

**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS  
OF OPERATIONS OF  
DAQING LONGJIANG WIND POWER CO., LTD.  
FOR THE YEAR ENDED MARCH 31, 2009**

The following Management's Discussion and Analysis ("MD&A") provides management's perspective on the financial condition and results of operations of Daqing Longjiang Wind Power Co., Ltd. (the "Company") for its fiscal year ended March 31, 2009. This MD&A is supplemental to, and should be read in conjunction with the information contained in the audited annual financial statements and accompanying notes of the Company for the year ended March 31, 2009. These statements have been prepared in conformity with Canadian generally accepted accounting principles ("GAAP") and require management to make estimates and assumptions that affect amounts reported and disclosed in such financial statements and related notes. All dollar amounts in this MD&A are in Canadian dollars unless otherwise stated.

The Board of Directors approved the contents of this MD&A on August 14, 2009. Disclosure contained in this document is current to this date, unless otherwise stated.

**Forward-Looking Statements**

This MD&A contains "forward-looking information". Such statements may include, but are not limited to, statements addressing the results, events or activities that the Company expects or anticipates will or may occur in the future, including statements in respect of the growth of the business and operations, competitive strengths, strategic initiatives, planned capital expenditures, plans, and references to future operations and results, critical accounting estimates, and expectations regarding future capital resources and liquidity. Such statements relate to, among other things, the Company's objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates and can generally be identified by the use of statements that include words such as that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expect," "anticipate," "plan," "believe," "estimates", "intend", "likely", "will", "may", "could", "should", "would", "suspect", "outlook", "estimate", "forecast", "objective", "continue" (or the negative versions thereof) or similar words or phrases.

Forward-looking statements contained in this document reflect management's current estimates, expectations and projections, which it believes are reasonable as of the current date. Readers are cautioned that forward-looking statements are not guarantees of future performance. The Company's actual results could differ from those discussed in the forward-looking statements. Factors that could cause or contribute to any differences include, but are not limited to, those discussed below and elsewhere in this MD&A, particularly under "Risk Factors Relating to the Company". Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date.

Except as may expressly be required by law, the Company disclaims any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations, estimates and projections with regard thereto or any changes in events, conditions or circumstances on which any statement is based.

**Company Overview**

Longjiang was incorporated on January 24, 2007 pursuant to the laws of the People's Republic of China and its registered capital was RMB 162.162 million Yuan (\$23.6 million) as at March 31, 2009. Since incorporation, the efforts of Longjiang have been devoted to the development of wind power projects in Duerbert Mongolian Nationality Autonomous County (hereafter referred to as "**Du Mon County**" or the "**County**") and surrounding areas.

Longjiang's early development financing was provided by Heilongjiang Ruihao Energy Technology Co., Ltd. (hereafter referred to as "**Ruihao**") and Heilongjiang Tianyi Investment Co. Ltd. (hereafter referred to

as “**Tianyi**”). Ruihao and Tianyi invested RMB 162.162 million Yuan (\$23.6 million) during the nine month period after the Company was founded. Ruihao is a renewable energy technology development company which provides technical services to the renewable energy industry. Besides wind energy, Ruihao is also involved in the development of such renewable energy projects as biomass, solar, geothermal energy. Tianyi is an investment holding company which acts in concert with Ruihao.

The Company's vision is to be the premier independent developer, builder, owner and operator of wind farms to provide clean energy in China. The Company will seek to attain long-term sustainable cash flows through ownership and operation of wind power generating facilities.

The Company now has its first project of 49MW under construction (hereafter referred to as the “**Wind Farm #1**” and also referred to as “**Ruihao Wind Farm**”), and the second project of 49.5MW (hereafter referred to as the “**Wind Farm #2**” and also referred to as “**Ruifeng Wind Farm**”) has received official government approval and commenced foundation construction in February 2009.

Both Wind Farm #1 and #2 have one of the top-ranked wind resources in Heilongjiang Province, and are well located on flat grassland adjacent to existing transmission and transportation infrastructure, have full environmental certification and all required approvals and permits and a 50-year land lease for Wind Farm #1 from Ruihao based on the “Land Use Right Certificate” which was issued to Ruihao by the local government in place. Longjiang has obtained the “Land Use Right Certificate” for Wind Farm #2 Project from the local government. Wind Farm #1 was awarded a 20-year Power Purchase Agreement (PPA) with Daqing Electric Power Bureau, the branch of the State Grid Company of China, the largest monopoly power grid company in China, and is 60% completed and partially generating power by March 31, 2009. The Wind Farm #1 project is expected to be completed at an estimated total capital cost of approximately US\$73 million (US\$1.47 million per MW) and, once fully operational, management expects that Wind Farm #1 will generate US\$10 million in revenues and US\$8 million in EBITDA per year on average. The Wind Farm #2 is projected to be completed at a total capital cost of approximately US\$73 million (US\$ 1.47 per MW) and once fully operational can generate US\$10 million in revenues and US\$ 8 million in EBITDA per year on average for 20 years of the wind farm in operation as the two wind farms are approximately identical in terms of location, installed capacity and wind resource.

