Consolidated Financial Statements
(Expressed in Canadian dollars)

CHANGFENG ENERGY INC.

Years ended December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Changfeng Energy Inc.

We have audited the accompanying consolidated financial statements of Changfeng Energy Inc., which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of operations and deficit, comprehensive income and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Changfeng Energy Inc. as at December 31, 2010, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other Matter

The consolidated financial statements of Changfeng Energy Inc. as at and for the year ended December 31, 2009 were audited by another auditor who expressed an unmodified opinion on those statements on March 21, 2010.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 29, 2011
Toronto, Canada

CHANGFENG ENERGY INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ 2,670,113	$ 3,782,250
Accounts receivable	2,034,762	1,129,924
Prepaid expenses and deposits (note 4)	334,887	299,660
Inventories (note 3)	572,566	581,570
Due from related parties (note 10)	380,301	385,140
	5,992,629	6,178,544
Long-term deposits (note 6)	1,144,007	399,642
Plant and equipment (note 5)	37,508,110	29,213,765
Intangible asset	402,400	408,800
Future income taxes (note 9)	–	169,840
	$ 45,047,146	$ 36,370,591
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,262,759	$ 2,637,320
Deferred revenue	4,683,502	3,586,710
Interest payable (note 7)	1,965,051	1,996,304
Current portion of long-term debt (note 7)	754,500	1,931,580
Due to related parties (note 10)	320,879	200,510
	11,986,691	10,352,424
Long-term debt (note 7)	15,451,037	9,535,260
Due to related parties (note 10)	6,036,000	6,132,000
Future income taxes (note 9)	100,600	74,600
Non-controlling interest	671,444	681,197
Shareholders' equity:		
Share capital (note 8(a) and (b))	12,121,808	12,121,808
Contributed surplus (note 8(d))	1,762,168	1,190,509
Warrants (note 8(c))	–	321,724
Accumulated other comprehensive loss (note 18)	(842,553)	(778,791)
Deficit	(2,240,049)	(3,260,140)
	10,801,374	9,595,110
Commitments and contingencies (note 12)		
Economic dependence (note 15)		
Subsequent events (note 19)		
	$ 45,047,146	$ 36,370,591

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Wencheng Zhang" Director "Peter Cheung" Director

CHANGFENG ENERGY INC.

Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Revenue	$ 22,135,218	$ 17,876,478
Cost of sales	10,589,346	7,394,683
Gross margin	11,545,872	10,481,795
Expenses:		
General and administrative	4,356,492	4,071,148
Interest on long-term debt (note 7)	641,838	446,503
Travel and business development	3,171,278	2,646,693
Amortization	1,163,229	1,096,689
Stock-based compensation (note 8(d))	249,935	119,278
	9,582,772	8,380,311
Income before the undernoted	1,963,100	2,101,484
Interest income	4,937	11,482
Income before income taxes	1,968,037	2,112,966
Income taxes (note 9)	957,700	990,252
Non-controlling interest	(9,754)	–
Net income	1,020,091	1,122,714
Deficit, beginning of year	(3,260,140)	(4,382,854)
Deficit, end of year	$ (2,240,049)	$ (3,260,140)
Net income per share:		
Basic and diluted	$ 0.016	$ 0.017
Weighted average number of shares outstanding:		
Basic and diluted	66,025,000	66,025,000

Consolidated Statements of Comprehensive Income
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Net income	$ 1,020,091	$ 1,122,714
Other comprehensive loss (note 18):		
Currency translation adjustment	(63,762)	(1,506,011)
Comprehensive income (loss)	$ 956,329	$ (383,297)

See accompanying notes to consolidated financial statements.

CHANGFENG ENERGY INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Net income	$ 1,020,091	$ 1,122,714
Items not involving cash:		
Future income taxes	195,840	436,052
Amortization	1,163,229	1,096,689
Stock-based compensation	249,935	119,278
Long-term debt accretion	31,069	–
Non-controlling interest	(9,754)	–
Change in non-cash operating working capital (note 11)	2,104,429	1,357,201
Cash flows from operating activities	4,754,839	4,131,934
Financing activities:		
Long-term debt	4,452,040	(2,106,720)
Increase in financing costs	452,700	–
	4,904,740	(2,106,720)
Investing activities:		
Purchase of interest in subsidiary (note 6)	–	(766,500)
Plant and equipment	(9,963,290)	(2,382,350)
Long-term deposits	(756,446)	–
Cash flows used in investing activities	(10,719,736)	(3,148,850)
Decrease in cash and cash equivalents	(1,060,157)	(1,123,636)
Effects of foreign exchange on cash balances	(51,980)	(571,322)
Cash and cash equivalents, beginning of year	3,782,250	5,477,208
Cash and cash equivalents, end of year	$ 2,670,113	$ 3,782,250
Supplemental cash flow information:		
Interest paid	$ 1,456,904	$ 424,278
Income taxes paid	566,717	123,750

See accompanying notes to consolidated financial statements.

Nature of operations

Changfeng Energy Inc. (the "Company" or "Changfeng") was incorporated under the Canada Business Corporation Act on May 4, 2006. A reorganization was completed on January 29, 2008. The Company's core business is the distribution of natural gas for industrial, commercial and residential users in the People's Republic of China ("China" or "PRC").

The Company distributes natural gas in Hainan Province, China, through its wholly owned subsidiary, Sanya Changfeng Offshore Natural Gas Supply Co., Ltd. ("CF China"). CF China is 100% owned by Hainan Energy Limited ("HEL") and HEL is 100% owned by the Company. In 2010, the Company opened its first compressed natural gas ("CNG") refuelling station in Hunan Province, through its newly-incorporated, majority-owned subsidiary in mainland China. The Company further owns an 80% interest in a subsidiary that will primarily engage in the construction and distribution of urban pipeline natural gas in Jiangxi Province, China. The Company is currently organized for management reporting purposes into three principal business segments: gas connection, pipeline gas sales and CNG refuelling sales.

