Consolidated Financial Statements
(Expressed in Canadian dollars)

CHANGFENG ENERGY INC.

Years ended December 31, 2011 and 2010

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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 sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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 audits. We conducted our audits 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 in our audits 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, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 2(a) in the consolidated financial statements, which indicates that Changfeng Energy Inc. has a working capital deficiency as at December 31, 2011 with significant short-term liabilities and contractual commitments due in 2012. This condition, along with other matters as set forth in note 2(a) in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Changfeng Energy Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 30, 2012
Toronto, Canada

CHANGFENG ENERGY INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2011, December 31, 2010 and January 1, 2010

	December 31, 2011	December 31, 2010 (Note 25)	January 1, 2010 (Note 25)
Assets			
Current assets:			
Cash	$ 5,061,517	$ 2,670,113	$ 3,782,250
Trade and other receivables (note 5)	2,567,215	2,034,762	1,129,924
Prepaid expenses and deposits	596,331	334,887	299,660
Inventories (note 6)	729,413	572,566	581,570
Due from related parties (note 16)	323,200	380,301	385,140
Total current assets	9,277,676	5,992,629	6,178,544
Non-current assets:			
Long-term deposits and advances (note 7)	1,888,889	917,657	169,692
Investment in associate (note 9)	787,821	–	–
Property and equipment (note 10)	43,364,393	37,317,603	29,077,168
Intangible assets (note 11)	299,181	528,150	536,550
Deferred income tax assets (note 15)	–	–	197,440
Total non-current assets	46,340,284	38,763,410	29,980,850
Total assets	$ 55,617,960	$ 44,756,039	$ 36,159,394
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness (note 12(e))	$ 4,848,000	$ –	$ –
Trade and other payables	4,882,747	4,262,759	2,637,320
Deferred revenue	6,069,457	4,683,502	3,586,710
Interest payable (note 12(f))	2,104,388	1,965,051	1,996,304
Current portion of long-term debt (note 12)	1,616,000	754,500	8,400,840
Due to related parties (note 16)	427,843	320,879	200,510
Total current liabilities	19,948,435	11,986,691	16,821,684
Non-current liabilities:			
Long-term debt (note 12)	15,022,232	15,451,037	3,066,000
Due to related parties (note 16)	6,948,800	6,036,000	6,132,000
Deferred income tax liabilities (note 15)	142,059	–	–
Total non-current liabilities	22,113,091	21,487,037	9,198,000
Total liabilities	42,061,526	33,473,728	26,019,684
Shareholders' equity:			
Share capital (note 13)	12,121,808	12,121,808	12,121,808
Contributed surplus (note 13(c))	1,863,374	1,762,168	1,190,509
Warrants	–	–	321,724
Accumulated other comprehensive income (loss)	738,015	(63,762)	–
Deficit	(1,824,362)	(3,209,347)	(4,175,528)
Total shareholders' equity	12,898,835	10,610,867	9,458,513
Non-controlling interest	657,599	671,444	681,197
Total equity	13,556,434	11,282,311	10,139,710
Going concern (note 2(a))			
Commitments and contingencies (note 18)			
Economic dependence (note 21)			
Subsequent events (note 24)			
Total liabilities and equity	$ 55,617,960	$ 44,756,039	$ 36,159,394

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Graham Warren" Director

"Wencheng Zhang" Director

CHANGFENG ENERGY INC.

Consolidated Statements of Comprehensive Income
(Expressed in Canadian dollars)

Years ended December 31, 2011 and 2010

	2011	2010
Revenue	$ 28,175,681	$ 22,135,218
Cost of sales	16,467,194	11,806,485
Gross margin	11,708,487	10,328,733
Expenses:		
General and administrative	5,062,363	4,606,427
Travel and business development	2,688,901	3,171,278
	7,751,264	7,777,705
Income from operations	3,957,223	2,551,028
Interest expense	1,402,585	641,838
Interest income	(5,197)	(4,937)
Share of loss of investment in associate (note 9)	19,118	–
Income before income taxes	2,540,717	1,914,127
Income taxes (note 15)	1,169,577	957,700
Net income	1,371,140	956,427
Other comprehensive income (loss):		
Exchange differences on translation of foreign operations	801,777	(63,762)
Total comprehensive income	$ 2,172,917	$ 892,665
Net income attributable to:		
Owners of the Company	$ 1,384,985	$ 966,181
Non-controlling interest	(13,845)	(9,754)
	$ 1,371,140	$ 956,427
Total comprehensive income attributable to:		
Owners of the Company	$ 2,186,762	$ 902,419
Non-controlling interest	(13,845)	(9,754)
	$ 2,172,917	$ 892,665
Earnings per share attributable to common shareholders:		
Basic and diluted (note 14)	$ 0.021	$ 0.015

See accompanying notes to consolidated financial statements.

CHANGFENG ENERGY INC.

Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

Years ended December 31, 2011 and 2010

December 31, 2011	Share capital	Contributed surplus	Warrants	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)	–	–	–	1,384,985	–	(13,845)	1,371,140
Stock-based compensation	–	101,206	–	–	–	–	101,206
Currency translation adjustment	–	–	–	–	801,777	–	801,777
Balance, December 31, 2011	$ 12,121,808	$ 1,863,374	$ –	$ (1,824,362)	$ 738,015	$ 657,599	$ 13,556,434

December 31, 2010	Share capital	Contributed surplus	Warrants	Deficit	Accumulated other comprehensive loss	Non-controlling interest	Total
Balance, January 1, 2010	$ 12,121,808	$ 1,190,509	$ 321,724	$ (4,175,528)	$ –	$ 681,197	$ 10,139,710
Net income (loss)	–	–	–	966,181	–	(9,754)	956,427
Stock-based compensation	–	249,935	–	–	–	–	249,935
Currency translation adjustment	–	–	–	–	(63,762)	1	(63,761)
Warrants expired	–	321,724	(321,724)	–	–	–	–
Balance, December 31, 2010	$ 12,121,808	$ 1,762,168	$ –	$ (3,209,347)	$ (63,762)	$ 671,444	$ 11,282,311

See accompanying notes to consolidated financial statements.

CHANGFENG ENERGY INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net income	$ 1,371,140	$ 956,427
Items not involving cash:		
Deferred income taxes	142,059	195,800
Amortization	1,878,734	1,217,139
Share of loss of investment in associate (note 9)	19,118	–
Current income taxes	1,027,518	761,900
Interest expense	1,402,585	641,838
Stock-based compensation	101,206	249,935
Income taxes paid	(1,070,052)	(566,717)
Interest paid	(1,383,344)	(1,425,835)
Change in non-cash operating working capital (note 17)	743,721	2,724,352
Net cash flows from operating activities	4,232,685	4,754,839
Cash flows from financing activities:		
Net (decrease) increase in long-term debt	(1,021,300)	5,357,480
Net increase in bank indebtedness	4,848,800	–
Increase in financing cost	–	(452,740)
Net cash flows from operating activities	3,827,500	4,904,740
Cash flows from investing activities:		
Property and equipment	(4,949,015)	(9,963,290)
Investment in associate	(306,200)	–
Long-term deposits	(705,358)	(756,446)
Net cash flows used in investing activities	(5,960,573)	(10,719,736)
Increase (decrease) in net cash	2,099,612	(1,060,157)
Effects of foreign exchange on cash balances	291,792	(51,980)
Net cash, beginning of year	2,670,113	3,782,250
Net cash, end of year	$ 5,061,517	$ 2,670,113

See accompanying notes to consolidated financial statements.