Among all the elements which impact the revenue of a wind farm, the capacity factor and power and carbon credit prices are the two most significant factors given the installed capacity of a wind farm. A wind farm's average annual revenue formula is expressed as:

$$\text{Average Annual Revenue} = (\text{Tariff} + \text{Carbon Credit Price} \times \text{Emission Factor}) \times \text{Capacity Factor} \times \text{Total Nominal Power} \times 365.21 \text{ days} \times 24 \text{ hours}$$

where

- The feed in tariff is currently RMB 0.61 Yuan (C\$0.11 or US\$0.089) per kWh and is determined by government.
- Carbon credit price is Euro €1.5 (US\$ 14.31) per tCO<sub>2e</sub> according to the Emissions Reduction Purchase Agreement (“**ERPA**”) entered with Goldman Sachs International.
- The Capacity Factor depends on the type of wind turbines used and the wind resource by which the turbines run. For Longjiang's Wind Farm #1, the capacity factor is computed to be 26.31% using the “Wind Atlas Analysis and Application Program” (WAsP) to simulate wind flow over terrain and estimate the long-term energy production for the three different wind turbines running by the wind resources in that location. The Weighted Average Full Load Hours for Wind Farm #1 was calculated to be 2306.18 hours by averaging the results of the three type wind turbines. This number is only a simulation result and may differ from actual results.
- The emission factor is 1.14608 tCO<sub>2</sub>/MWh for the Northeast China Grid.
- The Total Nominal Power for Wind Farm #1 and Wind Farm #2 is 49 MW and 49.5MW, respectively.

The Company plans a further 100MW of wind projects (Wind Farm #3) in 2010 and 2011. By the end of 2011, management plans to have 200MW of wind farms in production.

In Heilongjiang Province, the Company estimates it would take approximately 6 to 12 months to obtain all the necessary approvals and permits from government to be able to commence construction for a wind power project of less than 50MW in installed capacity. After receipt of the government approvals, the power purchase and interconnection agreements are then signed with the power grid company.

Because all the Longjiang wind projects in Du Mon County share approximately the same wind resource, have the same installed capacity (i.e., 49MW or 49.5MW) and use similar wind turbines, the capital cost for each project is estimated to be similar.

The National Development and Reform Commission (**NDRC**) promulgated on July 23, 2008 the Approval Concerning the Verification and Ratification of the Feed-in Tariff for the Projects of Heilongjiang Ma'anshan, Liaojing Fuxin and etc. (**NDRC Price [2008] #1876**) based on the wind resource, required investment and operating cost in different areas, including Longjiang's Wind Farm #1. Each wind power project in Heilongjiang Province received the same PPA price: a fixed wind power or feed in tariff of RMB 0.61 Yuan (C\$0.11/US\$0.089) per kWh.

The feed-in tariff will be fixed for the first 30,000 full-load hours accumulated from the first day of wind farm in production. After the first 30,000 full load hours, the feed-in tariff will be the market average feed-in tariff at that time, and the accurate number of the tariff will be determined by the government again.

According to the notice issued by The National Development and Reform Commission (**NDRC**) on August 10, 2009 (**NDRC Price [2009] #1906**), the feed-in tariff for Wind Farm #2 is also 0.61 Yuan (C\$0.11/US\$0.089) per kWh.

### **Results of Operations**

As of March 31, 2009, the Company has generated \$406,665 wind power revenue during the testing, tuning and calibration phase of Wind Farm #1, which was recorded as a reduction to wind farm power plant cost. Wind farm #1 has generated more than 13.9 million KWh electricity by the end of July 2009. By July 31, 2009, the Company had installed 36 turbines with capacity of 52 MW, of which 20 turbines had been connected to power grid. By the end of 2009, it is expected 98.5MW installed capacity will be completed. Upon the completion of the projects, the wind farms are expected to be running at 60% production capacity for the first year in production due to tuning and calibration, and will be in full production starting from the second year.

The Company has incurred a net loss of \$415, 836 for the year ended March 31, 2009 (year ended March 31, 2008 - \$495,355) and has an accumulated deficit of \$1,184,811 as at March 31, 2009 (March 31, 2008 - \$534, 343).