The utility operation in China is subject to certain government approvals for sale prices of natural gas. The ability to operate gas pipeline infrastructure and distribute piped gas in China are established by concession rights obtained from the municipal and provincial governments.

1. Significant accounting policies:

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles ("GAAP") and their basis of application is consistent with the prior year, except where disclosed below. All amounts in these consolidated financial statements are stated in Canadian dollars unless indicated with "RMB" to represent the Chinese Renminbi or "US" to represent the United States dollar. Outlined below are those policies considered significant:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries HEL, CF China, its 99.4% interest in Sanya Changfeng Offshore Natural Gas Engineering Construction Co. Ltd. ("CF Engineering"), its 99.99% interest in Sanya CF NEI, its 98% interest in Sanya Changfeng Offshore Natural Gas Design Co. Ltd. ("CF Design"), its 58% interest in Hunan CF CNPC, its 60% interest in Hunan CNPC NEI and its 80% interest in Pingxiang Changfeng Natural Gas Co. Ltd. ("Pingxiang CF"). All material intercompany balances and transactions have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and balances with banks, cashable guaranteed investment certificates and short-term investments with original maturities of three months or less.

(c) Inventories:

Inventories, including construction materials, gas appliances and meters and spare parts, are stated at the lower of cost and net realizable value, with cost being determined using the weighted average cost basis. Cost includes the purchase price, transportation costs and other costs to bring the inventories to their present locations and conditions. Reversal of previous write-downs is required when there is a subsequent increase in the value of inventories.

1. Significant accounting policies (continued):

(d) Plant and equipment, construction in progress and amortization:

Construction in progress represents machinery and pipelines under construction and is stated at cost. Cost comprises directly attributable costs of acquisition or construction, which include capitalized borrowing costs. Assets classified as construction in progress are not amortized until they are ready for their intended uses, at which point they are transferred to plant and equipment. Plant and equipment are recorded at cost. Amortization of plant and equipment is recorded on a straight-line basis over their estimated useful lives:

Pipelines	30 - 35 years
Land use rights	Term of agreement
Motor vehicles	3 - 10 years
Furniture and equipment	3 - 20 years
Computer equipment	3 - 5 years
CNG station	20 years

(e) Intangible assets:

Intangible assets are recorded at their fair values at the acquisition date. Intangible assets are amortized over the useful life of the assets on a straight-line basis. The Company's intangible assets consist of gas purchase contract rights, which are recorded at cost and are amortized over their contractual useful lives.

(f) Impairment of long-lived assets:

The Company reviews and evaluates its tangible long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. An impairment loss, if any, would be recorded as the excess of the carrying amount of the asset over its fair value, measured by either market value, if available, or estimated by calculating the present value of expected future cash flows related to the asset.

Intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying values may not be recoverable. Any impairment loss will be charged against current period income.

1. Significant accounting policies (continued):

(g) Financial instruments:

Financial assets are identified and classified as either available-for-sale, held-for-trading, held-to-maturity, or loans and receivables. Financial liabilities are classified as either held-for-trading or other liabilities. Initially, all financial assets and financial liabilities are recorded on the consolidated balance sheets at fair value with subsequent measurement determined by the classification of each financial asset and liability.

Financial assets and financial liabilities classified as held-for-trading are measured at fair value with the changes in fair value reported in net income. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading are measured at amortized cost.

Available-for-sale financial assets are measured at fair value with changes in fair value reported in other comprehensive income until the financial asset is disposed of or becomes impaired. Investments in equity instruments classified as available-for-sale that do not have quoted market prices in an active market are measured at cost.

Upon initial recognition, the Company may designate financial instruments as held-for-trading when such financial instruments have a reliably determinable fair value and where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognizing gains and losses on them on a different basis. The Company has designated its cash and cash equivalents and investment in floating rate notes as held-for-trading. All other non-derivative financial assets not meeting the Company's criteria for designating as held-for-trading are classified as available-for-sale, loans and receivables or held-to-maturity.

Financial assets purchased or sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a settlement date basis. Transaction costs on financial assets and liabilities classified as other than held-for-trading are capitalized and amortized over the expected life of the instrument, based on contractual cash flows, utilizing the effective interest method. The effective interest method calculates the amortized cost of a financial asset or liability and allocates the interest income or expense over the term of the financial asset or liability using an effective interest rate. The Company does not engage in derivative trading or speculative activities.

1. Significant accounting policies (continued):

(h) Revenue recognition:

Revenue is derived from the delivery of natural gas and from the installation and connection of natural gas pipelines for end users.

The Company recognizes revenue when gas has been delivered and is recorded on the basis of regular meter readings and estimates of usage since the last meter reading to the end of the reporting period. Revenue of gas is recorded using relatively fixed prices approved by the provincial government.

Gas connection revenue is deferred and only recognized when the outcome of a contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably.

Revenue from gas connection contracts is recognized on the percentage of completion method, measured by reference to the value of work carried out during the year.

When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense immediately. Sales of gas appliances are recognized when goods are delivered and title has passed.

As at December 31, 2010 and 2009, the Company had deferred revenue of $4,683,502 and $3,586,710, respectively, with respect to deposits received from customers in excess of the value of work carried out during the year.

Interest income is recorded on an accrual basis.

(i) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, current income taxes are recognized for the estimated taxes payable for the current year. Future income taxes are determined based on the temporary differences between the accounting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. These income tax assets and liabilities are measured using the enacted or substantively enacted tax rates in which the income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

1. Significant accounting policies (continued):

(j) Foreign currency translation:

The Canadian dollar is the functional currency of the parent company's operations, and the Chinese Renminbi is the functional currency of the Company's subsidiaries. The Canadian dollar is the reporting currency of the Company. Since the RMB is not a fully convertible currency, all foreign exchange transactions involving RMB must take place either through the People's Bank of China or other institutions authorized to buy and sell foreign exchange.