1. Corporate information:

Changfeng Energy Inc. (the "Company" or "Changfeng") 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 consolidated 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 December 31, 2011, the Company had a working capital deficiency of $10,670,759.

Included in the working capital deficiency are $2,104,388 of interest payable and a $4,848,000 one-year line of credit. 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. The Company's line of credit 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. The Company continues to explore various sources of financing opportunities such as long-term debt and/or equity financing to support its operations.

2. Basis of presentation (continued):

Excluding the two items above, the Company has a working capital deficiency of $3,718,371. The Company believes that this deficiency can be funded through projected operating cash flows from operations. There are certain assumptions made by management in determining projected operating cash flow such as temporary natural gas contracts from the government of China, continued growth in the Sanya region, reductions in selling, general and administrative expenses by reducing business development expenditures and the ability to expand the compressed natural gas (“CNG”) facility with capital expenditures of approximately $1,400,000.

While management believes the assumptions included in the operating forecast are reasonable 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 consolidated 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 consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported net income for the period and the balance sheet classifications used.

(b) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein. These are the Company's first annual consolidated financial statements prepared in accordance with IFRS and therefore the Company has applied IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"). An explanation of how the transition from Canadian generally accepted accounting principles ("GAAP") to IFRS as at January 1, 2010 ("transition date") has affected the reported financial position, financial performance and cash flows of the Company, including the mandatory exceptions and optional exemptions under IFRS 1, is provided in note 25 of these consolidated financial statements.

2. Basis of presentation (continued):

The consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2012.

(c) Basis of measurement:

The consolidated 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, and are presented in Canadian dollars.

(d) Presentation currency:

The consolidated financial statements are presented in Canadian dollars.

(e) Impairment of non-financial assets or asset groups:

The Company performed an assessment of whether there was any indication of impairment in the carrying amounts of its cash generating units ("CGUs") as at December 31, 2011. As a result of this assessment, the Company determined that it needed to measure the recoverable amounts based on value-in-use, using an EBITDA multiples approach. The Company determined that the estimated recoverable amounts were higher than their carrying amounts and no impairment was noted.

3. Significant accounting policies:

The accounting policies of the Company are in accordance with IFRS and have been applied consistently to all periods presented in the consolidated financial statements and in preparing the opening IFRS balance sheet as at January 1, 2010 for the purposes of the transition to IFRS ("transition date"), unless otherwise indicated.

3. Significant accounting policies (continued):

All amounts in the consolidated financial statements are stated in Canadian dollars unless indicated with "RMB" to represent the Chinese Renminbi or "U.S." to represent the United States dollar.

(a) Basis of consolidation:

The consolidated financial statements comprise the financial statements of the Company and its two wholly owned subsidiaries, Hainan Energy Ltd. and Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd. ("CF China"), its 99.4% interest in Sanya Changfeng Offshore Natural Gas Engineering Construction Co. Ltd. ("CF Engineering"), its 99.99% interest in Sanya Changfeng New Energy Investment Co., Ltd., its 98% interest in Sanya Changfeng Offshore Natural Gas Design Co. Ltd., its 58% interest in Hunan Changfeng CNPC Energy Co., Ltd. ("Hunan CF CNPC"), its 60% interest in Hunan CNPC New Energy Investment Co., Ltd. ("Hunan CNPC NEI"), its 80% interest in Pingxiang Changfeng Natural Gas Co. Ltd. ("Pingxiang CF"), and its 51% interest in Xiangtan Changfeng Natural Gas Co., Ltd. ("Xiangtan CF").

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Non-controlling interest represents the portion of a subsidiary's net earnings and net assets that are attributable to shares of such subsidiary not held by the Company.

The financial statements of each subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances, transactions, and any unrealized income and expenses arising from intercompany transactions within the Company are eliminated in preparing the consolidated financial statements.

3. Significant accounting policies (continued):

(b) Investment in associate:

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity. Investment in associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include the Company's share of the revenue and expenses and equity movements of equity-accounted investees from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Company has an obligation or has made payments on behalf of the equity-accounted investee.

(c) Foreign currency translation:

The Canadian dollar is the functional currency of the parent company's operations, and the RMB is the functional currency of the Company's subsidiaries and associate. 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 RMB.

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 fair value, in which case, they are translated at the exchange rates in effect on the consolidated balance sheet dates.

On consolidation, the results of foreign operations are translated into Canadian dollars at rates approximating those in effect when the transactions took place. All assets and liabilities of operations in China are translated at the rate in effect at the reporting date. Exchange differences arising on translation are recognized in accumulated other comprehensive income.

3. Significant accounting policies (continued):

(d) Property and equipment:

On initial recognition, property and equipment are recorded at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs. Property and equipment is measured at cost, net of accumulated amortization and accumulated impairment losses, if any.

Assets under construction are shown in a separate category of property and equipment as construction in progress and are also recognized at cost. For qualifying assets, cost includes interest capitalized during the construction period. On completion, the costs of construction are transferred to the appropriate category of property and equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (components) of property and equipment.

The Company holds land use rights in China, which enables it to utilize land for a fixed period of time.

Amortization of property and equipment is recorded on a straight-line basis over their estimated useful lives as follows:

Buildings	30 - 35 years
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
Leasehold improvements	Term of agreement

Assets classified as construction in progress are not amortized until they are ready for their intended use, at which point, they are transferred to property and equipment.

3. Significant accounting policies (continued):

(e) Intangible assets:

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. The Company has intangible assets with definite lives, which consist of gas purchase contract rights that are recorded at cost and are amortized on a straight-line basis over their contractual useful lives commencing from the initial delivery of gas.

(f) Impairment of long-lived assets:

The Company reviews and evaluates its long-lived assets or asset groups held and used for impairment, including property and equipment and intangible assets, when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Asset groups referred to as CGUs are reviewed at their lowest level for which identifiable cash inflows are largely independent of cash inflows of other assets or groups of assets. The recoverable amount is the greater of an asset's or CGU's fair value less costs to sell and value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset or a cash-generating unit ("CGU") in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense.

Value in use is based on estimates of discounted future cash flows expected to be recovered from an asset or CGU through the use of those assets. Management develops its cash flow projections based on past performance and its expectations of future market and business developments. Once calculated, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized in the consolidated statements of comprehensive income when the carrying amount of the asset or CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of their assets on a pro rata basis.

3. Significant accounting policies (continued):

Impairment losses related to long-lived assets recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is recovered if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no previous impairment loss had been recognized.

(g) Financial instruments:

The Company's financial assets and financial liabilities are classified as held-for-trading, loans and receivables or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in the consolidated statements of comprehensive income in the periods in which such changes arise. Loans and receivables and other financial liabilities are initially recorded at fair value and subsequently measured at amortized cost.

Assets and liabilities carried at fair value must be classified using a three-level hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements:

- Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets;

- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3 - one or more significant inputs used in a valuation technique to determine fair value are unobservable.

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset, with impairment losses recognized in the consolidated statements of comprehensive income.

3. Significant accounting policies (continued):

The Company designates its cash as held-for-trading, which is measured at fair value. Trade and other receivables and due from related parties are classified as loans and receivables, which are measured at amortized cost. Bank indebtedness, long-term debt, trade and other payables and due to related parties are classified as other financial liabilities, which are measured at amortized cost, using the effective interest rate method.

Transaction costs are included in the initial measurement of financial assets and liabilities, except for those classified as fair value through income.

