss). Actual amounts received may differ from management's estimate.

### (b) Revenue recognition:

Revenue from natural gas sales is recognized when the gas is delivered to the customer.

Gas connection revenue is deferred and recognized only when the outcome of a contract can be estimated reliably and the stage of completion at the condensed consolidated interim balance sheet dates can be measured reliably. Revenue from gas connection contracts is recognized using the percentage-of-completion method, measured by reference to the value of work carried out during the periods.

When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense in the period in which the expected loss is identified.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

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## 4. Significant accounting judgments, estimates and assumptions (continued):

### (c) Amortization expense:

The Company's long-lived assets are amortized over their estimated useful economic lives on a straight-line basis. Useful lives are based upon management's estimates of the length of time that the assets will generate revenue, which is reviewed at least annually for appropriateness. Changes to these estimates can result in variations in the amounts charged for amortization and in the assets' carrying amounts.

### (d) Income taxes:

Provisions for income taxes are based on domestic and international statutory income tax rates and tax planning opportunities available to the Company in the jurisdictions in which it operates. Significant judgment is required in determining income tax provisions and the recoverability of deferred tax assets. The calculation of current and deferred income tax balances requires management to make estimates regarding the carrying values of assets and liabilities that include estimates of future cash flows and income related to such assets and liabilities, the interpretation of income tax legislation in the jurisdictions in which the Company operates, and the timing of reversal of temporary differences. The Company establishes additional provisions for income taxes when, despite management's opinion that tax positions are fully supportable, there is sufficient complexity or uncertainty in the application of legislation that certain tax positions may be reassessed by tax authorities. The Company adjusts these additional accruals in light of changing facts and circumstances.

### (e) 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.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

## 5. Inventories:

	September 30, 2012	December 31, 2011
Construction materials	\$ 482,934	\$ 459,582
Gas appliances, meters and spare parts	272,299	236,895
Natural gas	1,384	32,936
	<u>\$ 756,617</u>	<u>\$ 729,413</u>

The amount of inventories recognized as an expense through cost of sales during the nine-month period ended September 30, 2012 was \$1,801,988 (2011 - \$2,530,595), which comprised entirely raw material costs. There were no impairments of inventory or reversals of impairments recorded during the nine-month period ended September 30, 2012 (2011 - nil).

## 6. Gas prepayment:

Included in prepaid expenses and deposits is a prepayment of \$288,726 (RMB 1,844,895) (December 31, 2011 - nil) made to the Company's 24 million cubic meters gas supplier for the purchase of natural gas in the amount of 4 million cubic meters with a fixed contractual price, which was partially delivered during the third quarter and will be fully delivered before December 31, 2012. The total purchase cost is \$1,867,567 (RMB 11,933,333), of which \$1,252,000 (RMB 8,000,000) has been paid as at September 30, 2012. On October 30, 2012, the Company paid the remaining \$615,567 (RMB 3,933,333).

## 7. Deposits and advances:

In 2010, the Company paid a deposit of \$156,500 (RMB 1,000,000) to the existing shareholder of Hunan CNPC, Guangda Gas Co., Ltd. ("Guangda Gas"), a company that the Company has been considering for acquisition. As at September 30, 2012, the Company had no intention of proceeding 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.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

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## 8. Intangible assets:

On February 22, 2012, the Company entered into a Gas and Electricity Exchange Program (the "Program") with the Local Power Bureau and China National Offshore Oil Yacheng Operation Co., Ltd., which will secure an additional annual supply of natural gas totalling approximately 5 million cubic meters until 2015. In exchange for this 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 \$1,565,000 (RMB 10,000,000). This additional gas supply is expected to be available to the Company by late 2012 or early 2013 once approximately \$1,060,719 (RMB 6,777,759) of the first phase of construction work is completed.

In connection with the Program, for the nine-month period ended September 30, 2012, the Company prepaid approximately \$376,036 (RMB 2,402,786) to a local contractor for work to be performed in 2012. This amount has been recorded as an intangible asset on the condensed consolidated interim balance sheets, on which amortization will begin once the construction on the first phase is completed and the exchanged gas is available to the Company.