According to the Ruihao Wind Farm Project Development Agreement and related supplemental agreements entered into between Ruihao and Du Mon County and transferred to the Company, the Company is required to reinvest its profits obtained up to December 31, 2010 to wind farms, renewable energy, tourism, local products or public welfare projects in Du Mon County.

### **Financial Condition**

#### ***Liquidity***

At March 31, 2009, the Company had cash of \$9.6 million, consisting of cash deposited in Chinese RMB bank accounts, which represents the local currency of RMB 52,496,342 Yuan, which will continue to be used to develop Wind Farm #1 and #2. This cash is what remains, after the development costs through

March 31, 2009, from the initial investment from Ruihao and Tianyi and the fixed assets bank loan from the Agriculture Development Bank of China, which loan totalled RMB 360 million Yuan (\$65.9 million).

The Company expects to incur additional debt financing from the Agriculture Development Bank of China to build future wind power projects. The Company intends to finance its other projects through additional debt and equity financings with a target debt/equity structure of approximately 75:25 on average as usually a bank requires an equity investment representing of 20%-30% of the total project cost to be in place to qualify for a fix-asset bank loan.

### ***Assets and Liabilities***

At March 31, 2009, the Company had total assets of \$100.8 million compared to \$78.7 million at March 31, 2008, including net current assets (current assets less current liabilities) of \$3.7 million.

On January 24, 2008, the Company entered into a fixed-asset loan agreement to borrow \$65.9 million (RMB 360 million Yuan) from the Agricultural Development Bank of China, Du Mon Branch for a ten-year term expiring in 2017, bearing an interest payable quarterly at a variable rate, which is adjusted annually at February 20 according to the commercial RMB loan interest rate published by People's Bank of China at that time. The Company's interest rate as at March 31, 2009 was 5.94% per annum. The loan is collateralized by the wind farm assets and the future revenue of the Wind Farm #1. Ruihao signed the Guarantee Agreement with Agricultural Development Bank of China to be a joint surety for the debt, so did the Company's CEO and director Mr. Jun Liu and his spouse. The principal of the loan is repayable every year, from \$5.5 million (RMB 30 million Yuan) for the first year pay back after the construction period to \$8.4 million (RMB 46 million Yuan) to the ninth year. The long-term debt obligations of the Company will be repaid in 10 years. On September 3, 2007, Ruihao obtained a long-term land lease with respect to the site for the Wind Farm #1 Project from the government. The lease offered 137,780 square meters land to Wind Farm #1 by the government free of charge for a term of duration of the wind farm on top of the land in operation according to related government regulations and laws. Ruihao subsequently entered into a land use agreement with Longjiang to grant the land use right to Longjiang free of charge for thirty years from October 1, 2007 to September 30, 2037 for construction and operation of Wind Farm #1.

On May 20, 2009, Longjiang obtained the "Land Use Right Certificate" for Wind Farm #2 Project from the local government. The land lease is granted free of charge for a term of duration of the wind farm on top of the land in operation according to related government regulations and laws.

Because Longjiang acquired the land leases for free, they were not capitalized.

### ***Related Party Transactions***

In addition to the above land lease agreement between Ruihao and Longjiang, the following is a summary of the related party transactions.

As at March 31, 2009, the Company has due to related parties balances totaling \$928,848 (March 31, 2008 - \$1,504,383) which represents the amounts owing to (1) Heilongjiang Ruihao Technology Group ("Ruihao"), the major shareholder of the Company, of \$580,958 (March 31, 2008 - \$1,475,163), (2) Daqing Zhongdan Energy Co., Ltd., a subsidiary of Ruihao, of \$347,890 (March 31, 2008 - \$29,220). These amounts are unsecured, non-interest bearing and without specific terms of repayment.

As at March 31, 2009, the Company has a due from related parties balance of \$204,154 (March 31, 2008 - \$nil) which represents amount due from directors of \$74,781 and the amount of \$129,373 due from China Wind Power International Corp., a company under the same management of the Company. These amounts are unsecured, non-interest bearing, without specific terms of repayment and expected to be repaid within one year.

The Company rented office space from Ruihao free of charge for the period from May 18, 2007 to November 17, 2009. The lease will be renewed every year.

Ruihao and one of the directors of the Company and his spouse provided guarantees of the loan from the Agricultural Development Bank of China free of charge.

All related party transactions above are recorded at the exchange amounts as agreed upon by the related parties.

During the year ended March 31, 2009, the Company purchased wind turbines of \$15,642,124 (year ended March 31, 2008 - \$1,744,549) from Daqing Deta Electric Co., Ltd., (“Deta”), a company that was under significant influence of the Company’s management before it was acquired by a third party. On November 25, 2008, Deta was acquired by a third party and ceased to be a related party of the Company from that time forward. The purchases from Deta as a related party were recorded at the carrying amounts of Deta. Difference of \$234,632 (year ended March 31, 2008 - \$26,168) between the exchange amounts and the carrying amounts were recorded in deficit.