The Company's financial assets and liabilities are classified into the following categories:

	Year ended December 31, 2011
Cash	Held for trading
Trade and other receivables	Loans and receivables
Due from related parties	Loans and receivables
Trade and other payables	Other financial liabilities
Due to related parties	Other financial liabilities
Interest payable	Other financial liabilities
Long-term debt	Other financial liabilities

(h) Inventories:

Inventories 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.

3. Significant accounting policies (continued):

(i) Revenue recognition and deferred revenue:

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

The Company recognizes revenue from the supply of natural gas when it 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 is recorded using fixed prices approved by the provincial government. Prepayments received from customers are deferred and recognized as a liability until gas is actually consumed.

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 reporting 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 periods. 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.

Interest income is recorded on an accrual basis.

(j) Income taxes:

Income tax expense is comprised of current and deferred tax. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute current income tax assets and liabilities are measured at tax rates that have been enacted or substantively enacted at the reporting dates, and are adjusted for changes in estimates of tax expense recognized in the prior period.

Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3. Significant accounting policies (continued):

Current and deferred tax is recognized on the consolidated statements of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

The Company uses the asset and liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The tax rates and tax laws used to compute deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected be recovered or settled. In addition, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in both net income and comprehensive income in the period in which the enactment or substantive enactment takes place.

Deferred tax assets are only recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right and intent to offset, and when the deferred tax balances relate to the same taxation authority.

(k) Finance income and finance costs:

Finance income comprises interest income on cash. Interest income is recognized as it accrues on the consolidated statements of comprehensive income, using the effective interest method.

3. Significant accounting policies (continued):

Finance cost comprises interest expense, which is recognized as it accrues on the consolidated statements of comprehensive income, using the effective interest method, and impairment losses recognized on financial assets, if any. Interest incurred on borrowings directly attributable to fund the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale is capitalized as part of the cost of the respective asset.

Borrowing costs that are not attributable to a qualifying asset are expensed in the periods in which they are incurred and reported within interest expense in the consolidated statements of comprehensive income.

(l) Share-based payments:

The Company applies the fair value method of accounting for stock-based compensation. The fair value at grant date of stock options is estimated using the Black-Scholes option-pricing model. Compensation cost is recognized on a straight-line basis over the expected vesting period of the stock-based compensation. The Company estimates forfeitures at the grant date and revises the estimate as necessary if subsequent information indicates that actual forfeitures differ significantly from the original estimate.

(m) Accounting standards issued but not yet effective:

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these consolidated financial statements.

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.

3. Significant accounting policies (continued):

Financial Instruments - Disclosures:

In October 2010, the IASB issued amendments to IFRS 7, Financial Instruments - Disclosures ("IFRS 7"). These amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the Company's continuing involvement in derecognized financial assets. The amendments are effective for annual periods beginning on or after January 1, 2012 and, therefore, the Company will apply the amendments in the first quarter of 2012. There is no significant expected impact to the Company as a result of implementing this standard.

Financial Assets and Liabilities:

In December 2011 the IASB published amendments to International Accounting Standards ("IAS") 32, Financial Instruments - Presentation ("IAS 32"), and issued new disclosure requirements in IFRS 7. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is 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 statement of financial position 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.

3. Significant accounting policies (continued):

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, that addresses consolidation, and supersedes SIC-12, Consolidation - Special Purpose Entities ("SPE"), 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.

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, has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

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.

3. Significant accounting policies (continued):

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

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.

Presentation of Financial Statements:

In June 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.

4. Significant accounting judgment, estimates and assumptions:

The preparation of the consolidated 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, income 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 consolidated 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 consolidated statements of comprehensive income. Actual amounts received may differ from management's estimate.

(b) Revenue recognition:

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 consolidated 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.

4. Significant accounting judgment, 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 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. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 13.

(Expressed in Canadian dollars, unless otherwise indicated)

5. Trade and other receivables:

Components of trade and other receivables are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	$ 2,577,200	$ 1,930,540	$ 1,044,752
Less allowance for doubtful accounts	15,616	14,463	5,138
Net trade receivables	2,561,584	1,916,077	1,039,614
Other receivables	5,631	118,685	90,310
	$ 2,567,215	$ 2,034,762	$ 1,129,924

The aging of trade receivables is as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Current	$ 1,811,943	$ 1,764,847	$ 862,619
Past due 30 - 61 days	152,083	8,377	26,914
Past due 61 - 90 days	482,837	128,240	125,158
Past due > 90 days	130,337	29,076	30,061
	$ 2,577,200	$ 1,930,540	$ 1,044,752

The Company's exposure to credit and foreign exchange risks and impairment loss is disclosed in note 20.

6. Inventories:

	December 31, 2011	December 31, 2010	January 1, 2010
Construction materials	$ 459,582	$ 392,970	$ 410,682
Gas appliances, meters and spare parts	236,895	179,596	170,888
Natural gas	32,936	–	–
	$ 729,413	$ 572,566	$ 581,570

6. Inventories (continued):

The amount of inventories recognized as an expense through cost of sales during the year was $3,467,631 (2010 - $2,946,702), which was completely comprised of raw material costs. During the year, the Company impaired $18,557 (2010 - nil) of inventory. There were no reversals of impairment recorded during the year (2010 - nil).

7. Deposits and advances:

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

(a) Advances on potential acquisitions:

(i) In 2010, the Company paid a deposit of $161,600 (RMB 1,000,000) 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. As at December 31, 2011, the Company had not completed the negotiation of the acquisition and the deposit is still outstanding.

(ii) In 2010, the Company paid a deposit of $80,800 (RMB 500,000) 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. As at December 31, 2011, the Company had not completed the negotiation of the acquisition and the deposit is still outstanding.

(b) Commitments for the transfer of land use rights:

During 2011, the Company partially completed construction of a monitoring and control centre and administrative office in Sanya City. An advance of $1,281,472 (RMB 7,929,901) (December 31, 2010 - nil; January 1, 2010 - nil) has been paid related to land use rights for 4,183 square metres of land. The land use right has not been received as at December 31, 2011.

7. Deposits and advances (continued):

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 20 years, ending September 27, 2032. Upon signing the agreement, the Company paid a deposit of $16,160 (RMB 100,000), which is expected to be refunded when the agreement expires. The first year's rent of $54,298 (RMB 336,000) is required to be paid upon commencement of construction. As at December 31, 2011, construction of the refuelling station had not commenced.

In July 2010, Pingxiang CF entered into an agreement with Pingxiang Ceramic Industry Park Management Committee to purchase the land use rights for 20 mu (approximately 1.33 hectares) 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. Upon signing of the agreement, the Company paid a deposit of $32,320 (RMB 200,000), with the remainder to be paid upon transfer of the land use rights. Construction of the gas gate had not yet commenced and the land use rights had not yet been transferred to the Company.

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 station in Changsha City, Hunan Province. The lease term is for 20 years, expiring in October 2027. At the inception of this agreement, the Company paid a deposit of $16,100 (RMB 100,000) and four years advanced rent of $303,800 (RMB 1,880,000). As at December 31, 2011, $67,309 (RMB 416,517) (December 31, 2010 - $133,775 (RMB 886,517); January 1, 2010 - $207,954 (RMB 1,356,517)) remains on deposit.

(c) Deposits toward to the purchase of natural gas:

(i) On June 27, 2011, the Company entered into a liquefied natural gas ("LNG") purchase agreement pursuant to which the supplier agreed to provide 1,950,000 cubic metres ("m^3") of LNG before December 31, 2011. This agreement was never executed as the Company made no purchases of LNG from the supplier throughout the year. The initial deposit of $80,800 (RMB 500,000) made pursuant to this agreement was refunded prior to December 31, 2011.