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### Cost

Balance, December 31, 2011	\$ 331,501
Additions	376,036
Foreign currency translation	(13,600)
Balance, September 30, 2012	\$ 693,937

### Accumulated amortization

Balance, December 31, 2011	\$ 32,320
Amortization	13,414
Foreign currency translation	(1,020)
Balance, September 30, 2012	\$ 44,714

### Net book value

December 31, 2011	\$ 299,181
September 30, 2012	649,223

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# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

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## 9. Government grant:

- (a) On June 27, 2012, the Company received \$722,535 (RMB 4,530,000) as a government grant from the municipal government of Sanya City, Hainan Province, China ("Sanya City") to partially compensate the Company for certain gas purchases made at unfavourable prices in 2011 to satisfy customer demand in the Sanya City region. This government grant was recognized as other income during the nine-month period ended September 30, 2012.
  
- (b) On July 19, 2012, the Company received a government grant in amount of \$782,500 (RMB 5,000,000) to fund the construction of certain items of property and equipment for the Company's operation in Sanya City. This government grant was recognized as deferred income and will be released to income over the expected useful life of the related assets when the related assets are ready for use.



# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

## 10. Property and equipment:

	Buildings	Pipelines	Land use rights	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress (a)	Total
<b>Cost</b>								
Balance, January 1, 2011	\$ 55,019	\$ 36,981,648	\$ 1,118,471	\$ 1,236,937	\$ 2,712,768	\$ 395,506	\$ 2,186,813	\$ 44,687,162
Additions (transfers)	2,625,683	2,528,041	–	125,316	1,921,116	–	(1,980,379)	5,219,777
Foreign currency translation	3,901	2,622,291	79,308	87,708	192,356	28,045	155,065	3,168,674
Balance, December 31, 2011	2,684,603	42,131,980	1,197,779	1,449,961	4,826,240	423,551	361,499	53,075,613
Additions	–	383,173	–	212,035	187,973	612	2,693,445	3,477,238
Foreign currency translation	(84,724)	(1,335,673)	(37,801)	(45,760)	(152,313)	(13,367)	(11,409)	(1,681,047)
Balance September 30, 2012	\$ 2,599,879	\$ 41,179,480	\$ 1,159,978	\$ 1,616,236	\$ 4,861,900	\$ 410,796	\$ 3,043,535	\$ 54,871,804
<b>Accumulated amortization</b>								
Balance, January 1, 2011	\$ 13,497	\$ 5,884,453	\$ 286,608	\$ 356,639	\$ 805,289	\$ 23,073	\$ –	\$ 7,369,559
Amortization	23,508	1,329,044	31,816	182,965	251,800	16,756	–	1,835,889
Foreign currency translation	957	402,728	20,323	25,289	57,101	(626)	–	505,772
Balance, December 31, 2011	37,962	7,616,225	338,747	564,893	1,114,190	39,203	–	9,711,220
Amortization	35,448	1,039,518	15,406	122,335	163,626	15,515	–	1,391,848
Foreign currency translation	(1,335)	(224,417)	(10,691)	(17,828)	(43,766)	(1,237)	–	(299,274)
Balance, September 30, 2012	\$ 72,075	\$ 8,431,326	\$ 343,462	\$ 669,400	\$ 1,234,050	\$ 53,481	\$ –	\$ 10,803,794
<b>Net book value</b>								
January 1, 2011	\$ 41,522	\$ 31,097,195	\$ 831,863	\$ 880,298	\$ 1,907,479	\$ 372,433	\$ 2,186,813	\$ 37,317,603
December 31, 2011	2,646,641	34,515,755	859,032	885,068	3,712,050	384,348	361,499	43,364,393
September 30, 2012	2,527,804	32,748,154	816,516	946,836	3,627,850	357,315	3,043,535	44,068,010

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

## 10. Property and equipment (continued):

### (a) Pipeline construction and equipment:

The Company has signed contracts with several equipment suppliers and construction supervisors for a total amount of \$4,094,579 (RMB 26,163,447) (December 31, 2011 - \$3,470,049 (RMB 21,473,076)), of which \$2,397,496 (RMB 15,319,463) (December 31, 2011 - \$2,139,222 (RMB 13,237,762)) has been paid as at September 30, 2012 and was classified as construction in progress.

