Consolidated Financial Statements
(Expressed in Canadian dollars)

CHANGFENG ENERGY INC.

Years ended December 31, 2012 and 2011

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

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, 2012 and 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended 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, 2012 with significant short-term liabilities and contractual commitments due in 2013. This condition, along with other matters as set forth in note 2(a) in the consolidated financial statements, indicates 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 25, 2013
Toronto, Canada

CHANGFENG ENERGY INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

December 31, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash	$ 6,377,219	$ 5,061,517
Trade and other receivables (note 5)	3,230,906	2,567,215
Prepaid expenses and deposits (note 7)	626,499	596,331
Inventories (note 6)	730,506	729,413
Due from related parties (note 17)	341,338	323,200
Total current assets	11,306,468	9,277,676
Non-current assets:		
Long-term deposits and advances (note 7)	1,518,572	1,888,889
Investment in associate (note 9)	754,610	787,821
Property and equipment (note 10)	46,247,497	43,364,393
Intangible assets (note 12)	1,372,385	299,181
Total non-current assets	49,893,064	46,340,284
Total assets	$ 61,199,532	$ 55,617,960
Liabilities and Equity		
Current liabilities:		
Bank indebtedness (note 13)	$ 4,791,000	$ 4,848,000
Trade and other payables	5,650,929	4,578,577
Deferred revenue	8,911,201	6,069,457
Interest payable	2,079,646	2,104,388
Current portion of long-term debt (note 13)	798,500	1,616,000
Due to related parties (note 17)	1,280,123	732,013
Total current liabilities	23,511,399	19,948,435
Non-current liabilities:		
Long-term debt (note 13)	14,106,431	15,022,232
Due to related parties (note 17)	6,388,000	6,948,800
Government grants (note 11)	811,276	–
Deferred income tax liability	314,445	142,059
Total non-current liabilities	21,620,152	22,113,091
Total liabilities	45,131,551	42,061,526
Equity:		
Share capital (note 14)	12,121,808	12,121,808
Contributed surplus (note 14)	2,042,890	1,863,374
Retained earnings (deficit)	683,694	(1,824,362)
Accumulated other comprehensive income	591,636	738,015
Total shareholders' equity	15,440,028	12,898,835
Non-controlling interest	627,953	657,599
Total equity	16,067,981	13,556,434
Going concern (note 2)		
Subsequent events (notes 13, 14(b) and 25)		
Total liabilities and equity	$ 61,199,532	$ 55,617,960

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, 2012 and 2011

	2012	2011
Revenue	$ 33,272,681	$ 28,175,681
Cost of sales	17,613,823	16,467,194
Gross margin	15,658,858	11,708,487
Other operating income (note 11)	717,552	–
Expenses:		
General and administrative	6,875,017	5,062,363
Travel and business development	3,633,948	2,688,901
	10,508,965	7,751,264
Income from operations	5,867,445	3,957,223
Interest on long-term debt	1,452,758	1,402,585
Interest expense (income)	26,316	(5,197)
Share of loss of investment in associate (note 9)	23,753	19,118
Income before income taxes	4,364,618	2,540,717
Income taxes (note 16)	1,886,208	1,169,577
Net income	2,478,410	1,371,140
Other comprehensive income (loss):		
Exchange differences on translation of foreign operations	(146,379)	801,777
Total comprehensive income	$ 2,332,031	$ 2,172,917
Net income attributable to:		
Owners of the Company	$ 2,508,056	$ 1,384,985
Non-controlling interest	(29,646)	(13,845)
	$ 2,478,410	$ 1,371,140
Total comprehensive income attributable to:		
Owners of the Company	$ 2,361,677	$ 2,186,762
Non-controlling interest	(29,646)	(13,845)
	$ 2,332,031	$ 2,172,917
Earnings per share attributable to common shareholders (note 15):		
Basic and diluted	$ 0.038	$ 0.021

See accompanying notes to consolidated financial statements.

CHANGFENG ENERGY INC.

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

Years ended December 31, 2012 and 2011

December 31, 2012	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Non-controlling interest	Total
Balance, January 1, 2012	$ 12,121,808	$ 1,863,374	$ (1,824,362)	$ 738,015	$ 657,599	$ 13,556,434
Net income (loss)	–	–	2,508,056	–	(29,646)	2,478,410
Stock-based compensation	–	179,516	–	–	–	179,516
Currency translation adjustment	–	–	–	(146,379)	–	(146,379)
Balance, December 31, 2012	$ 12,121,808	$ 2,042,890	$ 683,694	$ 591,636	$ 627,953	$ 16,067,981

December 31, 2011	Share capital	Contributed surplus	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

See accompanying notes to consolidated financial statements.