7. Deposits and advances (continued):

(ii) On May 30, 2011, the Company entered into a supplementary agreement (the "supplementary agreement") with a gas supplier with which it had previously signed two agreements for the purchase of CNG. The original agreements, signed in 2009 (in connection with the acquisition of Hunan CNPC NEI) and 2008, were to secure the long-term supply of CNG up to 11,000,000 m^3 and 3,650,000 m^3 per year, respectively. On signing the supplementary agreement, the Company had not purchased any CNG pursuant to the original agreements, as the gas supplier was unable to supply any CNG. As a result, the initial deposit of $242,400 (RMB 1,500,000) was repaid to the Company and any remaining unpaid balances were waived.

Pursuant to the supplementary agreement, the gas supplier agreed to supply natural gas to the Company once natural gas is available. At that time, the Company and the gas supplier would enter into a one-year gas supply agreement, renewable annually, with annual gas volume not less than previous contractual amounts.

(iii) On April 14, 2011, the Company entered into a new four-year CNG supply agreement with its existing CNG gas supplier, which replaced its previous four-year CNG agreement into which it entered on April 7, 2010. As part of this new agreement, the Company agreed to purchase CNG for its operations in Sanya City up to a maximum of 5,000,000 m^3 until 2015, with an annual volume of CNG to be adjusted based on the Company's annual demand forecast. As at December 31, 2011, $193,920 (RMB 1,200,000) (2010 - $60,360 (RMB 400,000)) was paid as a deposit that is expected to be repaid when the agreement expires.

(iv) 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 would 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. The initial deposit of $80,800 (RMB 500,000) made pursuant to this agreement was used as partial payment for the purchase of natural gas.

(v) 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 m^3 of natural gas annually until 2015 with a fixed contractual price. Upon signing the agreement, the Company paid a deposit of $45,248 (RMB 280,000) that is expected to be refunded when the agreement expires.

7. Deposits and advances (continued):

(vi) Included in long-term deposits was $10,060 (RMB 62,250) in advance payments for a Gas & Electricity Exchange Program (the "Program"). For more information see note 24.

8. Investment:

Xiangtan CF:

In July 2011, the Company, together with Xiangtan Economic Construction and Development Investment Co., Ltd. ("Xiangtan Economic"), a company owned by the local municipality, and Xiangtan Changjiang New Energy Investment Co., Ltd., a local investment company, established a Chinese subsidiary, Xiangtan CF. This subsidiary has registered capital of $1,616,000 (RMB 10,000,000), of which Changfeng owns 51%. The Company contributed $323,200 (RMB 2,000,000) during 2011, and is required to contribute the remaining $500,960 (RMB 3,100,000) by July 14, 2013. The objective of Xiangtan CF is to (i) develop a natural gas pipeline network to serve industrial, commercial and residential customers; and (ii) develop CNG and LNG refuelling stations. This subsidiary has been consolidated from the date of its incorporation.

9. Investment in associate:

In October 2011, the Company, together with Xiangtan Economic and a Zhuhai Hailian Investment Co., Ltd., a private investment company, established Shin-Ko Energy with a total registered capital of $1,616,000 (RMB 10,000,000), of which the Company owns 50%. The objective of Shin-Ko Energy is to develop and invest in urban natural gas utilization, including building and operating an LNG storage facility in Xiangtan City, Hunan Province, China. As of December 31, 2011, the Company contributed its share of registered capital of $323,200 (RMB 2,000,000), and the remaining balance of $484,800 (RMB 3,000,000) is required to be contributed by October 24, 2013 and has been recognized in long-term due to related parties.

The Company has determined that it has significant influence and has accounted for its investment in Shin-Ko Energy using the equity method. The Company's share of the loss for the year was $19,118.

9. Investment in associate (continued):

Summary financial information, not adjusted for percentage ownership, is as follows:

	2011
Current assets	$ 294,484
Non-current assets	1,292,800
Current liabilities	(9,995)
Non-current liabilities	–
Equity	$ 1,577,289
Revenue	$ –
Expenses	(38,236)
Loss	$ (38,236)

(Expressed in Canadian dollars, unless otherwise indicated)

10. Property and equipment:

Cost	Buildings	Pipelines	Land use rights (b)	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress (c)	Total
Balance, January 1, 2010	$ 55,894	$ 26,925,472	$ 1,136,260	$ 818,958	$ 2,336,419	$ –	$ 4,173,120	$ 35,446,123
Additions (transfers)	–	10,052,447	–	430,800	412,927	395,506	(1,986,307)	9,305,373
Interest capitalized	–	425,263	–	–	–	–	–	425,263
Foreign currency translation	(875)	(421,534)	(17,789)	(12,821)	(36,578)	–	–	(489,597)
Balance, December 31, 2010	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

Accumulated amortization	Buildings	Pipelines	Land use rights	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress (c)	Total
Balance, January 1, 2010	$ 12,205	$ 5,219,210	$ 260,985	$ 212,430	$ 664,125	$ –	$ –	$ 6,368,955
Amortization	1,483	746,420	29,709	147,535	151,562	23,073	–	1,099,782
Foreign currency translation	(191)	(81,177)	(4,086)	(3,326)	(10,398)	–	–	(99,178)
Balance, December 31, 2010	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

Net book value	Buildings	Pipelines	Land use rights	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress (c)	Total
January 1, 2010	$ 43,689	$ 21,706,262	$ 875,275	$ 606,528	$ 1,672,294	$ –	$ 4,173,120	$ 29,077,168
December 31, 2010	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

(Expressed in Canadian dollars, unless otherwise indicated)

10. Property and equipment (continued):

(a) Included in additions to property and equipment is capitalized interest of nil (2010 - $512,430 (RMB 3,366,823)) at a capitalization rate of nil (2010 - the prescribed lending rate of the People's Bank of China).

(b) As at December 31, 2011, the Company held five land use rights certificates. They all have a 50-year term and expire in 2051.

(c) Pipeline construction and equipment:

The Company has signed contracts with several equipment suppliers and construction supervisors for a total amount of $3,470,049 (RMB 21,473,076) (December 31, 2010 - $8,649,910 (RMB 57,322,135); January 1, 2010 - $2,163,000 (RMB 13,831,359)), of which $2,139,222 (RMB 13,237,762) (December 31, 2010 - $7,462,336 (RMB 49,452,193); January 1, 2010 - $197,447 (RMB 1,287,980)) has been paid as at December 31, 2011 and was classified as construction in progress.

11. Intangible assets:

Intangible assets consist of contractual rights to CNG gas supply that were acquired in connection with Hunan CNPC NEI in 2009.