Transaction amounts denominated in foreign currencies are translated into the Company's functional currency at exchange rates prevailing at the transaction dates. Carrying values of foreign currency monetary assets and liabilities are translated at exchange rates in effect at the consolidated balance sheet dates.

Non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market value, in which case they are translated at the exchange rates in effect on the consolidated balance sheet dates.

Gains and losses arising from the translation of foreign currency monetary assets and liabilities at each year end are included in income.

The Company's foreign subsidiaries are considered to be self-sustaining. Assets and liabilities denominated in RMB are translated into Canadian dollars using the exchange rate in effect on the consolidated balance sheet dates. Operating revenue and expenses are translated at the average exchange rates during the year. Foreign exchange gains and losses arising from translation of the balances are disclosed separately as other comprehensive income or loss. The accumulated foreign exchange gains or losses are reported as a separate component of shareholders' equity as accumulated other comprehensive income or loss.

(k) Stock-based compensation:

The Company records stock-based compensation based on the fair value method. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to share capital. The Company's stock option plan is described in note 8(d). The Company recognizes the forfeiture of options as it occurs.

1. Significant accounting policies (continued):

(l) Income per share:

Basic income per share is calculated using the weighted average number of shares outstanding during the year. Diluted income per share is calculated using the treasury stock method. In order to determine diluted income per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted income per share calculation.

The diluted income per share calculation excludes any potential conversion of options and warrants that would increase income per share or decrease loss per share. During December 31, 2010 and 2009, the options and warrants described in note 8(c) and (d) were anti-dilutive as the exercise prices of the options and warrants exceeded the average market price of the Company's common shares during the years ended December 31, 2010 and 2009.

(m) Measurement uncertainty:

The preparation of financial statements 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 related reported amounts of revenue and expense during the year. Such estimates and assumptions affect the carrying value and useful lives of assets and affect the valuation of investments, intangible assets, deferred revenue, stock based compensation, warrants, and accrued interest with respect to the term loan described in note 7, and income tax accounts. Actual results could differ materially from those estimates. Management believes that the estimates are reasonable.

(n) Comprehensive income (loss):

Comprehensive income (loss) includes net income and other comprehensive income (loss). Other comprehensive income (loss) includes holding gains and losses on available-for-sale investments, and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net income until the year that the related asset or liability affects income.

1. Significant accounting policies (continued):

(o) Transaction costs:

Transaction costs on financial assets and liabilities classified as other than held-for-trading are capitalized and amortized over the expected life of the instrument, based on contractual cash flows, utilizing the effective interest method. The effective interest method calculates the amortized cost of a financial asset or liability and allocates the interest income or expense over the term of the financial asset or liability using an effective interest rate.

(p) Fair value hierarchy and liquidity risk disclosure:

Effective January 1, 2009, the Company adopted the amendment to The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3862, Financial Instruments Disclosures. The purpose was to establish a framework for measuring fair value under Canadian GAAP and expand disclosures about fair value measurements.

To make the disclosures an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(q) Certain 2009 comparative figures have been reclassified to conform to the presentation of the consolidated financial statements adopted for 2010. The changes do not affect prior period's income.

2. Future accounting changes:

(a) Business combinations:

CICA Handbook Section 1582, Business Combinations, replaces Section 1581, Business Combinations, and is effective for business combinations with an acquisition date after January 1, 2011. This standard, which is aligned with International Financial Reporting Standards ("IFRS") 3, Business Combinations, requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are recognized separately from the business combination and are included in the statement of operations and deficit. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011.

(b) Consolidations:

CICA Handbook Section 1601, Consolidated Financial Statements ("Section 1601"), which together with Section 1602, Non-Controlling Interests ("Section 1602"), replace Section 1600, Consolidated Financial Statements. Section 1601 establishes the requirements for the preparation of consolidated financial statements. Section 1602, which is aligned with IFRS 7, Consolidated and Separate Financial Statements, establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

(c) IFRS:

In February 2009, the CICA Accounting Standards Board confirmed that Canadian GAAP will cease to apply and will be replaced by IFRS, as published by the International Accounting Standards Board. Publicly accountable enterprises will be required to adopt IFRS on or by January 1, 2011.

(Expressed in Canadian dollars)

2. Future accounting changes (continued):

The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The Company will adopt IFRS for its interim and annual consolidated financial statements effective January 1, 2011.

The adoption date of January 1, 2011 will require the restatement for comparative purposes of all quarterly results reported by the Company for the year ended December 31, 2010, as well as an opening IFRS consolidated balance sheet as of January 1, 2010.

3. Inventories:

	2010	2009
Construction materials	$ 392,970	$ 410,682
Gas appliances, meters and spare parts	179,596	170,888
	$ 572,566	$ 581,570

The amount of inventory recognized as an expense during the years ended December 31, 2010 and 2009 was $2,946,702 and $2,799,130, respectively.

4. Prepaid expenses and deposits:

Included in prepaid expenses and deposits was a deposit of $75,000 (RMB 500,000). This deposit was made in early 2010 pursuant to a signed letter of intent (the "LOI") to acquire a 60% interest in Jiangxi Gaoan Huaneng Pipeline Gas Co. Ltd. ("Gaoan Huaneng") for a total purchase price of $1,350,000 (RMB 9,000,000) in cash.

Based on the Company's further analysis of the economic feasibility of the project, the Company has decided to abandon this project and is not required to make any further payments under the LOI. In addition, the Company plans to return the certificate entitling it to a 60% interest Gaoan Huaneng and expects the return of its deposit of $75,000 (RMB 500,000).