## 11. Long-term debt and bank indebtedness:

	September 30, 2012	December 31, 2011
Term loan facility - China Development Bank (a)	\$ 78,250	\$ 808,000
Term loan facility - Bank of China (b)	14,976,055	15,830,232
	15,054,305	16,638,232
Less current portion	860,750	1,616,000
	\$ 14,193,555	\$ 15,022,232

(a) The Company made payments in the amount of \$704,250 (RMB 4,500,000) on its term loan from the China Development Bank, in accordance with the quarterly repayment provisions of the loan.

(b) The Company made payments in the amount of \$391,250 (RMB 2,500,000) on its term loan from the Bank of China, in accordance with the semi-annual repayment provisions of the loan.

(c) Included in current liabilities was \$4,695,000 (RMB 30,000,000) relating to the Credit Line with the Bank of China.

On March 16, 2012, the Credit Line was renewed by the Bank of China 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.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

## 11. Long-term debt and bank indebtedness (continued):

The Company had drawn \$4,695,000 (RMB 30,000,000) against the Credit Line, of which \$3,130,000 (RMB 20,000,000) will be due on March 28, 2013, and \$1,565,000 (RMB 10,000,000) will be due on June 20, 2013.

As at September 30, 2012, the Company was in compliance with all of its debt covenants.

Long-term loan principal payments are as follows:

	RMB	Cdn. \$
2012	5,500,000	860,750
2013	7,500,000	1,173,750
2014	10,000,000	1,565,000
2015	10,000,000	1,565,000
2016	15,000,000	2,347,500
Thereafter	50,000,000	7,825,000
	98,000,000	15,337,000

## 12. Contributed surplus:

(a) Contributed surplus:

Balance, January 1, 2011	\$ 1,762,168
Stock-based compensation	101,206
Balance December 31, 2011	1,863,374
Stock-based compensation	179,516
Balance, September 30, 2012	\$ 2,042,890

(b) Stock-based compensation:

Under the Company's stock option plan (the "Plan"), the Company may grant stock options to directors, senior officers, employees and advisors, and is authorized to issue up to 10% of the issued and outstanding shares of the Company. The Board of Directors, or such other persons designated by the Board, administers the Plan and determines the vesting and terms of each award.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

## 12. Contributed surplus (continued):

On July 13, 2012, the Company granted 1,200,000 options (the "options"), exercisable at a price of \$0.24 for five years on or before July 12, 2017, to its newly elected director and certain members of management who serve in the subsidiaries in China. Assumptions used to determine the value of the options using the Black-Scholes Option Pricing Model were: dividend yield 0%; risk-free interest rate 1.45%; expected volatility 77%; and expected life of five years.

For the nine-month period ended September 30, 2012, \$179,516 (2011 - \$101,206) of stock-based compensation expense was recorded.

## 13. Earnings per share ("EPS"):

Basic EPS amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted EPS amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of shares issued during the period, adjusted for the effect of potentially dilutive stock options.

The following tables set forth the calculation of basic and diluted EPS:

	Three-month period ended September 30,					
	2012			2011		
	Net income attributable to common shareholders	Weighted average number of shares	EPS	Net income (loss) attributable to common shareholders	Weighted average number of shares	EPS
Shares outstanding at July 1, 2012		66,025,000			66,025,000	
Basic EPS	\$ 60,463	66,025,000	\$ 0.001	\$ (321,537)	66,025,000	\$ (0.005)
Effect of dilutive securities: Stock options	—	45,833	—	—	—	—
Diluted EPS	\$ 60,463	66,070,833	\$ 0.001	\$ (321,537)	66,025,000	\$ (0.005)

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

## 13. Earnings per share (continued):

	Net income attributable to common shareholders	Nine-month period ended September 30,		Net income attributable to common shareholders	Weighted average number of shares	EPS
		2012	2011			
Share outstanding at January 1, 2012		66,025,000		66,025,000		
Basic EPS	\$ 1,731,414	66,025,000	\$ 0.026	\$ 496,553	66,025,000	\$ 0.008
Effect of dilutive securities:						
Stock options	-	-	-	-	-	-
Diluted EPS	\$ 1,731,414	66,025,000	\$ 0.026	\$ 496,553	66,025,000	\$ 0.008

## 14. Related party disclosures:

- (a) As at September 30, 2012, a company controlled by a significant shareholder, who is also an officer and director of the Company, owed the Company a total of \$21,938 for various expenditures paid by the Company on behalf of this company.
- (b) As at September 30, 2012, the Company had an outstanding loan of \$313,000 (RMB 2,000,000) 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.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