CHANGFENG ENERGY INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Net income	$ 2,478,410	$ 1,371,140
Items not involving cash:		
Deferred income taxes	173,310	142,059
Amortization	1,958,588	1,802,225
Prepaid rent expense	79,836	76,509
Share of loss of investment in associate (note 9)	23,753	19,118
Current income taxes	1,712,898	1,027,518
Interest expense	1,452,758	1,402,585
Stock-based compensation	179,516	101,206
Impairment of deposit	79,200	–
Income taxes paid	(1,127,703)	(1,070,052)
Interest paid	(1,434,257)	(1,383,344)
Change in non-cash operating working capital (note 18)	2,828,146	743,721
Net cash flows from operating activities	8,404,455	4,232,685
Cash flows from financing activities:		
Net decrease in long-term debt	(1,584,000)	(1,021,300)
Net increase in bank indebtedness	–	4,848,800
Government grants (note 11(b))	811,276	–
Net cash flows from (used in) financing activities	(772,724)	3,827,500
Cash flows from investing activities:		
Property and equipment	(5,310,400)	(4,949,015)
Intangible assets	(964,719)	–
Investment in associate	–	(306,200)
Long-term deposits	17,979	(705,358)
Net cash flows used in investing activities	(6,257,140)	(5,960,573)
Increase in cash	1,374,591	2,099,612
Effects of foreign exchange on cash balances	(58,889)	291,792
Cash, beginning of year	5,061,517	2,670,113
Cash, end of year	$ 6,377,219	$ 5,061,517

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 and is listed on The Toronto Stock Exchange Venture Exchange ("TSX-V"). 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, 2012, the Company had a working capital deficiency of $12,204,931 (2011 - $10,670,759).

The Company believes that this deficiency can be funded through projected operating cash flows from operations and through securing additional financing from third-party financial institutions. There are certain assumptions made by management in determining projected operating cash flow, such as temporary natural gas contracts from the government of China and continued growth in its operations.

While management believes that the assumptions included in its operating forecast are reasonable, there is no guarantee that they will materialize as planned. The Company may not be successful in obtaining additional financing on acceptable terms, on a timely basis, or at all, and projected operating cash flows may not materialize as planned.

2. Basis of presentation (continued):

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 consolidated 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"). The significant accounting policies set out below were consistently applied to all periods presented.

The consolidated financial statements were approved and authorized by the Board of Directors on April 25, 2013.

(c) Historical cost basis and presentation currency:

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.

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

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements comprise the financial statements of the Company and its two wholly owned subsidiaries, Hainan Energy Ltd. ("HEL") 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 income 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. The Company has determined that Xiangtan Shin-Ko Energy Co., Ltd. ("Shin-Ko Energy") is an associate over which the Company has significant influence (note 9). Investment in associate is accounted for using the equity method and is 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 and HEL, and the RMB is the functional currency of the Company's other 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 is 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. 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, which are those assets that necessarily takes a substantial period of time to get ready for its intended use or sale, 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
Motor vehicles	3 - 10 years
Furniture and equipment	3 - 20 years
Land use rights	Term of agreement
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 and supply rights and software. Purchase contract and supply rights are recorded at cost and are amortized on a straight-line basis over their contractual useful lives commencing from the initial delivery of gas. Software is recorded at cost and is amortized on a straight-line basis over a period of 10 years.

(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 cash-generating units ("CGU") are reviewed at the 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 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, trade and other payables, due to related parties, interest payable and long-term debt 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, 2012
Cash	Held for trading
Trade and other receivables	Loans and receivables
Due from related parties	Loans and receivables
Bank indebtedness	Other financial liabilities
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. 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. The majority of 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.

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 in net 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 future 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 qualifying assets 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) Government grants:

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

3. Significant accounting policies (continued):

(n) 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, 2012, and have not been applied in preparing these consolidated financial statements.

(i) Financial instruments - recognition and measurement:

In October 2010, the IASB published amendments to IFRS 9, Financial Instruments ("IFRS 9 (2010)"), which provide added guidance on the classification and measurement of financial liabilities. IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, either IFRS 9 (2009) or IFRS 9 (2010) may be applied. The Company intends to adopt IFRS 9 (2010) in its consolidated financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

(ii) Financial assets and liabilities:

In December 2011, the IASB amended IFRS 7, Financial Instruments: Disclosures, and International Accounting Standard ("IAS") 32, Financial Instruments - Presentation ("IAS 32"), to clarify the requirements for offsetting financial instruments and to require new disclosures on the effect of offsetting arrangements on an entity's financial position. The IFRS 7 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2013. The IAS 32 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014. The IFRS 7 amendments will result in additional financial statement note disclosures. The Company does not expect these standards to have a material impact on the 2013 consolidated financial statements.

3. Significant accounting policies (continued):

(iii) Consolidated financial statements:

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"), which replaces portions of IAS 27, Consolidated and Separate Financial Statements ("IAS 27"), and all of Standing Interpretation Committee ("SIC") 12, Consolidation - Special Purpose Entities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an investor controls one or more investees. The standard requires an investor to consolidate an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As a consequence, IAS 27 has been amended but retains the existing guidance for separate financial statements.

(iv) Joint arrangements:

In May 2011, the IASB issued IFRS 11, Joint Arrangements ("IFRS 11"), which replaces IAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers. IFRS 11 requires a venturer to classify its interest in a joint arrangement as either a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting. The existing option to account for joint ventures using proportionate consolidation has been removed. For a joint operation, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, Investment in Associates ("IAS 28"), has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

(v) Disclosure of interests in other entities:

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), which contains disclosure requirements for companies that have interests in subsidiaries, joint arrangements, associates and/or 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, which is the date at which the Company will adopt these standards and amendments. 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. The Company does not expect IFRS 10, IFRS 11, IAS 27 and IAS 28 to have any significant impact on its 2013 consolidated financial statements. The implementation of IFRS 12 will result in additional consolidated financial statement note disclosures.

(vi) Fair value measurement:

In May 2011, the IASB issued IFRS 13, Fair Value Measurement ("IFRS 13"), which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure requirements about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company does not expect IFRS 13 to have any significant impact on its consolidated financial statements.