### ***Share Capital***

The registered and paid in capital of the Company was RMB 162,162,000 Yuan (\$23,567,778 based on the historical exchange rate) as at March 31, 2009. On April 1, 2009, the registered and paid in capital was increased to RMB 275,262,000 Yuan (\$44,400,798 based on the historical exchange rate). On July 13, 2009, the registered and paid in capital was increased again to RMB 308,262,000 Yuan (\$50,023,998 based on the historical exchange rate). The Company does not currently have a stock option plan.

### **Accounting Policies**

The Company prepares its financial statements in conformity with generally accepted accounting principles in Canada. Longjiang lists its significant accounting policies in Note 2 to its audited financial statements for the year ended March 31, 2009, of which the Company has identified the accounting policies, which are believed to be the most critical in fully understanding and evaluating the reported financial results.

### **Adoption of New Accounting Standards**

#### **Section 1400, General Standards of Financial Statement Presentation**

On April 1, 2008, the Company adopted CICA Handbook Section 1400. The standard requires assessment of an entity’s ability to continue as a going concern and disclosure of any material uncertainties that cast doubt on its ability to continue as a going concern. This new requirement has no impact on the Company’s financial statements.

#### **Section 1535, Capital Disclosures**

On April 1, 2008, the Company adopted CICA Handbook Section 1535, Capital Disclosures. This standard requires disclosure regarding what the Company defines as capital and its objectives, policy and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. This standard has no impact on the Company’s financial statements. Please refer to discussion on capital disclosure in note 11.

#### **Section 3862, Financial Instruments Disclosures, and Section 3863, Financial Instruments Presentation**

On April 1, 2008, the Company adopted CICA Handbook Sections 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These new standards require disclosure on financial instrument related risks, as discussed further in Note 10. These standards had no impact on the classification or presentation of the Company’s financial statements.

## **Future Accounting Pronouncement**

### **International Financial Reporting Standards**

The CICA has announced that Canadian GAAP for publicly accountable enterprises companies will be replaced with International Financial Reporting Standards (“IFRS”) over a transition period expected to end in 2011. We will begin reporting our financial statements in accordance with IFRS on April 1, 2011. The impact on our financial position and results of operations has not yet been determined.

### **Goodwill and intangible assets**

In February 2008, The CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Intangible Assets, and section 3450, Research and Development Costs. The new pronouncement establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of tangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from standards included in the previous Section 3062. This standard will be effective for annual financial statements relating to fiscal year beginning on or after October 1, 2008. The Company does not anticipate any impact to its financial statements arising from the accounting pronouncement.

### **Credit risk and the fair value of financial assets and financial liabilities**

In January 2009, the CICA issued EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to the Company's fiscal year ending March 31, 2010 with retrospective application without restatement of prior periods. The Company is in the process of evaluating the impact of this new guidance.

### **Consolidation and non-controlling interests**

In January 2009, the CICA issued Section 1601 Consolidations and Section 1602 Non-controlling Interests. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These new standards will not have a material impact on its financial statements unless the Company enters into a business acquisition subsequent to January 1, 2011.

### **Business combination**

In January 2009, the CICA issued Section 1582, Business Combinations replacing Section 1581 Business Combinations. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. This new standard will not have a material impact on its financial statements unless the Company enters into a business acquisition subsequent to January 1, 2011.

## **Risk Factors Relating to the Company**

### ***The Company's projects are in early stages of development***

Only two of the Company's projects are currently under construction and the remaining projects are at early stages of development and, as a result, the Company may not be able to obtain necessary environmental and regulatory permits and licenses, land tenure or leases, power purchase agreements, grid connection agreements, wind turbines or required local government support on acceptable terms or at all for one or more of the Company's future projects. Any failure to obtain these items may have an adverse effect on a particular project and, in turn, on the business, financial position or results of operations of the Company.

### ***The Company may fail to execute on its business plan***

Although management of the Company have developed a business plan which calls for the development and operation of up to 547MW in installed capacity of wind power projects in Duerbert Mongolian Nationality Autonomous County ("Du Mon County") of Heilongjiang Province, China, there can be no assurance that the business plan will succeed in whole or in part. The success of the Company's business plan will depend on a number of factors. As Longjiang has only been in business for two years and has not made any profits since its inception, there can be no assurance that the Company will be able to achieve planned growth. There can be no assurance that the Company's expansion strategy will be successful, that modifications to its strategy will not be required or that the Company will be able to effectively market and/or manage and enhance profitability.