Cost	Total
Balance, January 1, 2010	$ 536,550
Foreign currency translation	(8,400)
Balance, December 31, 2010	528,150
Disposals	(242,400)
Foreign currency translation	45,751
Balance, December 31, 2011	$ 331,501

(Expressed in Canadian dollars, unless otherwise indicated)

11. Intangible assets (continued):

Accumulated amortization	Total
Balance, January 1, 2010 and December 31, 2010	$ –
Amortization	30,620
Foreign currency translation	1,700
Balance, December 31, 2011	$ 32,320

Net book value	
January 1, 2010	$ 536,550
December 31, 2010	528,150
December 31, 2011	299,181

12. Long-term debt and bank indebtedness:

	December 31, 2011	December 31, 2010	January 1, 2010
Term loan facility - China Development Bank (a)	$ 808,000	$ 1,509,000	$ 3,464,580
Term loan facility - Bank of China (b)	15,830,232	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
	16,638,232	16,205,537	11,466,840
Less current portion	1,616,000	754,500	8,400,840
	$ 15,022,232	$ 15,451,037	$ 3,066,000

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

(a) This term loan from the China Development Bank was advanced by the China Development Bank to Sanya State Assets Management Corporation (an intermediary company controlled by the municipality of Sanya City, see (c)), which was immediately loaned to the Company, bearing interest at the floating prescribed rate of the People's Bank of China (7.05% and 5.81% as at December 31, 2011 and 2010, respectively), with payments due quarterly. The outstanding amount as at December 31, 2011 is $808,000 (RMB 5,000,000) (December 31, 2010 - $1,509,000 (RMB 10,000,000); January 1, 2010 - $3,464,580 (RMB 22,600,000)). The loan matures in November 2012, secured by all pipelines, land use rights and gas distribution rights of the Company.

(b) On January 5, 2010, the Company entered into a term loan with the Bank of China of $16,160,000 (RMB 100,000,000) (December 31, 2010 - $15,090,000 (RMB 100,000,000); January 1, 2010 - nil) maturing in January 2019 and bearing interest at the prescribed lending rate of the People's Bank of China. Principal repayments commence in 2012. It is secured by 60% of the interest in CF China held by HEL, and certain gas connection rights. Upon entering into the agreement, the Company paid transaction costs of $484,800 (RMB 3,000,000) (December 31, 2010 - $452,700 (RMB 3,000,000)) to the Bank of China, which was deducted from the amount initially recognized. The effective interest rate on the loan is 7.4% (2010 - 6.3%). As of December 31, 2011, $122,932 (2010 - $59,237) has been cumulatively accreted.

(c) This term loan from the Sanya State Assets Management Corporation of nil (December 31, 2010 - nil; January 1, 2010 - $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 Peoples' Bank of China (5.76% as at January 1, 2010). The loan was repaid in January 2010 using the proceeds from the Bank of China described in (b) above.

At January 1, 2010, this loan was classified as current because the Company had not finalized a refinancing with the loan described in (b), which was used to repay this loan.

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

(Expressed in Canadian dollars, unless otherwise indicated)

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

(e) Bank indebtedness:

On March 3, 2011, the Bank of China increased its loan facility by $4,848,000 (RMB 30,000,000) in the form of a one-year line of credit (the "Credit Line"), for which principal repayments are due one year from the date of withdrawal. The Credit Line is secured by the same collateral as that for the term loan as described in (b). As at December 31, 2011, the Company had drawn $4,848,000 (RMB 30,000,000) against the Credit Line. See note 24(b) for further information.

(f) As at December 31, 2011, the Company had accrued interest of $2,104,388 (RMB 13,022,204) (December 31, 2010 - $1,965,051 (RMB 13,022,204); January 1, 2010 - $1,996,304 (RMB 13,022,204)) in connection with the bank loans as described in (a) for the years prior to 2007. The accrued interest was originally paid by Sanya State Assets Management Corporation to the bank on behalf of the Company; however, Sanya State Assets Management Corporation has yet requested repayment.

Long-term loan principal payments are as follows:

	RMB	Cdn. $
2012	10,000,000	1,616,000
2013	5,000,000	808,000
2014	10,000,000	1,616,000
2015	10,000,000	1,616,000
2016	10,000,000	1,616,000
Thereafter	60,000,000	9,696,000
	105,000,000	16,968,000

(Expressed in Canadian dollars, unless otherwise indicated)

13. Share capital:

(a) Authorized:

Unlimited common shares

(b) Issued common shares:

	Number of shares	Amount
Balance, December 31, 2011 and 2010	66,025,000	$ 12,121,808

The common shares outstanding have a par value of nil.

(c) Contributed surplus and stock-based compensation:

(i) Contributed surplus:

Balance January 1, 2010	$ 1,190,509
Warrants expired	321,724
Stock-based compensation	249,935
Balance, December 31, 2010	1,762,168
Stock-based compensation	101,206
Balance, December 31, 2011	$ 1,863,374

(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 options equal 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, unless otherwise indicated)

13. 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, 2009	3,450,000	$ 0.60
Granted	1,200,000	0.60
Balance, December 31, 2010	4,650,000	0.60
Granted	2,300,000	0.23
Forfeited	(1,125,000)	0.27
Expired	(525,000)	0.56
Balance, December 31, 2011	5,300,000	0.51

The following table summarizes information about the options outstanding and exercisable at December 31, 2011:

Number outstanding and exercisable	Remaining contractual life (in years)	Exercise price	Expiry date
3,000,000	1.06	$ 0.60	2013
50,000	1.65	0.60	2013
950,000	3.41	0.60	2015
1,300,000	4.70	0.23	2016
5,300,000	2.38		

On September 8, 2011, 1,300,000 options were granted to officers, directors and employees of the Company at an exercise price of $0.23 per share for a period of five years and vested immediately. The fair value of these options at the grant date was $0.08. Assumptions used to determine the value of the options using the Black-Scholes option pricing model were: dividend yield 0%; risk-free interest rate 1.4%; expected volatility 68%; and expected life of five years. The Company's stock price was $0.16 on September 8, 2011.

(Expressed in Canadian dollars, unless otherwise indicated)

13. Share capital (continued):

On July 5, 2011, 1,000,000 options were granted to a senior officer of the Company, which were subsequently forfeited on September 2, 2011.

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. All options that had not vested by December 31, 2010 were forfeited during 2011. The fair value of these options at the grant date was $0.21. 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. The Company's stock price was $0.42 on May 28, 2010.

The fair value of options granted during the year was $101,206 (2010 - $249,935) and is amortized to income on a graded basis over the vesting periods of the related income.

14. Earnings per share:

Basic earnings per share ("EPS") amounts are calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average of shares issued during the year. Diluted EPS amounts are calculated by dividing the net earnings attributable to common shareholders of the Company by the weighted average number of shares issued during the year, adjusted for the effect of potentially dilutive stock options.

The following table sets forth the calculation of basic and diluted EPS:

	2011			2010		
	Net income attributable to common shareholders	Weighted average number of shares	EPS	Net income attributable to common shareholders	Weighted average number of shares	EPS
Basic and diluted	$ 1,384,985	66,025,000	$ 0.021	$ 966,181	66,025,000	$ 0.015

At December 31, 2011, there were no potentially dilutive stock options outstanding; however, these options may be dilutive in future periods.

(Expressed in Canadian dollars, unless otherwise indicated)

15. Income taxes:

The provision for income taxes differs from the amount that would have resulted by applying the combined Canadian Federal and Ontario statutory income tax rates of approximately 28% (2010 - 31%):

	2011	2010
Income before income taxes	$ 2,540,717	$ 1,914,127
Expected income tax provision based on statutory rate	$ 717,800	$ 593,400
Non-deductible expenditures and other permanent differences	315,400	279,300
Foreign tax rate differential	(153,400)	(247,600)
Tax benefits not recognized	311,600	346,000
Other	(21,823)	(13,400)
	$ 1,169,577	$ 957,700

Components of income taxes:

The details of the Company's income taxes are as follows:

	2011	2010
Current income taxes	$ 1,027,518	$ 761,900
Deferred income taxes:		
Origination and reversal of timing differences	142,059	101,000
Derecognition of previously recognized tax losses	–	94,800
	142,059	195,800
	$ 1,169,577	$ 957,700

(Expressed in Canadian dollars, unless otherwise indicated)

15. Income taxes (continued):

Recognized deferred tax assets and liabilities:

The following table summarizes the components of deferred tax assets and liabilities:

	December 31, 2011	December 31, 2010	January 1, 2010
Property and equipment	$ (179,356)	$ (60,600)	$ 102,640
Trade and other receivables	(104,620)	(48,900)	–
Trade and other payables	141,917	109,500	–
Loss carryforwards	–	–	94,800
	$ (142,059)	$ –	$ 197,440

Unrecognized deferred tax assets and liabilities:

The aggregate amount of taxable temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognized, as at December 31, 2011 is $4.188 million (2010 - $1.537 million).