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## 14. Related party disclosures (continued):

(c) In 2007, a significant shareholder, who is also an officer and director of the Company, advanced loans in the aggregate amount of \$6,260,000 (RMB 40,000,000) (December 31, 2011 - \$6,464,000 (RMB 40,000,000)) to the Company, through wholly owned corporations, in accordance with a Subordination and Forbearance Agreement dated April 27, 2007, Consignment Loan Agreements dated May 23, 2007 and June 26, 2007, and other ancillary documentation. These loans are unsecured, non-interest bearing, subordinate to the claims of all other creditors, including unsecured creditors of the Company, and were due on demand only after April 27, 2010.

On April 27, 2010, these loans were renewed for another three years with the same terms and conditions and are due on demand only after April 27, 2013. 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.

(d) Included in long-term due to related parties, as at September 30, 2012, is a required capital contribution of \$469,500 (RMB 3,000,000) (December 31, 2011 - \$484,800 (RMB 3,000,000)) to be made to the Company's associate Xiangtan Shin-Ko Energy Co., Ltd. by October 24, 2013.

(e) As at September 30, 2012, the Company owed a significant shareholder, who is also an officer and director of the Company, \$528,468 (December 31, 2011 - \$427,843) for unpaid salary.

## 15. Financial instruments and risk management:

The Company is exposed to foreign exchange risk, interest rate risk, credit risk, liquidity risk and regulatory risk and uncertainty. The Company has policies for managing these risks that are aligned with its overall objectives to maintain a simple and cost-effective capital structure that supports a long-term growth strategy and maximizes operating flexibility. There have been no material changes to the Company's risk and risk management activities since December 31, 2011.

As at September 30, 2012, the carrying amounts for cash, trade and other receivables, trade and other payables and interest payable on the condensed consolidated interim balance sheets approximate fair values because of the limited term to maturity of these financial instruments.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

## 16. Change in non-cash operating working capital:

	Three-month period ended September 30,	
	2012	2011
Trade and other receivables and due from related parties	\$ 323,945	\$ 49,061
Prepaid expenses and deposits	(438,288)	292,255
Inventories	151,517	25,204
Trade and other payables and due to related parties	(525,019)	150,929
Deferred revenue	337,294	827,886
	<u>\$ (150,551)</u>	<u>\$ 1,345,335</u>

	Nine-month period ended September 30,	
	2012	2011
Trade and other receivables and due from related parties	\$ 303,594	\$ 36,275
Prepaid expenses and deposits	(362,571)	(41,048)
Inventories	(52,919)	(190,399)
Trade and other payables and due to related parties	(1,107,356)	(658,369)
Deferred revenue	2,372,468	207,233
	<u>\$ 1,153,216</u>	<u>\$ (646,308)</u>

## 17. Seasonality of operations:

Seasonality can impact the Company's pipeline natural gas sales. The Company's current operations are primarily located in Sanya City, an international tourist destination in the PRC's only tropical province. Sanya City attracts more tourists in winter and spring than the rest of the year. The Company's natural gas sales are higher during the high tourism seasons of winter and spring as a large portion of the Company's natural gas sales are made to hotels and restaurants.

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

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## 18. Segmented reporting:

The Company has three reportable segments: gas connection, pipeline gas sales and compressed natural gas ("CNG") refuelling sales. Two of these segments (gas connection and pipeline gas sales) combine to form a gas distribution utility, which is currently the Company's primary operation. The utility delivers natural gas to commercial, industrial and residential customers through its pipeline networks and associated facilities. The Company's third business segment is a CNG refuelling retail station which is mainly used to supply gas for taxicab and public vehicles. The performance of each segment is measured by income from operations.

Transactions between reportable segments, namely the transfer of certain pipeline assets from the gas connection segment to the pipeline gas sales segment, have been accounted for based on the carrying values of the assets transferred. There were no significant intercompany transactions between the business segments.

Geographic information:

The Company's revenue is wholly generated from China and the majority of its assets are located in China. For the nine-month periods ended September 30, 2012 and 2011, there was no significant individual customer from which sales amounted to more than 10% of the Company's revenue.



# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

## 18. Segmented reporting (continued):

Summarized financial information concerning the reportable segments is shown in the following tables:

Three-month period ended September 30, 2012:

	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Revenue	\$ 3,084,313	\$ 3,283,842	\$ 1,560,971	\$ 7,929,126
Cost of sales	1,416,196	2,135,161	1,213,277	4,764,634
Gross margin	1,668,117	1,148,681	347,694	3,164,492
Expenses:				
General and administrative	533,425	988,023	176,491	1,697,939
Travel and business development	316,237	452,809	27,053	796,099
	849,662	1,440,832	203,544	2,494,038
Income (loss) from operations	\$ 818,455	\$ (292,151)	\$ 144,150	\$ 670,454
Acquisition of property and equipment	\$ 4,529	\$ 1,146,241	\$ 169,850	\$ 1,320,620
Long-term deposits and advances	–	110,246	–	110,246
Acquisition of intangible assets	–	8,006	–	8,006
Total assets, September 30, 2012	\$ 5,613,448	\$ 48,909,134	\$ 2,361,928	\$ 56,884,510
Total assets, December 31, 2011	\$ 6,048,604	\$ 47,290,629	\$ 2,278,727	\$ 55,617,960

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

## 18. Segmented reporting (continued):

Three-month period ended September 30, 2011:

	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Revenue	\$ 2,196,475	\$ 3,057,530	\$ 682,307	\$ 5,936,312
Cost of sales	1,463,684	1,824,182	589,051	3,876,917
Gross margin	732,791	1,233,348	93,256	2,059,395
Expenses:				
General and administrative	452,103	783,339	153,091	1,388,533
Travel and business development	227,165	389,616	7,561	624,342
	679,268	1,172,955	160,652	2,012,875
Income (loss) from operations	\$ 53,523	\$ 60,393	\$ (67,396)	\$ 46,520
Acquisition of property and equipment	\$ –	\$ (1,416,738)	\$ (144,854)	\$ (1,561,592)

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

## 18. Segmented reporting (continued):

Nine-month period ended September 30, 2012:

	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Revenue	\$ 7,327,342	\$ 11,346,827	\$ 3,742,167	\$ 22,416,336
Cost of sales	3,466,441	5,489,466	2,972,905	11,928,812
Gross margin	3,860,901	5,857,361	769,262	10,487,524
Other operating income	–	722,535	–	722,535
Expenses:				
General and administrative	1,283,099	2,751,225	403,476	4,437,800
Travel and business development	964,511	1,848,042	59,201	2,871,754
	2,247,610	4,599,267	462,677	7,309,554
Income from operations	\$ 1,613,291	\$ 1,980,629	\$ 306,585	\$ 3,900,505
Acquisition of property and equipment	\$ 75,508	\$ 3,263,707	\$ 201,052	\$ 3,540,267
Long-term deposits and advances	–	237,846	–	237,846
Acquisition of intangible assets	–	371,331	–	371,331

# CHANGFENG ENERGY INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in Canadian dollars, unless otherwise indicated)

Three-month and nine-month periods ended September 30, 2012 and 2011  
(Unaudited)

## 18. Segmented reporting (continued):

Nine-month period ended September 30, 2011:

	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Revenue	\$ 6,282,853	\$ 11,336,931	\$ 1,626,957	\$ 19,246,741
Cost of sales	4,167,943	6,214,088	1,440,921	11,822,952
Gross margin	2,114,910	5,122,843	186,036	7,423,789
Expenses:				
General and administrative	1,097,658	2,191,883	297,192	3,586,733
Travel and business development	694,293	1,083,630	136,659	1,914,582
	1,791,951	3,275,513	433,851	5,501,315
Income (loss) from operations	\$ 322,959	\$ 1,847,330	\$ (247,815)	\$ 1,922,474
Acquisition of property and equipment	\$ (75,693)	\$ (4,153,584)	\$ (264,780)	\$ (4,494,057)

## 19. Subsequent events:

- (a) On October 30, 2012, the Company entered into a pipeline connection contract with a local real estate developer to supply gas for a residential condominium in the Xiangdong district, Pingxiang City, Jiangxi Province, China ("Xiangdong district"). It is expected that the Company will supply gas by May 2013, which is dependent on the progress of the construction of the condominium.
- (b) On November 13, 2012, the Company received the land use right for a 18-mu (approximately 1.20 hectare) parcel of land in the Xiangdong district, for use in its project in that region.