(vii) Presentation of financial statements:

In June 2011, the IASB amended IAS 1, Presentation of Financial Statements ("IAS 1"), to require companies to group together items within other comprehensive income that may be reclassified to net income. The amendments reaffirm the existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company does not expect the IAS 1 amendments to have any significant impact on its consolidated financial statements.

4. Significant accounting estimates and judgments:

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and judgments 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) Revenue recognition:

Revenue from natural gas sales is recognized when the gas is delivered to the customer. The Company determines the quantity of natural gas delivered through its readings of customer gas consumption meters, and estimates the quantity delivered at each period end where the date of the meter reading is prior to the period end date.

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. Revenue recognition is dependent upon estimating the stages of completion and the outcome of the contract.

(b) 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.

4. Significant accounting estimates and judgments (continued):

(c) Income taxes:

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

(d) 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 14.

(e) Impairment:

The Company assesses intangible assets with indefinite lives for impairment annually or when an event or change in circumstances may indicate impairment. This assessment includes a comparison of the carrying value of the indefinite life intangible asset to its estimated fair value to ensure that the fair value is greater than the carrying value. The Company calculates the estimated fair value using valuation methods such as discounted cash flow analysis. These valuation methods employ a variety of assumptions, including future revenue growth, expected earnings and earnings multiples. Estimating the fair value of an indefinite life intangible asset is a subjective process and requires the use of its best estimates. If its estimates or assumptions change from those used in its current valuation, Changfeng may be required to recognize impairment losses in future periods.

(Expressed in Canadian dollars, unless otherwise indicated)

4. Significant accounting estimates and judgments (continued):

The Company assesses the carrying value of long-lived assets, which include property, plant and equipment and intangible assets subject to amortization, for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated future cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

5. Trade and other receivables:

Components of trade and other receivables are as follows:

	2012	2011
Trade receivables	$ 3,226,399	$ 2,577,200
Less allowance for doubtful accounts	13,966	15,616
Net trade receivables	3,212,433	2,561,584
Other receivables	18,473	5,631
	$ 3,230,906	$ 2,567,215

The aging of trade receivables is as follows:

	2012	2011
Current	$ 2,466,246	$ 1,811,943
Outstanding 31 - 60 days	154,720	152,083
Outstanding 61 - 90 days	2,039	482,837
Outstanding > 90 days	603,394	130,337
	$ 3,226,399	$ 2,577,200

The Company's exposure to credit and foreign exchange risks is disclosed in note 21.

(Expressed in Canadian dollars, unless otherwise indicated)

6. Inventories:

		2012		2011
Construction materials	$	425,718	$	459,582
Gas appliances, meters and spare parts		271,049		236,895
Natural gas		33,739		32,936
	$	730,506	$	729,413

The amount of inventories recognized as an expense through cost of sales during the year was $3,026,072 (2011 - $3,467,631), which was completely comprised of raw material costs. During the year, no inventory was impaired (2011 - $18,557) and no reversals of impairment were recorded (2011 - 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 $159,700 (RMB 1,000,000) (2011 - $161,600 (RMB 1,000,000)) to the existing shareholder of Hunan CNPC, Guangda Gas Co., Ltd. ("Guangda Gas"), a company that Changfeng has been considering for acquisition. Guangda Gas owns a CNG primary filling station in Changsha City. In 2012, the Company determined it would not proceed with the acquisition. Pursuant to an agreement dated October 24, 2012, the deposit will be repaid to the Company by way of partially offsetting gas purchases to be made from Guangda Gas over a 10-month period starting in November 2012. As at December 31, 2012, $127,760 (RMB 800,000) had not yet been repaid and is recorded in prepaid expenses and deposits.

7. Deposits and advances (continued):

(ii) In 2010, the Company paid a deposit of $79,850 (RMB 500,000) (2011 - $80,800 (RMB 500,000)) to the existing shareholders of Jiangxi Pingxiang Huaneng Energy Co. Ltd. ("Pingxiang Huaneng"), a company that Changfeng has been considering for acquisition. Pingxiang Huaneng is a natural gas distributor in the Xiangdong district, Pingxiang City, Jiangxi Province. In 2012, the Company determined it would not proceed with the acquisition. As at December 31, 2012, the Company did not expect to recover its deposit and recorded a provision for the full amount of the deposit in net income.

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

(i) During 2012, the Company completed construction of an administrative office in Sanya City. An advance of $1,266,245 (RMB 7,928,901) (2011 - $1,281,472 (RMB 7,928,901)) has been paid related to land use rights for 4,183 square metres of land, part of which was used to construct the administrative office, and the remainder of which will be used for the future construction of a monitoring and control centre. The land use right has not been received as at December 31, 2012.

(ii) On September 28, 2010, the Company signed a land lease agreement for the construction of its second CNG refuelling station in Changsha City, Hunan Province. The lease term is for 21 years, ending September 27, 2033. Upon signing the agreement, the Company paid a deposit of $15,970 (RMB 100,000) (2011 - $16,160 (RMB 100,000)), which is expected to be refunded when the agreement expires. The first year's rent of $53,659 (RMB 336,000) is required to be paid upon commencement of construction. As at December 31, 2012, construction of the refuelling station had not commenced.

(iii) On September 8, 2008, the Company signed a land lease agreement for 3,000 square metres of land, on which the Company built its 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 $15,970 (RMB 100,000) (2011 - $16,160 (RMB 100,000)) and four years advanced rent of $300,236 (RMB 1,880,000) (2011 - $303,808 (RMB 1,880,000)). As at December 31, 2012, the four years advanced rent and the deposit had been fully utilized.