Deferred tax assets have not been recognized in respect of the following items:

	2011	2010
Loss carryforwards	$ 1,457,162	$ 1,085,200
Deductible temporary differences	222,600	283,000

(Expressed in Canadian dollars, unless otherwise indicated)

15. Income taxes (continued):

The tax losses not recognized expire as per the amount and years noted below.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

Income tax attributes not recognized:

As at December 31, 2011, the Company had the following approximate income tax attributes to carry forward:

	Amount	Expiry date
Non-capital losses, Canada	$ 4,427,000	2025 - 2031
Non-capital losses, China	1,283,000	2014 - 2016
Capital losses, Canada	119,000	Indefinite

(Expressed in Canadian dollars, unless otherwise indicated)

16. Related party disclosures:

(a) Related party entities and transactions:

The Company's related parties are its subsidiaries, investment in associate and key management personnel, as well as the following:

Name	Country of incorporation and relationship
Sanya Changkai Industrial Development Co., Ltd. (i)	China, corporation controlled by significant shareholder, officer and director
Sanya Changfeng Natural Gas Distribution Co., Ltd.	China, corporation controlled by significant shareholder, officer and director
Xiangtan Economic Construction and Development Investment Co., Ltd. (iii)	China, minority shareholder of Xiangtan CF
Xiangtan Changjiang New Energy Investment Co., Ltd.	China, minority shareholder of Xiangtan CF
Zhuhai Hailian Investment Co., Ltd.	China, shareholder of Shin-Ko Energy
Cui JianXin	China, minority shareholder of Hunan CNPC NEI
Zhou Du (ii)	China, minority shareholder of Hunan CF CNPC

(i) As at December 31, 2011, this corporation, which is controlled by a significant shareholder who is also an officer and director of the Company, owed the Company a total of $78,076 (U.S. $78,928) as at December 31, 2011 (December 31, 2010 - $78,501 (U.S. $78,928); January 1, 2010 - $80,740 (U.S. $76,822)) for various expenditures paid by the Company on behalf of this corporation.

(ii) As at December 31, 2011, the Company had an outstanding loan of $323,200 (RMB 2,000,000) (December 31, 2010 - $301,800 (RMB 2,000,000); January 1, 2010 - 304,400 (RMB 2,000,000)) due from this 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 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.

(Expressed in Canadian dollars, unless otherwise indicated)

16. Related party disclosures (continued):

(iii) During the third quarter of 2011, the Company made a short-term loan of $814,000 (RMB 5,000,000) (2010 - nil) to Xiangtan Economic Construction and Development Investment Co., Ltd., a minority shareholder of Xiangtan CF and Shin-Ko Energy. The loan was secured and bore an annual interest rate of 15%. It was subsequently repaid on October 21, 2011.

(b) Transactions with key management personnel:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and/or its subsidiaries, directly or indirectly, including any external director of the Company and/or its subsidiaries. Key management personnel include: the Chief Executive Officer, the Chief Financial Officer, the Vice President, Investor Relations and the Company's directors.

Remuneration of key management of the Company comprises the following expenses:

	2011	2010
Salaries, bonuses and fees	$ 478,395	$ 414,171
Total short-term employee benefits	$ 478,395	$ 414,171
Share-based benefits	101,205	249,935
Termination benefits	45,000	–
Total remuneration	$ 624,600	$ 664,106

(i) In 2007, a significant shareholder, who is also an officer and director of the Company advanced loans in the aggregate amount of $6,464,000 (RMB 40,000,000) (December 31, 2010 - 6,036,000 (RMB 40,000,000); January 1, 2010 - $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, subordinate to the claims of all other creditors, including unsecured creditors of the Company, and were due on demand only after April 27, 2010.

(Expressed in Canadian dollars, unless otherwise indicated)

16. Related party disclosures (continued):

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.

(ii) As at December 31, 2011, the Company owed an officer and director of the Company $427,843 (December 31, 2010 - $320,879; January 1, 2010 - $200,510) for unpaid salary.

(iii) On November 22, 2010, the Company loaned $10,000 to an officer of the Company. This loan is unsecured, non-interest bearing and has no fixed terms of repayment. As at December 31, 2011, the full $10,000 was outstanding.

(iv) During 2011 and 2010, key management personnel did not exercise share options granted under the Company's stock option plan.

17. Change in non-cash operating working capital:

	2011	2010
Trade and other receivables and due from related parties	$ (528,203)	$ (679,077)
Prepaid expenses and deposits	(169,113)	(39,910)
Inventories	(110,133)	(101)
Trade and other payables and due to related parties	552,745	2,280,563
Deferred revenue	998,425	1,162,877
	$ 743,721	$ 2,724,352

(Expressed in Canadian dollars, unless otherwise indicated)

18. Commitments and contingencies:

The Company has operating lease commitments and contractual obligations as follows, except for those reported in note 7(c):

	RMB	Cdn. $
2012	654,250	105,727
2013	829,500	134,047
2014	829,500	134,047
2015	829,500	134,047
2016	863,100	139,477
Thereafter	13,446,916	2,173,022
	17,452,766	2,820,367

Statutory reserves:

In accordance with PRC Company Law, CF China, as a foreign invested enterprise, is required to provide for certain statutory reserves, including 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. The Company has not allocated any retained earnings to statutory reserves because the Company has not issued a dividend as at December 31, 2011.

19. Capital management:

The Company considers its capital structure to consist of share capital, contributed surplus and long-term debt. The Company's objectives are to maintain an effective structure that supports its ability to explore strategic business development opportunities on mainland China along the PetroChina's Second West-East Pipeline and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk level. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company. 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 its business.

19. Capital management (continued):

The Company's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and through its the Credit Line. Gas supply revenue, gas connection revenue, available cash balances, draws on the Credit Line and long-term bank loans are the Company's principal sources of capital used to pay for operating expenses and capital expenditures in its 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 monitors its compliance with all of its capital requirements, including certain non-financial covenants relating to the Credit Line. As at December 31, 2011, the Company was in compliance with all of its covenants.

There were no changes in the Company's approach to capital management during the years ended December 31, 2011 and 2010. The Company does not pay dividends.

20. Financial instruments and risk management:

(a) Fair values:

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.

As at December 31, 2011, the fair value of trade and other receivables and trade and other payables on the consolidated balance sheets approximate carrying value because of the limited term of these instruments.

As at December 31, 2011, the fair value of long-term debt was $16,968,000 (RMB 105,000,000), as compared to its carrying value of $16,638,232 (RMB 102,959,356) on the consolidated balance sheets. The carrying values of the Company's due to and due from related parties balances approximate fair value. The Company's financial instruments that are carried at fair value, consisting of cash, have been classified as Level 1 within the fair value hierarchy.