In addition, such growth could place a significant strain on the Company's management, operational, financial, and other resources. The Company's ability to manage its growth effectively will require it to develop its management information systems capabilities and improve its operational and financial systems. Moreover, the Company will need to train, motivate, and manage its employees and attract senior managers and technical professionals. Any failure to expand these areas and implement and improve such systems, procedures, and controls in an efficient manner at a pace consistent with the Company's business could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company has targeted the wind power market in Heilongjiang Province, China, and more specifically Du Mon County, as a focus for its business. There can be no assurance that this market will develop as projected by the Company and, given the Company's limited experience and operating history in this market, that the Company's investment and efforts in this market will be successful. Failure to succeed in this market may adversely affect the Company's future business, financial condition, and operating results.

### ***The Company will require substantial additional financing to develop its business***

The development of the business of the Company according to its business plan will require substantial additional financing. The Company's future capital requirements will depend upon many factors, including maintenance, project expansion and unexpected capital cost increases. Failure to obtain sufficient financing may result in delaying, scaling back, elimination or indefinite postponement of the Company's business plan. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. Lending may be obtained from Canadian banks, Chinese banks, or other debt and equity markets.

There is no assurance that the Company's business will generate sufficient cash flow from operations in the future to service its debt (including the current RMB 360 million Yuan fixed asset loan from the Agricultural Development Bank of China) and make necessary capital expenditures, in which case the Company may seek additional financing, dispose of certain assets, or seek to refinance some or all of its

debt. The Company's Wind Farm #1 assets have been pledged to the Agricultural Development Bank of China in order to secure the fixed asset loan, and if the Company defaults on its loan obligations, the Agricultural Development Bank may enforce its security and seize the Company's Wind Farm #1 assets.

Although Chinese banks are in the midst of reform, the basis on which they can lend money is not transparent and they do not often lend money to foreign invested enterprises. Obtaining financing from a Chinese bank will, to a certain extent, involve leveraging personal relationships. There is no guarantee that the Company will continue to have the right relationships if and when it requires further financing. The Chinese government may articulate a need to try and control the rate of economic growth in China or may impose different policies to encourage growth due to the current global economics crisis. Therefore, Chinese government lending policies may change from time to time, and this too could affect the Company's ability to obtain future bank financing.

If the Company raises additional funds through the issuance of equity or equity-linked securities, dilution to existing shareholders will result. Depending on the amount of capital the Company raises through the sale of equity or equity-linked securities, the dilution may be substantial. Depending on the state of the equity capital markets and the wind power industry in general, and the state of the Company's business in particular, the Company may need to obtain funds through arrangements with others on unfavourable terms. The failure to fund the Company's capital requirements would have a material adverse effect on the Company's business, financial condition and results of operations and the Company's ability to continue operations.

***The Company's projects are subject to construction and development risks***

The wind turbines for the Company's projects will need to be manufactured, shipped to the project site, installed and tested. There is a risk that the construction at the Company's projects may not be completed or may be substantially delayed, or that material cost over-runs may be incurred. As the Company's wind power projects are located in north eastern China, seasonal and weather conditions, such as high winds and snow/ice, may delay completion of construction at a project site. Failure to complete construction or delays or cost over-runs in such construction, may have a material adverse effect on the business, financial position or results of operations of the Company.

***The Company's assessment of wind resource and production may be inaccurate***

Longjiang's majority shareholder, Ruihao, has carried on wind assessment at the project sites since 2005. However, the strength and consistency of the wind resource at a project site once the project is in operation may vary from the estimates set out in the wind study for such project. Weather patterns could change or the historical data could prove to be an inaccurate reflection of the strength and consistency of the wind in the future. The conclusions of the wind studies are based on a particular methodology and a set of assumptions about the existence of certain conditions and that such conditions will continue in the future. The following is a list of considerations which may contribute to actual energy production being different, possibly materially, than the energy production estimates set out in the wind studies:

- the extent to which the limited time period of the site-specific wind data accurately reflects long-term wind speeds;
- the extent to which historical data accurately reflects the strength and consistency of the wind in the future;
- the strength of the correlation between the site-specific wind data and the longer-term regional wind data;
- the potential impact of climatic factors;

- the accuracy of assumptions on a variety of factors, including but not limited to weather, icing and soiling of wind turbines, site access, wake and line losses and wind shear;
- the accuracy with which anemometers measure wind speed, and the difference between the hub height of the wind turbines and the height of the meteorological towers used for data collection;
- the inherent variability of wind speeds;
- the lack of independent verification of the turbine power curve provided by the turbine manufacturer;
- the potential impact of topographical variations, turbine placements and local conditions, including vegetation;
- the inherent uncertainty associated with the specific methodologies and related models, in particular future orientated models, used to project the wind resource; and
- the potential for electricity losses to occur before delivery.