7. Deposits and advances (continued):

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

(i) 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 cubic metres and 3,650,000 cubic metres 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 $239,550 (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.

(ii) On April 14, 2011, the Company entered into a new four-year compressed natural gas ("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 cubic metres until 2015, with an annual volume of CNG to be adjusted based on the Company's annual demand forecast. As at December 31, 2012, $191,640 (RMB 1,200,000) (2011 - $193,920 (RMB 1,200,000)) was paid as a deposit that is expected to be repaid when the agreement expires.

(iii) In 2006, the Company entered into a 10-year long-term natural gas supply agreement with CNOOC (Hainan) Limited ("CNOOC") related to its distribution operations in Sanya City, Hainan Province. Pursuant to the agreement, CNOOC is committed to supply up to 24,000,000 cubic metres of natural gas annually until 2015 with a fixed contractual price. Upon signing the agreement, the Company paid a deposit of $44,716 (RMB 280,000) that is expected to be refunded when the agreement expires.

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 $1,597,000 (RMB 10,000,000), of which Changfeng owns 51%. The Company contributed $319,400 (RMB 2,000,000) during 2011, and is required to contribute the remaining $495,070 (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 liquid natural gas ("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 Zhuhai Hailian Investment Co., Ltd., a private investment company, established Shin-Ko Energy with a total registered capital of $1,597,000 (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 $319,400 (RMB 2,000,000), and the remaining balance of $479,100 (RMB 3,000,000) is required to be contributed by October 24, 2013 and has been recognized in current 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. Shin-Ko Energy has net assets of $1,509,220 (RMB 9,450,343) as at December 31, 2012, which is comprised of amounts owing from its joint venture partners, including $687,836 (RMB 4,307,050) due from the Company (note 17(a)(iii)). Shin-Ko Energy losses for the year were $47,506 (RMB 299,913); (2011 - 38,236) (RMB 249,744)) of which the Company's share was $23,753 (RMB 149,957) (2011 - $19,118 (RMB 124,872)).

(Expressed in Canadian dollars, unless otherwise indicated)

10. Property and equipment:

Cost	Buildings	Pipelines	Land use rights (a)	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress (c)	Total
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) (b)	2,625,683	2,528,041	–	125,316	1,921,116	–	(1,980,379)	5,219,777
Foreign currency translation	3,901	2,622,291	79,308	87,708	192,356	28,045	155,065	3,168,674
Balance, December 31, 2011	2,684,603	42,131,980	1,197,779	1,449,961	4,826,240	423,551	361,499	53,075,613
Additions (b)	–	678,397	306,880	239,561	523,999	210,805	3,365,754	5,325,396
Foreign currency translation	(31,564)	(497,603)	(14,083)	(17,048)	(56,745)	(4,979)	(4,250)	(626,272)
Balance, December 31, 2012	$ 2,653,039	$ 42,312,774	$ 1,490,576	$ 1,672,474	$ 5,293,494	$ 629,377	$ 3,723,003	$ 57,774,737

Accumulated amortization	Buildings	Pipelines	Land use rights (a)	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress	Total
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
Amortization	50,347	1,405,866	23,582	176,530	248,183	23,006	–	1,927,514
Foreign currency translation	(446)	(86,862)	(3,983)	(6,642)	(13,100)	(461)	–	(111,494)
Balance, December 31, 2012	$ 87,863	$ 8,935,229	$ 358,346	$ 734,781	$ 1,349,273	$ 61,748	$ –	$ 11,527,240

Net book value	Buildings	Pipelines	Land use rights (a)	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress	Total
December 31, 2011	$ 2,646,641	$ 34,515,755	$ 859,032	$ 885,068	$ 3,712,050	$ 384,348	$ 361,499	$ 43,364,393
December 31, 2012	2,565,176	33,377,545	1,132,230	937,693	3,944,221	567,629	3,723,003	46,247,497

10. Property and equipment (continued):

(a) In July 2010, Pingxiang CF entered into an agreement with Pingxiang Ceramic Industry Park Management Committee (the "Committee") to purchase the land use rights for 20 mu (approximately 1.33 hectares) of land. This land is being used for the construction of one gas gate station to link the Xiangdong District with a high-pressure pipeline. Upon signing of the agreement, the Company paid a deposit of $31,940 (RMB 200,000) (2011 - $32,320 (RMB 200,000)). During 2012, the Company made additional payments to the Committee totalling $306,880 (RMB 1,921,600) related to this land use right. On November 13, 2012, the land use rights were transferred to the Company. As at December 31, 2012, construction of the gas gate had commenced.

In addition, as at December 31, 2012, the Company also held five land use rights certificates for its Sanya operation. All of these lands have a 50-year term from their effective dates of the purchases.

(b) Included in additions to property and equipment is capitalized interest of $44,686 (RMB 282,106) (2011 - nil) at a capitalized rate of 3% (2011 - nil).

(c) Pipeline construction and equipment:

The Company has signed contracts with several equipment suppliers and construction supervisors for a total amount of $5,523,792 (RMB 34,588,551) (2011 - $3,470,049 (RMB 21,473,076)), of which $1,988,356 (RMB 12,450,567) (2011 - $2,139,222 (RMB 13,237,762)) has been paid as at December 31, 2012 and was classified as construction in progress.