20. 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 fluctuations in foreign exchange rates will affect the Company's income or value of or cash flow related to its financial instruments. The Company is exposed to currency risk as substantially all of the assets, liabilities and operations of the Company are denominated in RMB. The appreciation or devaluation of RMB against the Canadian dollar may have a positive or negative impact on the results of operations of the Company. At December 31, 2011, substantially all of the Company's cash and all of its debt, as described in note 12, were denominated in a foreign currency.

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

As at December 31, 2011, the Company held foreign currency cash of RMB 31,203,589 (2010 - RMB 17,524,478) and U.S. $23,768 (2010 - U.S. $23,768).

As at December 31, 2011, with other variables unchanged, a +/-1% change in the U.S. dollar to Canadian dollar exchange rate would increase/decrease net income for the year by $235 (U.S. $237), and a +/-1% change in the exchange rate of RMB would increase/decrease the cumulative translation adjustment by $37,301 (RMB 243,640).

(ii) Commodity price risk:

The Company is exposed to price risk related to natural gas, which is a commodity. The Company uses fixed-price contracts with suppliers to manage its exposure to price fluctuations, where possible; however, to meet its obligations to customers, the Company may be required to purchase natural gas at spot prices, which may result in unfavourable variances recorded through the consolidated statements of comprehensive income.

(Expressed in Canadian dollars, unless otherwise indicated)

20. Financial instruments and risk management (continued):

(iii) Interest rate risk:

Interest rate risk is the risk that changes in interest rates will affect the Company's income or value of or cash flows related to its financial instruments. The Company is exposed to interest rate risk arising from its long-term debt and bank indebtedness.

The Company's interest rate on its debt and indebtedness is based upon the prescribed rate of the People's Bank of China (7.05% at December 31, 2011, and 5.81% at December 31, 2010), 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 Bank of China term loan described in note 12 for the year ended December 31, 2011 would have had the following impact on the Company's net income:

	Impact on net income
Interest rate +1%	$ (243,640)
Interest rate -1%	243,640

(iv) Credit risk:

Credit risk arises from exposure to customers including outstanding trade and other receivables. 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. As a result, the Company's allowance for doubtful accounts that represents its estimate of uncollectible amounts is minimal. The Company reviews accounts for specific risks to ensure the balance is reasonable. As at December 31, 2011, the Company has recorded an allowance for doubtful accounts of $15,616 (December 31, 2010 - $14,463; January 1, 2010 - $5,138).

20. Financial instruments and risk management (continued):

The Company manages its credit risk by entering into purchase and connection agreements with creditworthy parties and through regular review of trade and other receivables. Management believes concentrations of credit risk with respect to trade and other receivables is limited given the large number of customers; no one customer comprised greater than 10% of total trade and other receivables balances at December 31, 2011. Payments are usually required in advance for gas purchases and connection services.

(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 manages liquidity risk by managing its capital requirements though forecasting cash flows and monitoring covenant levels. The Company has also maintained continuous efforts to access intermediate or long-term bank financing on competitive terms.

The contractual maturities of the Company's long-term financial liabilities are described in note 12 and the remaining financial liabilities, consisting of trade and other payables, are expected to be realized within one year.

As at December 31, 2011, the Company had a cash balance of $5,061,517 (December 31, 2010 - $2,670,113; January 1, 2010 - $3,782,250) to settle current liabilities of $19,948,435 (December 31, 2010 - $11,986,691; January 1, 2010 - $16,821,684). See note 2(a) for discussion on how the Company intends to settle its current liabilities.

21. Economic dependence:

One gas field supplies the majority of the Company's natural gas in Sanya City whereas interruption of this supply 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 per year, which represents less than 1% of the field's total capacity from this supplier until December 30, 2015.

22. 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.

23. Segmented reporting:

The Company has three reportable segments: gas connection, pipeline gas sales and CNG refuelling sales. Two of these segments (gas connection and pipeline 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. Neither in 2011 nor in 2010 did any single customer account for more than 10% of the Company's sales.

The accounting policies of the reportable segments are the same as described in note 3.

(Expressed in Canadian dollars, unless otherwise indicated)

23. Segmented information (continued):

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

December 31, 2011	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Revenue	$ 10,326,800	$ 15,366,861	$ 2,482,020	$ 28,175,681
Cost of sales	6,096,751	8,212,971	2,157,472	16,467,194
	4,230,049	7,153,890	324,548	11,708,487
Expenses:				
General and administrative	1,506,172	3,271,700	284,491	5,062,363
Travel and business development	1,125,878	1,545,004	18,019	2,688,901
	2,632,050	4,816,704	302,510	7,751,264
Income from operations	$ 1,597,999	$ 2,337,186	$ 22,038	$ 3,957,223
Acquisition of property and equipment	$ (94,394)	$ (4,439,565)	$ (415,056)	$ (4,949,015)
Investment in associate	–	(787,821)	–	(787,821)
Total assets, December 31, 2011	$ 6,048,604	$ 47,290,629	$ 2,278,727	$ 55,617,960

(Expressed in Canadian dollars, unless otherwise indicated)

23. Segmented information (continued):

December 31, 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	4,923,911	5,906,369	976,205	11,806,485
	3,305,390	7,066,557	(43,214)	10,328,733
Expenses:				
General and administrative	1,385,909	2,654,129	566,389	4,606,427
Travel and business development	1,233,873	1,829,192	108,213	3,171,278
	2,619,782	4,483,321	674,602	7,777,705
Income (loss) from operations	$ 685,608	$ 2,583,236	$ (717,816)	$ 2,551,028
Acquisition of property and equipment	$ (317,393)	$ (9,130,797)	$ (515,100)	$ (9,963,290)
Total assets, December 31, 2010	$ 2,626,340	$ 39,215,677	$ 2,914,022	$ 44,756,039

January 1, 2010	Gas connection	Pipeline gas sales	CNG refuelling sales	Consolidated
Total assets	$ 3,509,916	$ 32,649,478	$ –	$ 36,159,394

Geographic information:

The Company's revenue is wholly generated from China and the majority of its assets are located in China. For the years ended December 31, 2011 and 2010, there is no significant individual customer from which sales amounted to more than 10% of the Company's revenue.

24. Subsequent events:

(a) On February 22, 2012, the Company entered into a Program with the Local Power Bureau, which will ultimately 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 build infrastructure to link certain of the supplier's operations to the provincial power grid. The total anticipated capital expenditure related to the Program is $1,417,232 (approximately RMB 8,770,000). This additional gas supply is expected to be available to the Company by the second half of 2012, once $1,095,285 (approximately RMB 6,777,759) of the first phase of construction work has been completed. In connection with the Program, on March 15, 2012, the Company prepaid approximately $323,200 (RMB 2,000,000) to a local contractor for work to be performed during 2012.

(b) On March 16, 2012, the Bank of China renewed the Credit Line for an additional year. As part of the agreement, the Company is subject to a financial covenant that requires the Company's debt-to-total-assets ratio to be maintained below 80%. All other terms remain unchanged.

(c) The loan made to an officer of the Company per note 16(b)(iii) was repaid in February 2012.

25. First-time adoption of IFRS:

These annual consolidated financial statements are the first that have been prepared in accordance with IFRS. The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and the opening consolidated balance sheet at January 1, 2010. As a result, application of IFRS 1 is required. IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date (December 31, 2011), providing certain optional exemptions and mandatory exceptions. Prior to the transition to IFRS, the Company prepared its financial statements in accordance with Canadian GAAP.