If the actual wind resources for a particular project varies from the estimates in the wind study or wind data collected it could have a material adverse effect on a particular project and, in turn, on the business, financial position or results of operations of the Company.

***The Company's electricity is dependent on variable wind resource***

Wind is naturally variable. Therefore, the level of electricity production from the Company's wind power projects will also be variable. If there is insufficient wind resource at any portion of the Company's wind power projects sites, the amount of electricity expected to be generated by the Company's wind power projects may not be met and the business, financial position or results of operations of the Company may be materially adversely affected.

***The Company's business is dependent on certain key commercial agreements***

Electricity production from the Company's Wind Farm #1 will be sold to the Daqing Electric Power Administration through a power purchase agreement and connected to the power grid through a grid connection agreement with Longjiang. The Company will also sell CER credits to Goldman Sachs International pursuant to an emissions reduction purchase agreement. The Company also has a fixed asset loan agreement with the Agricultural Development Bank of China for RMB 360 million Yuan to finance the construction of Wind Farm #1. Future wind power projects to be developed by the Company will also require similar power purchase, grid connection and financing arrangements. The failure to secure or the termination of any one or more such contracts could have a material adverse effect on the business, financial position or results of operations of the Company.

The Company sources its wind turbines and other components for Wind Farm #1 from Wuhan Guoce Nordic New Energy Co. Ltd., Daqing Deta Electric Co. Ltd., Harbin Power Equipments Corporation (ordered through Hanwei Wind Power Equipment (Daqing) Co., Ltd.) and Lianyungang Zhongfu Lianzhong Composite Material Group Co., Ltd., and will continue to need to source wind turbines from these and other suppliers for the Company's future wind power projects. If for any reason these turbine suppliers are unable or unwilling to fulfill their contractual obligations under the applicable turbine supply agreement and any warranty and maintenance agreements, it may have a material adverse effect on the Company. If these suppliers cease business operations prior to the cessation of operations at the Company's current and future wind power projects, spare parts for the Company's current and future wind power projects may be unavailable and operation of the wind turbines at the Company's current and future

wind power projects may be adversely affected, which may have a material adverse effect on the business, financial condition and results of operations of the Company.

The operations of the Company are highly dependent upon the Company being able to enter into key agreements on economic terms and upon parties to certain commercial agreements fulfilling their contractual obligations, especially the turbine suppliers, and the counter parties to power purchase, grid connection and emissions reduction purchase agreements. An inability or failure by any such party to meet its contractual commitments may have a material adverse effect on the business, financial condition and results of operations of the Company.

***The Company is subject to the tight market for turbine supply***

As a result of a number of factors, including the strong growth in demand for wind turbines in China and globally, the market for turbines is supply driven. In addition, pursuant to the Notice of the National Development and Reform Commission Concerning the Management of Construction of Wind Farms (NDRC Energy [2005] No.1204) issued on July 4, 2005 (referred to hereinafter as “**NDRC Notice No. 1204**”), the PRC government requires wind power project developers and operators to locally source at least 70% of their equipment and components. If demand continues to grow without additional supply, it may continue to result in long lead-times on turbine orders and/or the necessity to lock in turbine supply arrangements early in the development process. This supply/demand imbalance can also lead to increased cost and add to uncertainties in the Company’s development process such as planning and grid connection. Any of these factors could have a material adverse effect on the business, financial position or results of operations of the Company.

***The Company has made significant prepayments to its suppliers for future equipment deliveries***

The market for turbines is supply driven. In order to lock in turbine supply arrangements as early as possible so as to obtain turbines and other key components and services in time, it has become common practice in the wind power industry in China to prepay in advance part of the payment of turbines to the suppliers. As a result, the Company has made significant amounts of prepayments to its suppliers for future equipment deliveries and this may lead to increased financial cost and risk. If the equipment deliveries are not made on time, or if the turbine suppliers experience financial difficulties, the prepayments made by the Company may be at risk. The occurrence of any of these events could have a material adverse effect on the business, financial position or results of operations of the Company.

***The Company’s future returns are dependent on the prices of turbines, towers and other equipment***

As prices for raw materials and energy have significantly increased in China and are expected to continue to increase in the future, the price for wind turbines, towers, blades and other major equipment may also increase for the Company’s future projects. Any price increases may negatively impact the Company’s future returns and may have an adverse effect on the business, financial position or results of operations of the Company.