11. Government grants:

(a) On June 27, 2012, the Company received $717,552 (RMB 4,530,000) as a government grant from the municipal government of Sanya City, Hainan Province, China ("Sanya City") to partially compensate the Company for certain gas purchases made at unfavourable prices in 2011 to satisfy customer demand in the Sanya City region. These government grants were recognized as other operating income in the consolidated statement of comprehensive income.

(Expressed in Canadian dollars, unless otherwise indicated)

11. Government grants (continued):

(b) In 2012, the Company also received government grants in aggregate of $811,276 (RMB 5,080,000) to fund the construction of certain items of property and equipment for the Company's operation in Sanya City. These government grants were recognized as a long-term liability and will be recognized in net income over the expected useful life of the related assets when the related assets are ready for use.

12. Intangible assets:

	Gas purchase contract and supply rights	Software	Total
Cost			
Balance, December 31, 2010	$ 528,150	$ –	$ 528,150
Disposals	(242,400)	–	(242,400)
Foreign currency translation	45,751	–	45,751
Balance, December 31, 2011	331,501	–	331,501
Additions	991,538	104,604	1,096,142
Foreign currency translation	(5,067)	–	(5,067)
Balance, December 31, 2012	$ 1,317,972	$ 104,604	$ 1,422,576
Accumulated amortization			
Balance, December 31, 2010	$ –	$ –	$ –
Amortization	30,620	–	30,620
Foreign currency translation	1,700	–	1,700
Balance, December 31, 2011	32,320	–	32,320
Amortization	18,251	–	18,251
Foreign currency translation	(380)	–	(380)
Balance, December 31, 2012	$ 50,191	$ –	$ 50,191
Net book value			
December 31, 2011	$ 299,181	$ –	$ 299,181
December 31, 2012	1,267,781	104,604	1,372,385

12. Intangible assets (continued):

(a) Gas and Electricity Exchange Program (the "Program"):

On February 22, 2012, the Company entered into the Program with the Local Power Bureau and China National Offshore Oil Yacheng Operation Co., Ltd., which will secure an additional annual supply of natural gas totalling approximately 5 million cubic meters until 2015. In exchange for this gas supply, the Company will fund the building of infrastructure to link certain of the supplier's operations to the provincial power grid, although it will not own the constructed assets.

In connection with the Program, as at December 31, 2012, construction of approximately $991,538 (RMB 6,208,754) was completed by a local contractor. This amount has been recorded as an intangible asset on the consolidated balance sheets, on which amortization will begin once the construction on the first phase is completed and the exchanged gas is available to the Company. For the remaining construction to be completed pursuant to the Program, the Company has signed contracts with the local contractor for a total amount of $1,400,569 (RMB 8,770,000) (2011 - nil) of which $877,975 (RMB 5,497,650) has been paid as at December 31, 2012.

(b) Software:

During 2012, the Company implemented a new software system related to its natural gas distribution operations. In connection with this implementation, the Company capitalized $104,604 (RMB 655,000) of costs that have been recognized as an intangible asset as at December 31, 2012.

(Expressed in Canadian dollars, unless otherwise indicated)

13. Long-term debt and bank indebtedness:

(a) Long-term debt:

	2012	2011
Term loan facility - China Development Bank (i)	$ –	$ 808,000
Term loan facility - Bank of China (ii)	15,171,500	16,160,000
	15,171,500	16,968,000
Less unamortized transaction costs	266,569	329,768
	14,904,931	16,638,232
Less current portion	798,500	1,616,000
	$ 14,106,431	$ 15,022,232

(i) 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), which was immediately loaned to the Company, bearing interest at the floating prescribed rate of the People's Bank of China (6.55% and 7.05% as at December 31, 2012 and 2011, respectively), with payments due quarterly. The loan was secured by all pipelines, land use rights and gas distribution rights of the Company. As at December 31, 2012, the loan had been fully repaid.

(ii) On January 5, 2010, the Company entered into a term loan with the Bank of China, Sanya Branch ("BOC, Sanya") for $15,970,000 (RMB 100,000,000) (2011 - $16,160,000 (RMB 100,000,000)) maturing in January 2019 and bearing interest at the prescribed lending rate of the People's Bank of China, which is reset every six months. It is secured by 60% of the interest in CF China held by HEL, and certain gas connection rights. During the year, the Company made payments in the amount of $798,500 (RMB 5,000,000) (2011 - nil) in accordance with the semi-annual repayment provisions of the term loan agreement.

At December 31, 2012, the Company had unamortized transaction costs of $266,569 (RMB 1,819,139) (2011 - $329,768 (RMB - 2,214,882)), which has been offset against term loan. The effective interest rate on the loan was 6.9% (2011 - 7.4%).

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

(iii) On December 21, 2012, the Company entered into a term loan with the Bank of China, Pingxiang Branch ("BOC, Pingxiang") for $3,194,000 (RMB 20,000,000), maturing six years from the date of the first withdrawal, and bearing both fixed and variable interest at 120% of the prime rate of the People's Bank of China. The variable component of interest will be calculated initially on the date of withdrawal and will be reset every three months. This term loan is secured by the property and equipment of Pingxiang CF and guaranteed by CF China. The proceeds from this term loan will be used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang City, Jiangxi province. As at December 31, 2012, the Company had not drawn any funds from this term loan, but the full withdrawal must be made within a year of the execution date. On January 10, 2013, the Company withdrew $1,597,000 (RMB 10,000,000), and on February 8, 2013, another $798,500 (RMB 5,000,000) was withdrawn.