25. First-time adoption of IFRS (continued):

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows, is set out in the following reconciliations and the explanatory notes that accompany the reconciliations. Reconciliations of the consolidated balance sheets and statements of comprehensive income and changes in equity for the respective periods are below. Changes to the cash flows were not material as a result of the conversion to IFRS.

In preparing the Company's opening IFRS consolidated balance sheet, the Company has adjusted amounts previously reported in the financial statements prepared in accordance with Canadian GAAP. The IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS are described below:

(a) Optional exemptions:

(i) Business combinations:

IFRS 1 provides an exemption that allows an entity to elect not to retrospectively restate business combinations prior to the transition date in accordance with IFRS 3, Business Combinations ("IFRS 3"). The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to the transition date and such business combinations have not been restated.

(ii) Borrowing costs:

IAS 23, Borrowing Costs ("IAS 23"), requires an entity to capitalize borrowing costs relating to qualifying assets. Under IFRS 1, an entity may elect to apply the transitional provisions of IAS 23, which allow an entity to choose the date to apply the capitalization of borrowing costs relating to all qualifying assets as either the transition date or an earlier date. The Company elected to apply the transitional provisions of IAS 23 and chose the transition date as the date to commence the capitalization of borrowing costs to all qualifying assets.

25. First-time adoption of IFRS (continued):

(iii) Share-based payment transactions:

IFRS 1 allows an entity to elect to be exempt from restrospectively applying the requirements of IFRS 2, Share-based Payments ("IFRS 2") for awards that are vested or settled prior to the transition date. The Company has elected to apply this exemption. As a result of applying this exemption, the Company has applied the provisions of IFRS 2 only to all outstanding equity instruments that are unvested as at the transition date. There were no such instruments unvested at the transition date.

(iv) Cumulative translation differences:

Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, from the date a foreign subsidiary or associate was formed or acquired. IFRS 1 allows an entity to elect not to calculate these translation differences retrospectively, and instead to reset cumulative translation gains and losses to zero at the transition date. The Company has elected to reset to zero all cumulative translation gains and losses that existed in the cumulative translation adjustment ("CTA"). The CTA balance of $778,791 as at January 1, 2010 under Canadian GAAP was recorded as an adjustment to retained earnings, with an offset to accumulated other comprehensive income, resulting in no impact on total equity.

(v) Fair value as deemed cost:

IFRS 1 allows an entity to elect to measure property and equipment at fair value in the opening IFRS balance sheet. Fair value would then become the deemed cost of the item. Alternatively, an entity can retrospectively apply the historical cost model in IAS 16, Property, Plant and Equipment, to arrive at the carrying value of property and equipment at the transition date. The Company elected to retrospectively apply the historical cost model for property and equipment on the transition date.

25. First-time adoption of IFRS (continued):

(b) Mandatory exceptions:

(i) Non-controlling interests:

IAS 27, Consolidated and Separate Financial Statements, requires that total comprehensive income be attributed to the owners of the parent, as well as to the non-controlling interests, even if this attribution results in a deficit balance for the non-controlling interests. The Company applied this requirement prospectively from the transition date.

(ii) Estimates:

The estimates previously made by the Company under Canadian GAAP cannot be revised for the application of IFRS, except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. The Company has not used hindsight to revise estimates.

(c) Reconciliation of Canadian GAAP to IFRS:

In preparing its first annual consolidated IFRS consolidated financial statements, the Company has adjusted amounts previously reported in its financial statements prepared in accordance with Canadian GAAP.

25. First-time adoption of IFRS (continued):

The adjustments made to the consolidated balance sheets and consolidated statements of comprehensive income are explained below. Changes to the net cash flows were not material as a result of the conversion to IFRS and, accordingly, no reconciliation is made for the consolidated statements of cash flows.

(i) Adjustments made to the consolidated balance sheets:

(a) Deferred taxes:

IAS 12, Income Taxes, provides specific guidance that prohibits the recognition of deferred tax liabilities on the acquisition of assets that were not acquired in a business combination, where a "business" is defined by specific criteria under IFRS 3, Business Combinations. Canadian GAAP does not include such a restriction. Upon its acquisition of Hunan CNPC NEI in 2009, the Company recorded a deferred tax liability related to the intangible asset acquired. Hunan CNPC NEI did not meet the criteria of a "business" under IFRS upon acquisition, resulting in the reversal of a recognized deferred tax liability (December 31, 2010 - $100,600; January 1, 2010 - $102,200) and a decrease in intangible assets on transition.

(b) Long-term debt:

IAS 1, Presentation of Financial Statements, provides guidance that requires a financial liability that is due to be settled within 12 months of the reporting date is classified as current, regardless of whether an agreement to refinance the loan was obtained after the reporting date. Canadian GAAP permits reclassification to long-term in the case where an agreement to refinance a loan is obtained between the reporting date and the completion of the financial statements. As discussed in note 12, at January 1, 2010, a loan of $6,469,260 (RMB 42,000,000), with no fixed repayment terms, payable to the Sanya State Assets Management Corporation was reclassified as current because the Company had not finalized a refinancing with its RMB 100,000,000 long-term bank loan until after December 31, 2009, a loan which was used to repay the RMB 10,000,000 loan due in 2010.

(Expressed in Canadian dollars, unless otherwise indicated)

25. First-time adoption of IFRS (continued):

(ii) Reconciliation of shareholders' equity as reported under Canadian GAAP to total equity under IFRS:

	December 31, 2010	January 1, 2010
Shareholders' equity reported under Canadian GAAP	$ 10,801,374	$ 9,595,110
Reclassification of non-controlling interest to total equity under IFRS	671,444	681,197
Differences increasing reported total equity:		
Plant and equipment (a)	(190,507)	(136,597)
Total equity under IFRS	$ 11,282,311	$ 10,139,710

(a) Plant and equipment:

IFRS provides more specific guidance than Canadian GAAP on the capitalization and componentization of plant and equipment. Specifically, IFRS requires that each part of an identifiable item of plant and equipment with a cost that is significant in relation to the total cost of the item shall be capitalized and amortized separately. As a result of this difference, the Company determined that certain assets must be separately capitalized components under IFRS. The retrospective application of this standard resulted in a decrease in total equity, being the cumulative incremental amortization that would have been expensed in prior periods had these assets been separately identified and amortized.

25. First-time adoption of IFRS (continued):

(iii) Reconciliation of net income as reported under Canadian GAAP to IFRS:

	Year ended December 31, 2010
Net income under Canadian GAAP	$ 1,020,091
Add back non-controlling interest (a)	(9,754)
Difference decreasing reported amount:	
Amortization of assets components (b)	(53,910)
Net income under IFRS	$ 956,427

(a) Non-controlling interest:

Non-controlling interests is included in the determination of net income under Canadian GAAP. Under IFRS, net income is attributed to both the controlling and non-controlling interests. This adjustment includes non-controlling interest in the determination of net income, resulting in an increase to net income.

(b) Amortization of assets components:

The impact of componentization of assets with different depreciation methods or rates, as required under IFRS, resulted in an increase in amortization expense and decrease in net income under IFRS compared to Canadian GAAP.

25. First-time adoption of IFRS (continued):

(iv) Reconciliation of comprehensive income as reported under Canadian GAAP to IFRS:

	Year ended December 31, 2010
Comprehensive income underCanadian GAAP	$ 956,329
Difference decreasing reported amount:	
Differences in net income (a)	(63,664)
Currency translation adjustment	–
Comprehensive income under IFRS	$ 892,665

(a) Differences in net income:

Reflects the differences in net income between Canadian GAAP and IFRS, as described in the reconciliation of net income as reported under Canadian GAAP to IFRS.