***The Company may face unanticipated significant delays in turbine delivery from the Company’s suppliers***

The Company’s direct or indirect wind turbine and equipment suppliers including, without limitation, Wuhan Guoce Nordic New Energy Co. Ltd., Daqing Deta Electric Co. Ltd., Harbin Power Equipments Corporation (ordered through Hanwei Wind Power Equipment (Daqing) Co., Ltd.) may run into funding, supply chain, technical, and/or other difficulties. As a result, they could be unable to deliver wind turbines in time, and could cause significant delays in the completion of the Company’s planned wind farms. Any significant delivery delays could negatively impact the Company’s future revenue and may have a material adverse effect on the business, financial position or results of operations of the Company.

***The Company needs to obtain the requisite permits, leases, licenses and land tenures to operate its wind power projects***

The Company will be required to meet certain conditions and fulfill certain covenants to keep its permits, licenses, land tenures, leases and agreements in good standing. The failure to meet any such conditions, the failure to fulfill certain covenants or the inability of the Company to remedy such failures may result in the termination or loss of the Company's rights under such permits, licenses, land tenures, leases and agreements. Any of the foregoing events could have a material adverse effect on a particular project and, in turn, on the business, financial position or results of operations of the Company.

To the knowledge of management of the Company, the Company currently holds all the approvals, licenses and permits required in connection with the construction and operation of Wind Farm #1. However, government requirements for approvals, licenses and permits may be changed from time to time. As soon as the Company is made aware of any new approvals, licenses and permits that may be needed, the Company will use its best efforts to fulfill the requirements and obtain such approvals, licenses and permits. The failure to obtain all necessary licenses or permits, including renewals thereof or modifications thereto, could result in the construction of one or more of the Company's projects not being completed or could otherwise have a material adverse effect on the Company.

Chinese permits to be issued in connection with the Company's projects may contain conditions that need to be satisfied prior to construction, during construction, and during and after the operation of the applicable project. It is not possible to forecast the conditions imposed by such permits or the cost of mitigating measures required by such permits. Any such conditions could have a material adverse effect on the business, financial condition and results of operations of the Company.

***The land use right has been granted by the government to Ruihao, which has in turn leased the land to the Company***

All documentation, permits and approvals, including the land lease for Wind Farm #1 were initiated by Ruihao before the incorporation of the Company. For this reason, the land use right for Wind Farm #1 was granted initially to Ruihao by the government free of charge. Subsequently, Ruihao and Longjiang entered into an agreement whereby Ruihao further granted the land use right to Longjiang free of charge for 30 years from October 1, 2007 to September 30, 2037. Wind Farm #2's land use right will be held by the Company. Because the Company does not directly hold the land use right from the government for Wind Farm #1, if the land use agreement between Ruihao and Longjiang shall be held unlawful, void or for any reason unenforceable, it may have material adverse effect on the business of the Company.

***Cost overruns may adversely impact the Company***

The total costs to design, develop and construct the Company's projects and commence commercial electricity production and operations at its projects have not been and will not be fully determined until projects are completed. Further, there can be no assurance that development or construction activities will commence in accordance with expectations or at all. Delays are likely to increase project costs. Any information concerning the capital costs to be incurred by the Company for the development of the projects as presently configured or under revised plans for development is only an estimate. There is no assurance that capital cost overruns will not occur. If significant increases in operating costs are incurred, it may have a material adverse effect on the Company.

It should be anticipated that actual costs may vary from the Company's estimates and any such variances may be significant. In the event of cost overruns, the Company may not have enough capital to (i) commence the development or construction of all of the projects, or (ii) continue with the development or construction of, or complete one or more of the Company's projects if development or construction activities are already underway. The Company does not hold project delay/cost overrun insurance and, even if such insurance is available at a reasonable cost and obtained, there can be no assurance that the coverage amount will be sufficient for all cost overruns, that the operator will be able to satisfy the conditions to making a claim under such insurance, that the operator will be successful in asserting any

claim under such insurance, or that any claims under insurance will be paid in a timely fashion. If any of these events occurs, it may have a material adverse effect on the business, financial condition and results of operations of the Company.

***The Company's revenues are dependent on sales of electricity and green credits to two customers***

The Company's revenues will be dependent entirely on sales of electricity to the Daqing Electric Power Administration and sales of CERs to Goldman Sachs International. The operations of the Company are highly dependent upon the Daqing Electric Power Administration fulfilling their contractual obligations under the power purchase agreement and Goldman Sachs fulfilling their obligations under the emissions reduction purchase agreement with the Company, and on the ability of the Company to enter into similar agreements with these counter parties for its future wind power projects. An inability or failure by such customers to meet their contractual commitments may have a material adverse effect on the business, financial position or results of operations of the Company.