(b) Bank indebtedness:

Included in current liabilities is $4,791,000 (RMB 30,000,000) (December 31, 2011 - $4,848,000 (RMB 30,000,000)) relating to the Company's Line of Credit (the "Credit Line") with BOC, Sanya. This loan contains a financial covenant, which requires the Company's subsidiary CF China's debt-to-total-assets ratio to be maintained below 80%. The credit line was renewed on the same terms on March 16, 2012 by the Bank of China, to be due one year from the date of withdrawal. As at December 31, 2012, the Company had drawn $4,791,000 (RMB 30,000,000) (2011 - 4,848,000 (RMB 30,000,000)) against the Credit Line, of which $3,194,000 (RMB 20,000,000) will be due on March 28, 2013, and $1,597,000 (RMB 10,000,000) will be due on June 20, 2013.

As at December 31, 2012, the Company was in compliance with all of its debt covenants.

On March 28, 2013, the Company repaid $3,194,000 (RMB 20,000,000) of the Credit Line.

(Expressed in Canadian dollars, unless otherwise indicated)

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

(c) Interest payable:

As at December 31, 2012, the Company had accrued interest of $2,079,646 (RMB 13,022,204) (2011 - $2,104,388 (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 not yet requested repayment from the Company.

Long-term loan principal payments are as follows:

	RMB	Cdn. $
2013	5,000,000	798,500
2014	10,000,000	1,597,000
2015	10,000,000	1,597,000
2016	10,000,000	1,597,000
2017	20,000,000	3,194,000
Thereafter	40,000,000	6,388,000
	95,000,000	15,171,500

14. Share capital:

(a) Authorized:

Unlimited common shares

(b) Issued common shares:

	Number of shares	Amount
Balance, December 31, 2012 and 2011	66,025,000	$ 12,121,808

(Expressed in Canadian dollars, unless otherwise indicated)

14. Share capital (continued):

Normal-course issuer bid:

On November 22, 2012, the Company received approval from the TSX-V to make a normal-course issuer bid (the "Bid") to periodically purchase, for cancelation, up to 3,000,000 common shares. The Bid commenced on November 27, 2012, to conclude on or about the earlier of November 26, 2013 or the date on which the Company purchases 3,000,000 common shares, although the Company may terminate the bid at an earlier date. The common shares will be purchased on the open market. As at December 31, 2012, the Company had not purchased any shares pursuant to the Bid.

Subsequent to December 31, 2012, the Company purchased 421,800 shares pursuant to the Bid for cash proceeds of $137,324, inclusive of transaction costs.

(c) Contributed surplus and stock-based compensation:

(i) Contributed surplus:

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

(Expressed in Canadian dollars, unless otherwise indicated)

14. Share capital (continued):

(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.

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

	Options outstanding	Weighted average exercise price
Balance, January 1, 2011	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
Granted	1,200,000	0.24
Expired	(250,000)	0.23
Balance, December 31, 2012	6,250,000	0.47

The following table summarizes information about the options outstanding and exercisable at December 31, 2012:

Number outstanding and exercisable	Remaining contractual life (in years)	Exercise price	Expiry date
3,000,000	0.06	$ 0.60	2013
950,000	2.41	0.60	2015
1,100,000	3.69	0.23	2016
1,200,000	4.53	0.24	2017
6,250,000	1.91		

14. Share capital (continued):

On July 13, 2012, the Company granted 1,200,000 options, exercisable at a price of $0.24 for five years on or before July 12, 2017, to its newly elected director and certain members of management who are employed by the subsidiaries in China. The fair value of these options at the grant date was $0.15. Assumptions used to determine the value of the options using the Black-Scholes option pricing model (the "Black-Scholes model") were: dividend yield 0%; risk-free interest rate 1.45%; expected volatility 77%; and expected life of five years. The Company's share price at the grant date was $0.24. The options vested immediately.

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

For the year ended December 31, 2012, $179,516 (2011 - $101,206) of stock-based compensation expense was recorded, representing the fair value of options granted during the year.

(Expressed in Canadian dollars, unless otherwise indicated)

15. Earnings per share ("EPS"):

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

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

	2012			2011		
	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	$ 2,508,056	66,025,000	$ 0.038	$ 1,384,985	66,025,000	$ 0.021

For the 2012 year, there were no potentially dilutive stock options outstanding.

16. 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 26.5% (2011 - 28%):

	2012	2011
Income before income taxes	$ 4,364,618	$ 2,540,717
Expected income tax provision based on statutory rate	$ 1,157,000	$ 717,800
Non-deductible expenditures and other permanent differences	431,000	315,400
Foreign tax rate differential	(82,000)	(153,400)
Change in tax benefits not recognized	356,000	311,600
Other	24,208	(21,823)
	$ 1,886,208	$ 1,169,577

(Expressed in Canadian dollars, unless otherwise indicated)

16. Income taxes (continued):

Components of income taxes:

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

	2012	2011
Current income taxes	$ 1,712,898	$ 1,027,518
Deferred income taxes:		
Origination and reversal of timing differences	173,310	142,059
	$ 1,886,208	$ 1,169,577

Recognized deferred tax assets and liabilities:

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

	2012	2011
Property and equipment	$ (375,998)	$ (179,356)
Trade and other receivables	(141,435)	(104,620)
Trade and other payables	202,988	141,917
	$ (314,445)	$ (142,059)

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, 2012 is $9.338 million (2011 - $4.188 million).