(Expressed in Canadian dollars)

5. Plant and equipment:

2010	Cost	Accumulated amortization	Net book value
Pipelines	$ 38,873,116	$ 6,343,841	$ 32,529,275
Land use rights (b)	1,118,471	286,608	831,863
Motor vehicles	1,236,936	356,639	880,297
Furniture and equipment	368,626	84,536	284,090
Computer equipment	165,210	95,550	69,660
CNG station	737,990	11,878	726,112
	42,500,349	7,179,052	35,321,297
Construction in progress (c)	2,186,813	–	2,186,813
	$ 44,687,162	$ 7,179,052	$ 37,508,110

2009	Cost	Accumulated amortization	Net book value
Pipelines	$ 28,847,022	$ 5,635,309	$ 23,211,713
Land use rights	1,136,260	260,985	875,275
Motor vehicles	818,958	212,430	606,528
Furniture and equipment	370,345	74,606	295,739
Computer equipment	100,418	49,028	51,390
	31,273,003	6,232,358	25,040,645
Construction in progress	4,173,120	–	4,173,120
	$ 35,446,123	$ 6,232,358	$ 29,213,765

(a) Included in plant and equipment as at December 31, 2010 and 2009 is cumulative capitalized interest of $512,430 (RMB 3,366,823) and $87,800 (RMB 572,715), respectively.

(b) As at December 31, 2010, the Company held five land use rights certificates. They all have a 50 year term and expire in 2051.

(Expressed in Canadian dollars)

5. Plant and equipment (continued):

(c) In July 2010, Pingxiang CF, an 80%-owned subsidiary of the Company, entered into an agreement with Pingxiang Ceramic Industry Park Management Committee to purchase the land use rights for 20 mu (approximately 1.33 hectare) of land. This land is expected to be used for construction of one gas gate station to link Xiangdong District with a high pressure pipeline that is expected to be constructed by Pingxiang CF in 2011.

Pursuant to the agreement, the total purchase price is $290,000 (RMB 1,920,000), of which $200,000 (RMB 1,320,000) is expected to be refunded by the local government when the construction of the gas gate station is completed. A deposit of $30,000 (RMB 200,000) was paid upon signing the agreement, which was included in construction in progress in the consolidated financial statements, with the remaining balance to be paid when the ownership of land use right is transferred to Pingxiang CF.

6. Acquisitions and long-term deposits:

Good faith deposits in connection with potential acquisitions and other long-term prepaid expenses and deposits are summarized below:

	2010	2009
Deposits towards the purchase of natural gas (note 12(c))	$ 178,062	$ 42,924
Advance on natural gas quote fee (note 12(c))	226,350	229,950
Good faith deposits towards pending business acquisitions (a)	605,833	–
Advance on long-term lease of land (note 12(d))	133,762	126,768
	$ 1,144,007	$ 399,642

(a) Included in long-term deposits were $605,833 (RMB 4,014,796) in advance payments for potential acquisitions as described below:

(i) In 2010, the Company paid a good faith deposit to the existing shareholder of Hunan CNPC, Guangda Gas Co., Ltd. ("Guangda Gas"), a company that Changfeng is considering for acquisition. Guangda Gas owns a CNG primary filling station in Changsha City. The deposit is refundable if the Company is not satisfied with its due diligence procedures or a reasonable purchase price cannot be negotiated.

(Expressed in Canadian dollars)

6. Acquisitions and long-term deposits (continued):

(ii) In 2010, the Company paid a good faith deposit to the existing shareholders of Jiangxi Pingxiang Huaneng Energy Co. Ltd. ("Pingxiang Huaneng"), a company that Changfeng is considering for acquisition. Pingxiang Huaneng is a natural gas distributor in the Xiangdong district, Pingxiang City, Jiangxi Province. The deposit is refundable if the Company is not satisfied with its due diligence procedures or a reasonable purchase price cannot be negotiated.

In 2009, the Company acquired a 60% equity interest in Hunan CNPC NEI for cash consideration of $766,500 (RMB 5,000,000). At the time of acquisition, Hunan CNPC NEI had obtained the rights to a CNG purchase contract. This contract, valued at $408,800 (RMB 2,000,000), which includes a future tax liability of $102,200, has been reflected as an intangible asset on the balance sheet and will be amortized over the contract period once the CNG stations commence operations. The assets acquired as at the date of acquisition are as follows:

Cash	$ 459,900
Intangible asset-CNG purchase contract	408,800
Future tax liability	(102,200)
Cash consideration paid	$ 766,500

7. Long-term debt:

	2010	2009
Term loan facility - China Development Bank (a)	$ 1,509,000	$ 3,464,580
Term loan facility - Bank of China (b)	14,696,537	–
Term loan facility - Sanya State Assets Management Corporation (c)	–	6,469,260
Term loan facility - Bank of China (d)	–	1,533,000
	16,205,537	11,466,840
Less current portion	754,500	1,931,580
	$ 15,451,037	$ 9,535,260

7. Long-term debt (continued):

(a) This term loan from the China Development Bank of $1,509,000 (RMB 10,000,000) (2009 - $3,464,580 (RMB 22,600,000) was advanced from the China Development Bank to Sanya State Assets Management Corporation (an intermediary company controlled by the municipality of Sanya City, see (c)), and loaned to the Company, bearing interest at the floating prescribed rate of the People's Bank of China (5.81% and 5.76% as at December 31, 2010 and 2009), with payments due quarterly. The loan matures on November 2012, secured by all pipelines, land use rights and gas distribution rights of the Company.

(b) This term loan from the Bank of China of $15,090,000 (RMB 100,000,000) (2009 - nil), bears interest at the prescribed lending rate of the People's Bank of China (5.81% as of December 31, 2010) and is due monthly, with principal repayments commencing in 2012. The loan matures in January 2019. The loan is secured by 60% of the interest in CF China held by HEL, and certain gas connection rights. The proceeds of the loan were used, in part, to retire existing loans described in (c) and (d) below. The Company paid to Bank of China a fee of $452,700 (RMB 3,000,000), of which a portion is being accreted to operations, and the balance accreted to plant and equipment over the term of the loan. As of December 31, 2010, $59,237 (RMB 392,560) (2009 - nil) has been cumulatively accreted.