(Expressed in Canadian dollars, unless otherwise indicated)

16. Income taxes (continued):

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

	2012	2011
Loss carryforwards	$ 1,894,900	$ 1,457,162
Deductible temporary differences	141,000	222,600

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, 2012, the Company had the following approximate income tax attributes to carry forward:

	Amount	Expiry date
Non-capital losses, Canada	$ 5,506,000	2025 - 2032
Non-capital losses, China	1,617,000	2014 - 2017
Capital losses, Canada	119,000	Indefinite

17. Related party disclosures:

(a) Related party transactions:

(i) As at December 31, 2012, a company (Sanya Changkai Industrial Development Co. Ltd.) controlled by a significant shareholder who is also an officer and director of the Company, owed the Company a total of $21,938 for various expenditures paid by the Company on behalf of this company.

(ii) As at December 31, 2012, the Company had an outstanding loan of $319,400 (RMB 2,000,000) due from the minority shareholder of Hunan Changfeng CNPC Energy Co., Ltd. ("Hunan CF CNPC"), which used the funds to contribute the capital it owed to that subsidiary. The minority shareholder has waived its right to any future profit that it would otherwise be allocated until the loan is repaid. The Company will begin recording this shareholder's profit allocation prospectively at the time the loan has been repaid. On May 4, 2012, the Company entered into supplementary agreements with this minority shareholder. Pursuant to the supplementary agreements, the loan will be due on June 8, 2015, secured by this minority shareholder's 40% equity interest in Hunan CF CNPC and bearing interest at 120% five-year term loan prescribed by the People's Bank of China.

(iii) Shin-Ko Energy:

Included in current due to related parties as at December 31, 2012 as described in note 9, is a required capital contribution of $479,100 (RMB 3,000,000) (December 31, 2011 - $484,800 (RMB 3,000,000 in long-term)) to be made to Shin-Ko Energy by October 24, 2013. Also, included in current due to related parties as at December 31, 2012, was $208,736 (RMB 1,307,050) (2011 - $253,712 (RMB 1,570,000)) relating to a loan made to the Company by Shin-Ko Energy. The loan is interest-free and is not secured. It is payable on demand.

17. Related party disclosures (continued):

(b) Significant minority shareholders:

Name	Country of incorporation and relationship
Xiangtan Changjiang New Energy Investment Co., Ltd.	China, minority shareholder of Xiangtan CF
Xiangtan Economic Construction and Development Investment Co., Ltd.	China, minority shareholder of Xiangtan CF and Shin-Ko Energy
Zhuhai Hailian Investment Co., Ltd.	China, minority shareholder of Shin-Ko Energy
Cui JianXin	China, minority shareholder of Hunan CNPC NEI
Zhou Du	China, minority shareholder of Hunan CF CNPC

(c) 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.

(Expressed in Canadian dollars, unless otherwise indicated)

17. Related party disclosures (continued):

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

	2012	2011
Salaries, bonuses and fees	$ 447,329	$ 478,395
Total short-term employee benefits	$ 447,329	$ 478,395
Share-based benefits	29,919	101,205
Termination benefits	–	45,000
Total remuneration	$ 477,248	$ 624,600

(i) In 2007, a significant shareholder, who is also an officer and director of the Company, advanced loans in the aggregate amount of $6,388,000 (RMB 40,000,000) (December 31, 2011 - $6,464,000 (RMB 40,000,000)) to the Company, through wholly owned corporations, in accordance with a Subordination and Forbearance Agreement dated April 27, 2007, Consignment Loan Agreements dated May 23, 2007 and June 26, 2007, and other ancillary documentation. These loans are unsecured, non-interest bearing, subordinate to the claims of all other creditors, including unsecured creditors of the Company, and were due on demand only after April 27, 2010.

On April 27, 2010, these loans were renewed for another three years with the same terms and conditions and were due on demand only after April 27, 2013. The significant shareholder extended the date on which these loans are due on demand to April 27, 2015. The Company has not made any repayments during the year.

(ii) As at December 31, 2012, the Company owed an officer and director of the Company $543,982 (2011 - $427,843) for unpaid salary and director's fees.

(iii) As at December 31, 2012 and 2011, the Company owed certain directors $48,305 (2011 - $50,458) for unpaid director's fees.

(iv) 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. The loan was repaid in February 2012.

(v) During 2012 and 2011, key management personnel did not exercise share options granted under the Company's stock option plan.

(Expressed in Canadian dollars, unless otherwise indicated)

18. Change in non-cash operating working capital:

	2012	2011
Trade and other receivables and due from related parties	$ (653,672)	$ (528,203)
Prepaid expenses and deposits	45,075	(169,113)
Inventories	(9,590)	(110,133)
Trade and other payables, interest payable and due to related parties	556,941	552,745
Deferred revenue	2,889,392	998,425
	$ 2,828,146	$ 743,721

19. Commitments and contingencies:

The Company has operating lease commitments and contractual obligations as follows, except for those reported in notes 7 and 10(c):

	RMB	Cdn. $
2013	829,500	132,471
2014	829,500	132,471
2015	829,500	132,471
2016	829,500	132,471
2017	854,175	136,412
Thereafter	13,298,341	2,123,745
	17,470,516	2,790,041

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 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 as at December 31, 2012.

20. 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 that 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 management to sustain future development of its business.

The Company's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and through 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, 2012, 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, 2012 and 2011. The Company does not pay dividends.

21. 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, 2012, the fair value of trade and other receivables, bank indebtedness, trade and other payables and interest payable on the consolidated balance sheets approximate carrying value because of the limited term of these instruments.