(c) This term loan from the Sanya State Assets Management Corporation of nil (2009 - $6,469,260 (RMB 42,200,000)) was unsecured, with no fixed terms of repayment. Interest was calculated at the floating prescribed rate of the People's Bank of China (5.76% as at December 31, 2009). The loan was repaid in January 2010 using the proceeds from Bank of China loan described in (b) above.

(d) This term loan from Bank of China of nil (2009 - $1,533,000 (RMB 10,000,000)), bore interest at a rate of 110% of the floating prescribed rate of the People's Bank of China prime lending rate (6.34% as at December 31, 2009). The loan was repaid in January 2010 using the proceeds from Bank of China loan described in (b) above.

(Expressed in Canadian dollars)

7. Long-term debt (continued):

Long-term loan principal payments are as follows:

	RMB	Cdn. $
2011	5,000,000	$ 754,500
2012	10,000,000	1,509,000
2013	5,000,000	754,500
2014	10,000,000	1,509,000
2015	10,000,000	1,509,000
Thereafter	70,000,000	10,563,000
	110,000,000	16,599,000
Long-term debt discount, net of accretion	(2,607,440)	(393,463)
	107,392,560	$ 16,205,537

As at December 31, 2010, the Company had accrued interest of $1,965,051 (RMB 13,022,204) (2009 - $1,996,304 (RMB 13,022,204)) in connection with the bank loan as described in (a) and (c) above.

8. Share capital:

(a) Authorized:

Unlimited number of common shares.

(b) Issued common shares:

	Number of shares	Amount
Balance, December 31, 2010 and 2009	66,025,000	$ 12,121,808

(Expressed in Canadian dollars)

8. Share capital (continued):

(c) Warrants:

As at December 31, 2010, there were no warrants outstanding. As at December 31, 2009, there were 1,000,000 warrants outstanding, each of which entitled the holder to acquire one common share. All of these warrants expired on January 29, 2010.

	Number of warrants	Weighted average exercise price	Expiry date
Balance, December 31, 2008 and 2009	1,000,000	$ 0.60	January 29, 2010
Balance, December 31, 2010	–	–	–

(d) Contributed surplus and stock-based compensation:

(i) Contributed surplus:

Balance, December 31, 2008	$ 1,071,231
Stock-based compensation	119,278
Balance December 31, 2009	1,190,509
Warrants expired	321,724
Stock-based compensation	249,935
Balance, December 31, 2010	$ 1,762,168

(ii) 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.

(Expressed in Canadian dollars)

8. Share capital (continued):

A summary of the Company's options granted and exercised is presented below:

	Options outstanding	Weighted average exercise price
Balance, December 31, 2008	3,800,000	$ 0.60
Granted	400,000	0.55
Expired	(750,000)	0.60
Balance, December 31, 2009	3,450,000	0.60
Granted	1,200,000	0.60
Balance, December 31, 2010	4,650,000	0.60

The following table summarizes information about the options outstanding and exercisable at December 31, 2010:

Number outstanding	Number outstanding and exercisable	Remaining contractual life (in years)	Exercise price	Expiry date
3,000,000	3,000,000	2.06	$ 0.60	2013
50,000	50,000	2.65	0.60	2013
400,000	400,000	3.49	0.55	2014
1,200,000	1,168,263	4.41	0.60	2015
4,650,000	4,618,263	2.79		

On May 28, 2010, the Company granted options to directors, senior officers, employees and advisors of the Company to acquire 1,200,000 common shares of the Company at an exercise price of $0.60 per share on or before May 27, 2015, of which 800,000 vested immediately, and the remaining balance will vest within a year.

(Expressed in Canadian dollars)

8. Share capital (continued):

Assumptions used to determine the value of the options using the Black-Scholes Option Pricing Model were: dividend yield 0%; risk-free interest rate 2.64%; expected volatility 69%; and expected life of five years.

For the year ended December 31, 2010, $249,935 (2009 - $119,278) of stock-based compensation expense was recorded due to the vesting of granted options.

9. Income taxes:

Provision for income taxes:

Major items causing the Company's income tax rate to differ from the federal statutory rate of 31% (2009 - 33%) were as follows:

	2010	2009
Income before income taxes	$ 1,968,037	$ 2,112,966
Expected income tax provision based on statutory rate	$ 610,100	$ 697,300
Non-deductible expenditures and other permanent differences	279,300	150,000
Foreign tax rate differential	(251,400)	(190,531)
Change in valuation allowance	333,100	324,800
Other	(13,400)	8,683
Income taxes	$ 957,700	$ 990,252
Current income taxes	$ 761,900	$ 884,527
Future income taxes	195,800	105,725
	$ 957,700	$ 990,252

(Expressed in Canadian dollars)

9. Income taxes (continued):

Future income taxes (liabilities):

	2010	2009
Non-capital losses	$ 1,055,500	$ 649,500
Accounts receivable	(48,900)	–
Plant and equipment	(60,600)	102,600
Intangible asset	(100,600)	(102,200)
Accounts payable and accrued liabilities	122,100	–
Share issue and transaction costs	128,000	205,200
Capital losses	29,700	27,300
Other	20,300	98,800
Valuation allowance	(1,246,100)	(886,000)
	(100,600)	95,200
Less amount classified as future income tax liability	(100,600)	74,600
Future income tax asset	$ –	$ 169,800

As at December 31, 2010, the Company has approximately $3,304,000 of non-capital losses, which can be used to reduce taxable income in Canada in future periods that expire on December 31 of the following years:

2013	$ 10,000
2014	10,000
2025	24,000
2026	383,000
2027	28,000
2028	793,000
2029	971,000
2030	1,085,000
	$ 3,304,000

10. Related party transactions:

(a) A corporation controlled by a significant shareholder who is also an officer and director of the Company owed the Company a total of $78,501 (US $78,928) as at December 31, 2010 (2009 - $80,740 (US $76,822) for various expenditures paid by the Company on behalf of this corporation. This amount, included in accounts receivable on the consolidated balance sheets, is unsecured, non-interest bearing and with no fixed terms of repayment.

In addition, the Company owed this individual $320,879 (2009 - $200,510) for unpaid salary which is included in accounts payable and accrued liabilities as at December 31, 2010. These amounts are unsecured, non-interest bearing and with no fixed terms of repayment.

(b) In 2007, a significant shareholder, who is also an officer and director of the Company advanced loans in the aggregate amount of $6,036,000 (RMB 40,000,000) (2009 - $6,132,000 (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, are subordinate to the claims of all other creditors, including unsecured creditors, of the Company, and are due on demand; however, the lender could not demand the repayment of the loans before April 27, 2010 per the original agreement. The shareholder and the Company have entered into Loan Renewal Agreements whereby the parties have agreed to enter into further loan renewal agreements upon the same terms and conditions as the Consignment Loan Agreements every three years, in perpetuity. On April 27, 2010, these loans were renewed for another three years with the same terms and conditions.

(c) The Company made a loan of $301,800 (RMB 2,000,000) (2009 - $304,400 (RMB 2,000,000)) to a minority shareholder of 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 the 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.

11. Change in non-cash operating working capital:

	2010	2009
Accounts receivable and due from related parties	$ (679,077)	$ (57,640)
Prepaid expenses and deposits	(39,910)	(646,904)
Inventories	(101)	147,196
Accounts payable and accrued liabilities and due to related parties	1,660,640	942,375
Deferred revenue	1,162,877	972,174
	$ 2,104,429	$ 1,357,201

12. Commitments and contingencies:

(a) General:

Estimated losses from contingencies are accrued by a charge to income when information available prior to the issuance of the financial statements indicates that it is likely that a future event will confirm that an asset has been impaired or a liability incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

(b) Pipeline construction and equipment:

The Company has signed contracts with several equipment suppliers and construction supervisors for a total amount of $8,649,910 (RMB 57,322,135) (2009 - $2,163,000 (RMB 13,831,359)), of which $7,462,336 (RMB 49,452,193) has been paid as at December 31, 2010.

(c) Natural gas purchase commitments:

In 2006, the Company entered into a 10-year long term natural gas supply agreement with CNOOC (Hainan) Limited ("CNOOC") related to its distribution operations in Sanya City, Hainan Province. Pursuant to the agreement, CNOOC is committed to supply up to 24,000,000 cubic metres ("m^3") of natural gas annually until 2015 with a fixed contractual price. As at December 31, 2010, $42,252 (RMB 280,000) (2009 - $42,924 (RMB 280,000)) was paid as a deposit on the contract that was recorded in long-term deposits and is expected to be refunded when the agreement expires.

12. Commitments and contingencies (continued):

In late 2006, the Company further entered into a letter of intent with CNOOC for the supply of natural gas. Pursuant to the letter of intent, CNOOC would commit to continuously supplying natural gas to Changfeng from its new liquefied natural gas ("LNG") receiver terminal in Hainan Island, which is now under construction and is expected to be completed and commence operation in 2015.

In connection with the acquisition of 60% equity interest in Hunan CNPC NEI in 2009, the Company is required to pay a one-time charge of $469,200 (RMB 3,000,000) for a long-term CNG purchase contract related to its operations in Changsha City, Hunan Province. This CNG purchase contract gives the Company the right to acquire up to 11,000,000 m^3 of gas per year for a period of 19 years ending September 12, 2027. As of December 31, 2010, $150,900 (RMB 1,000,000) (2009 - $153,300 (RMB 1,000,000)) was paid and recorded in long-term deposits with the balance payable at time the gas is first supplied. As at December 31, 2010, the Company had not purchased any CNG pursuant to this agreement.

In 2008, the Company acquired the rights to a gas purchase contract from a third party to purchase 10,000 m^3 of CNG per day (3,650,000 m^3 per year) until September 12, 2027 related to its operations in Changsha City. As consideration for the rights to this contract, the Company made a cash payment of $75,450 (RMB 500,000) (2009 - $76,650 (RMB 500,000)) that was recorded in long-term deposits, and will be required to pay a further one-time payment of $75,450 (RMB 500,000) at the time the gas is first supplied. As at December 31, 2010, the Company had not purchased any CNG pursuant to this agreement.

On March 8, 2010, the Company entered into a five year agreement to purchase LNG from a third party for a period of five years related to its operations in Sanya City. Pursuant to this agreement, LNG will be supplied 24 hours a day, and the daily volume of LNG delivered will depend on the Company's forecast demand for the next day. As at December 31, 2010, $75,450 (RMB 500,000) (2009 - nil) was paid as a deposit on the contract and was recorded in long-term deposits, and is expected to be refunded when the agreement expires.

12. Commitments and contingencies (continued):

On April 7, 2010, the Company entered into a four year CNG supply agreement from a third party to purchase compressed natural gas for its operations in Sanya City, up to 3,650,000 m^3 until 2014 with the annual volume of CNG to be based on Changfeng's annual demand forecast. As at December 31, 2010, $60,360 (RMB 400,000) (2009 - nil) was paid as a deposit on the contract and was recorded in long-term deposits, and is expected to be refunded when the agreement expires.

(d) Lease commitment:

On September 8, 2008, the Company signed a land lease agreement for 3,000 m^2 of land for the construction of a CNG refuelling retail station in Changsha City, Hunan Province. The lease term is for 20 years until October 2028. A deposit of $15,090 (RMB 100,000) and four years' rent of $283,692 (RMB 1,880,000) were required to be made in advance. As at December 31, 2010, the Company has paid $283,692 (RMB 1,880,000) (2009 - $199,290 (RMB 1,300,000)).

On September 28, 2010, the Company signed a land lease agreement for the construction of its second CNG refuelling station in Changsha City, Hunan Province. The lease term is for 21 years, ending September 27, 2032. A deposit of $15,200 (RMB 100,000) and the first year's rent of $51,000 (RMB 336,000) is required to be paid upon commencement of construction. If the Company decides to terminate this agreement, a termination payment of $152,000 (RMB 1,000,000) will be payable. As of December 31, 2010, no payment had been made.