21. Financial instruments and risk management (continued):

As at December 31, 2012, the fair value of long-term debt was $15,171,500 (RMB 95,000,000), as compared to its carrying value of $14,904,931 (RMB 93,330,814) on the consolidated balance sheets.

The carrying values of the Company's due to and due from related parties balances approximate fair values. 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.

(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 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, 2012, substantially all of the Company's cash and all of its debt, as described in note 13, 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, 2012, the Company held foreign currency cash of RMB 39,713,726 (2011 - RMB 31,203,589) and U.S. 14,359 (2011 - U.S. $23,768).

As at December 31, 2012, 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 $190 (U.S. $190), and a +/-1% change in the exchange rate of RMB would increase/decrease the cumulative translation adjustment by $56,166 (RMB 354,587).

(Expressed in Canadian dollars, unless otherwise indicated)

21. Financial instruments and risk management (continued):

(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.

(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 (6.55% at December 31, 2012, and 7.05% at December 31, 2011), 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 13 for the year ended December 31, 2012 would have had the following impact on the Company's net income:

	Impact on net income
Interest rate +1%	$ (154,440)
Interest rate -1%	154,440

21. Financial instruments and risk management (continued):

(iv) Credit risk:

Credit risk arises from exposure to customers including outstanding trade 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, which 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, 2012, the Company had recorded an allowance for doubtful accounts of $13,966 (2011 - $15,616).

The Company manages its credit risk by entering into purchase and connection agreements with creditworthy parties and through regular review of trade 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 receivables balances at December 31, 2012. 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 13 and the remaining financial liabilities, consisting of trade and other payables, interest payable and deferred revenue, are expected to be realized within one year.

As at December 31, 2012, the Company had a cash balance of $6,377,219 (2011 - $5,061,517) to settle current liabilities of $23,511,399 (2011 - $19,948,435). See note 2(a) for discussion regarding the manner in which the Company intends to settle its current liabilities.

22. Economic dependence:

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

23. Seasonality of operations:

Seasonality can impact the Company's natural gas distribution 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 these high tourism seasons, as a large portion of the Company's natural gas sales are made to hotels and restaurants.

24. Segmented reporting:

The Company has two reportable segments: gas distribution utility (the "utility") and CNG refuelling station. The utility provides gas pipeline connection services and delivers natural gas to commercial, industrial and residential customers through its pipeline networks and associated facilities. The Company's other segment is a CNG refuelling retail station, which is used primarily to supply gas for taxicab and public-transportation vehicles. The performance of each segment is measured by income from operations.

There were no significant intercompany transactions between segments. No single customer accounted for more than 10% of the Company's sales or trade and other receivables in 2012 and 2011.

(Expressed in Canadian dollars, unless otherwise indicated)

24. Segmented reporting (continued):

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

December 31, 2012	Gas distribution utility	CNG refuelling station	Consolidated
Revenue	$ 27,669,600	$ 5,603,081	$ 33,272,681
Cost of sales	13,256,370	4,357,453	17,613,823
	14,413,230	1,245,628	15,658,858
Other operating income	717,552	–	717,552
Expenses:			
General and administrative	6,239,039	635,978	6,875,017
Travel and business development	3,588,085	45,863	3,633,948
	9,827,124	681,841	10,508,965
Income from operations	$ 5,303,658	$ 563,787	$ 5,867,445
Acquisition of property and equipment	$ (4,973,871)	$ (336,529)	$ (5,310,400)
Acquisition of intangible assets	(964,719)	–	(964,719)
Investment in associate	754,610	–	754,610
Total assets, December 31, 2012	$ 58,509,028	$ 2,690,504	$ 61,199,532

December 31, 2011	Gas distribution utility	CNG refuelling station	Consolidated
Revenue	$ 25,693,661	$ 2,482,020	$ 28,175,681
Cost of sales	14,309,722	2,157,472	16,467,194
	11,383,939	324,548	11,708,487
Expenses:			
General and administrative	4,777,872	284,491	5,062,363
Travel and business development	2,670,882	18,019	2,688,901
	7,448,754	302,510	7,751,264
Income from operations	$ 3,935,185	$ 22,038	$ 3,957,223
Acquisition of property and equipment	$ (4,533,959)	$ (415,056)	$ (4,949,015)
Acquisition of intangible assets	–	–	–
Investment in associate	787,821	–	787,821
Total assets, December 31, 2011	$ 53,339,233	$ 2,278,727	$ 55,617,960

24. Segmented reporting (continued):

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, 2012 and 2011, there is no significant individual customer from which sales amounted to more than 10% of the Company's revenue.

25. Subsequent event:

On January, 15, 2013, the Company entered an agreement with BOC, Sanya to secure a bank loan facility in the amount of $7,985,000 (RMB 50,000,000) (the "Term Loan"). The Term Loan agreement requires that the proceeds be used to fund continued construction of pipeline and associated facilities for the Haitang Bay project in Sanya city, Hainan province, China. The Term Loan is secured by the same collateral as that of the existing term loan and the Credit Line described in note 13(a)(ii) and 13(b)(i), respectively as well as trade receivable of both of China and CF Engineering. The term loan is subject to a financial covenant requiring that CF China's debt-to-asset ratio is less than 75%, as well as certain non-financial covenants. The term loan has a ten-year term from the date of the first initial withdrawal, and bears interest of 110% of the prime rate set by the People's Bank of China as calculated initially on the date of withdrawal and being reset every six months. Upon execution of the agreement, the Company made a withdrawal of $6,388,000 (RMB 40,000,000).