The minimum lease payments in successive years are as follows:

	RMB	Cdn. $
2011	436,000	$ 65,792
2012	418,250	63,114
2013	829,500	125,172
2014	829,500	125,172
2015	829,500	125,172
Thereafter	14,310,016	2,159,381
	17,652,766	$ 2,663,803

12. Commitments and contingencies (continued):

(e) Statutory reserves:

In accordance with PRC Company Law, CF China is required to provide for certain statutory reserves commencing from the year it reports retained earnings. Prior to June 6, 2007, as a domestic limited liability company, CF China was required to allocate at least 10% of its after tax profits to a statutory surplus reserve with the right to discontinue allocations to the statutory surplus reserve if such reserves reach 50% of its registered capital. CF China was also required to designate 5% of after tax profit to a statutory welfare reserve to be used only for the collective benefits of CF China's employees. All statutory reserves are required to be calculated based on amounts reported in CF China's PRC statutory financial statements under China GAAP. Effective from June 6, 2007, as CF China became a foreign invested enterprise ("FIE"), in accordance with PRC Company Law for FIEs, CF China is required to provide for a surplus reserve fund, enterprise development fund, and employee welfare fund, each at a percentage of after tax profits, which is a discretionary percentage and is decided by the CF China's board of directors each calendar year. These reserves can only be used for specific purposes and are not transferred to the Company in the form of loans, advances, or cash dividends. These reserves can be distributed to the shareholder of CF China at the time when CF China is wound up. As of December 31, 2010, CF China had not designated RMB to the above statutory reserve funds.

13. Capital management:

The Company considers its capital structure to consist of share capital, contributed surplus and long-term debt. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the ongoing operations of the business. The Board of Directors does not establish quantitative return on capital criteria for management, but rather is responsible for overseeing the process undertaken by the Company's management to sustain future development of the business.

The Company reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of its operations, is reasonable. The Company is currently in compliance with all of its capital requirements, including requirements relating to its bank loans.

There were no changes in the Company's approach to capital management during the years ended December 31, 2010 and 2009.

14. Financial instruments and risk management:

(a) Fair value:

Canadian GAAP requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The Company has designated its cash and cash equivalents as held for trading, which are measured at fair value. Accounts receivable and due from related parties are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, due to related parties, interest payable and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2010, the carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and interest payable on the balance sheet approximate fair value because of the limited term of these instruments.

The fair value of long-term debt described in note 7 approximates carrying value since interest is charged on a floating rate basis, based on the rate of interest as prescribed by the People's Bank of China. It is not practicable to estimate the fair value of the amounts due to related parties. The Company's financial instruments that are carried at fair value, consisting of cash and cash equivalents, have been classified as Level 1 within the fair value hierarchy.

14. Financial instruments and risk management (continued):

(b) Financial risk factors:

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(i) Foreign exchange risk:

Foreign exchange risk is the risk that changes in foreign exchange rates will affect the Company's income or value of its holdings of financial instruments. Substantially all of the assets, liabilities and operations of the Company are denominated in RMB. RMB is not a freely-convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally and supply and demand of RMB. The appreciation or devaluation of RMB against the Canadian dollar may have positive or negative impact on the results of operations of the Company.

The Company and its subsidiaries do not use derivative instruments to reduce their exposure to foreign currency risk.

As at December 31, 2010, the Company held foreign currency cash and cash equivalents of RMB 17,524,478 (2009 - RMB 21,111,585) and US $23,768 (2009 - US $33,310).

As at December 31, 2010, with other variables unchanged, a +/-1% change in the US dollar to Canadian dollar exchange rate would increase/decrease net income for the year by $283 (US $285), and a +/-1% change in the exchange rate of RMB would increase/decrease the net income by $30,158 (RMB 198,150).

14. Financial instruments and risk management (continued):

(ii) Regulatory risks and uncertainties:

The price of natural gas charged by CF China for the supply of natural gas to its customers is approved by the local state price bureau. Any increase in gas usage charges exceeding the original approved charge requires the approval of the local state price bureau. There is no assurance that any increases, except for an increase to offset the rise in the Company's purchase price of natural gas, will be approved.

Connection fees chargeable by CF China require the approval of the local state price bureau. There is no assurance that CF China will be able to obtain approvals from the relevant state price bureau for an increase in connection fees, which may in turn adversely affect the profits of CF China. Since the price of natural gas and connection fees are all significantly influenced by the local government, the price fluctuation risk and commodity price risk is considered minimal.

(iii) Interest rate risk:

Interest rate risk is the risk that changes in interest rates will affect the Company's income or value of the holdings of financial instruments. The Company has cash balances and interest-bearing debt. The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company's interest rate on its debt is based upon the prescribed rate of the People's Bank of China, which is subject to fluctuation, and may result in an increase or decrease in interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

A 1% increase or decrease in the average interest rate charged on the term loans described in note 7 for the year ended December 31, 2010 would have had the following impact on the Company's net income:

	Impact on net income
Interest rate +1%	$ (140,633)
Interest rate -1%	140,633

14. Financial instruments and risk management (continued):

As at December 31, 2010 and 2009, the Company had variable interest rate term loans in the aggregate of $16,599,000 and $11,466,840, respectively, as described in note 7.

(iv) Credit risk:

Credit risk arises from exposure to customers including outstanding accounts receivable. Historically, the Company has not had collection issues associated with its receivables and the aging of receivables is reviewed on a regular basis to ensure the timely collection of amounts owing to the Company. The Company manages its credit risk by entering into purchase and connection agreements with creditworthy parties and through regular review of accounts receivable. Payments are usually required in advance for gas purchases and connection services. The maximum exposure to credit risk is represented by the net carrying amount of these financial assets. Management believes that the credit risk concentration with respect to financial instruments included in accounts receivable is remote.

(v) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that sufficient cash and credit facilities are available to meet liabilities when due. The contractual maturities of the Company's long-term financial liabilities are described in note 7 and the remaining financial liabilities, consisting of accounts payable, are expected to be realized within one year.

Management continuously forecasts cash flows for a period of 12 months to identify financing requirements. These requirements are then managed through a combination of committed and demand credit facilities and access to capital markets. The Company has also maintained continuous efforts to access intermediate or long-term bank financing on competitive terms.

As at December 31, 2010, the Company had a cash and cash equivalents balance of $2,670,113 (2009 - $3,782,250) to settle current liabilities of $11,816,832 (2009 - $10,352,424). The Company intends to settle its current liabilities from cash generated from its operations, its debt facilities and/or equity financing.

15. Economic dependence:

Currently, one gas field in the South China Sea supplies the majority of the Company's natural gas in Sanya City. Interruption of this gas field could materially affect the Company's ability to operate. Currently, the Company has a contract to purchase up to 24,000,000 m^3 gas a year (which represents less than 1% of the field's total capacity) from this supplier until December 30, 2015. The Company has maintained continuous efforts to explore other possible sources of natural gas (note 12(c)).

16. Seasonality of operations:

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

17. Segmented information:

The Company's operating segments are identified by grouping together businesses that deliver similar products and provide similar services, which is the basis for assessing the financial performance of the business segments and for allocating resources to the business segments.

Prior to 2010, the Company had two principal businesses: gas connection and pipeline gas sales in Sanya City, Hainan province, China. In the first half year of 2010, the Company completed construction of its first CNG retail station in Hunan province, China, and commenced full operation. As a result, for management reporting purposes, the Company is segregated into three principal business segments: gas connection, pipeline gas sales and CNG refuelling sales. Expenses and assets of non-operational divisions are allocated to the gas connection, pipeline gas sales and CNG refuelling sales based on their portions of consolidated revenue. Transactions between reportable segments, namely the transfer of certain pipeline assets from the gas connection segment to the piped gas sale segment, have been accounted for based on the carrying values of the assets transferred.

(Expressed in Canadian dollars)

17. Segmented information (continued):

Comparative information for 2009 has been represented to reflect these changes.

2010	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Revenue	$ 8,229,301	$ 12,972,926	$ 932,991	$ 22,135,218
Cost of sales	4,839,964	4,876,748	872,634	10,589,346
	3,389,337	8,096,178	60,357	11,545,872
Expenses:				
General and administrative	1,292,990	2,507,648	555,854	4,356,492
Interest on long-term debt	–	641,838	–	641,838
Travel and business development	1,233,873	1,829,192	108,213	3,171,278
Amortization	83,947	975,711	103,571	1,163,229
Stock-based compensation	92,919	146,481	10,535	249,935
	2,703,729	6,100,870	778,173	9,582,772
Income (loss) before the undernoted	685,608	1,995,308	(717,816)	1,963,100
Interest income	3,370	–	1,567	4,937
Income tax expenses	(422,345)	(535,355)	–	(957,700)
Non-controlling interest	(4,809)	–	14,563	9,754
Net income (loss)	$ 261,824	$ 1,459,953	$ (701,686)	$ 1,020,091
Acquisition of plant and equipment during the year	$ 317,393	$ 9,130,797	$ 515,100	$ 9,963,290
Total assets, December 31, 2010	$ 2,626,340	$ 39,506,784	$ 2,914,022	$ 45,047,146

(Expressed in Canadian dollars)

17. Segmented information (continued):

2009	Gas connection	Pipeline gas sales	Consolidated
Revenue	$ 7,103,288	$ 10,773,190	$ 17,876,478
Cost of sales	4,286,193	3,108,490	7,394,683
	2,817,095	7,664,700	10,481,795
Expenses:			
General and administrative	1,403,138	2,668,010	4,071,148
Interest on long-term debt	–	446,503	446,503
Travel and business development	955,698	1,690,995	2,646,693
Amortization	39,429	1,057,260	1,096,689
Stock-based compensation	47,139	72,139	119,278
	2,445,404	5,934,907	8,380,311
Income before the undernoted	371,691	1,729,793	2,101,484
Interest income	4,538	6,944	11,482
Income tax expenses	(251,405)	(738,847)	(990,252)
Net income	$ 124,824	$ 997,890	$ 1,122,714
Acquisition of plant and equipment during the year	$ 277,150	$ 2,105,200	$ 2,382,350
Total assets, December 31, 2009	$ 3,509,916	$ 32,860,675	$ 36,370,591

18. Accumulated other comprehensive loss:

	2010	2009
Balance, beginning of year	$ (778,791)	$ 727,220
Currency translation adjustment	(63,762)	(1,506,011)
Balance, end of year	$ (842,553)	$ (778,791)

19. Subsequent events:

(a) On March 3, 2011, the Bank of China agreed to increase the Company's bank loan by $4,527,000 (RMB 30,000,000) in the form of a one year line of credit (the "Credit Line"). The Credit Line is secured by the same collateral as that for its $15,090,000 (RMB 100,000,000) long-term loan announced on January 25, 2010 (note 7(b)). As a result, Bank of China has increased the Company's total loan to $19,617,000 (RMB 130,000,000).

In March 2011, the Company's drawing on the Credit Line amounted to $3,018,000 (RMB 20,000,000), and is due in March 2012. The interest rate on the loan is the variable rate set by the People's Bank of China.

(b) On March 31, 2011, the Company paid $1,090,726 (RMB 7,344,956) in cash to utilize 4,183 square metres of land in Sanya City to build a monitoring and control centre and administrative office (the "Centre"). A one-year construction permit was initially issued by the government in March 2010 for the construction of the Centre, and construction is expected to begin now that this payment has been made. On April 12, 2011, the Company subsequently paid another $74,522 (RMB 522,226) to secure the use of the land.