***The Company's revenues are dependent on sales of green credits under the CDM that may change after 2012***

The Company's revenues will be dependent on sales of green credits under the Clean Development Mechanism ("CDM"), an arrangement under the Kyoto Protocol. The Kyoto Protocol is an agreement made under the United Nations Framework Convention on Climate Change (UNFCCC). It was adopted for use on December 11, 1997 by the 3rd Conference of the Parties in Kyoto and entered into force on February 16, 2005. The first commitment period of the Kyoto Protocol ends on December 31, 2012, and international talks began in May 2007 on a subsequent commitment period. The emissions reduction purchase agreement entered into between the Company and Goldman Sachs International is valid until December 31, 2012. The uncertainty on whether CDM will be carried on in the same way after December 31, 2012 or whether a new mechanism will be introduced for the green credits trade will impact significantly on the sales of green credits and the Company's future revenues after the end of 2012. These effects on the revenues of the Company may have a material adverse effect on the business, financial position or results of operations of the Company.

***Sales of green credits depend on successful registration with the CDM Executive Board as a CDM Project***

The Company needs to register its project to the CDM Executive Board as a CDM Project before it is qualified to sell green credits under CDM. The registration requires approvals by the Chinese government, and verification and certification undertaken by a "Designated Operational Entity" that is designated by the Conference of the Parties to the UNFCCC serving as the Meeting of the Parties to the Kyoto Protocol. Any failure with the approvals, verification, certification or registration will cause the Company to be unable to sell its green credits, and that may have a material adverse affect on the business, financial position or results of operations of the Company.

***The payment of green credits depends on financial stability of the green credits buyer***

Pursuant to the emissions reduction purchase agreement entered between Longjiang and Goldman Sachs International, Goldman Sachs Group, Inc. has unconditionally guaranteed the prompt and complete payment when due of all obligations and liabilities of Goldman Sachs International, a subsidiary of the Goldman Sachs Group, to Longjiang arising out of or under the emissions reduction purchase agreement. However, if Goldman Sachs Group Inc. shall file for bankruptcy, enter into creditor relief proceedings, or otherwise become unable to fulfill its obligations under the emissions reduction purchase agreement, the business, financial condition and results of operations of the Company may be materially adversely affected.

***The Company's future revenues are dependent on prices for electricity and CERs and subject to price control***

In China, on-grid tariff is controlled by the Chinese central government. The National Development and Reform Commission (“NDRC”) is currently the government agency responsible for issuing related regulations or circulars to control the electricity price nation wide. The Company’s future revenues are dependent on the price of electricity and green credits. The market rates of electricity and availability and pricing of green credits may be affected by changes in regulations and government policy, and in demand and capacity supply, including cyclical changes, as well as the overall economy. Electricity markets are also subject to regulatory developments in China, and more specifically Heilongjiang Province, where the Company operates (or intends to operate) or sells electricity, and other external factors outside the control of the Company, which developments or factors may negatively impact electricity markets, pricing, transmission development and investment. These effects on the revenue of the Company may have a material adverse effect on the business, financial position or results of operations of the Company.

***The Company's electricity production is subject to transmission constraints***

The electricity transmission systems are subject to regulation and other external factors that are beyond the control of the Company. In addition, the transmission system is subject to outages, failures and other potential availability constraints that may reduce the Company’s ability to transport electricity. Any transmission constraints may have a material adverse effect on the viability of the Company’s projects and/or the timing of such projects, which may have a material adverse effect on the business, financial position or results of operations of the Company.

***The Company may be exposed to third party credit risk***

The Company may be exposed to third party credit risk through its contractual arrangements with third parties. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the business, financial condition and results of the operations of the Company.

***The Company operates in a competitive environment***

While the Company has exclusive rights to develop wind energy in Du Mon County, it also actively competes for acquisitions, leases, licences, power purchase agreements and concessions, equipment and skilled industry personnel with a substantial number of other renewable energy companies, many of which have significantly greater financial resources than the Company. The Company’s competitors include major energy companies and numerous other independent wind energy focused companies and individual producers and operators.

The Company’s ability to construct wind power projects and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its current and future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment. This competition may have a material adverse effect on the business, financial condition and results of operations of the Company.

***The Company's business is dependent on the continued service of key members of management***

The Company’s future prospects depend to a significant extent on the continued service of its key executives. Furthermore, the Company’s continued growth and future success depends on its ability to identify, recruit and retain key management personnel. The competition for such employees is intense and there can be no assurance that the Company will be successful in identifying, recruiting or retaining such personnel. If any of these events occur, it may have a material adverse effect on the business, financial condition and results of operations of the Company.

***The Company operates in a highly regulated industry***

The profitability of the Company will be in part dependent upon the continuation of a favourable regulatory climate with respect to the continuing operations and the future growth and development of the independent renewable power industry in China. Government regulations, incentives, potential green credit markets and market design currently have a favourable impact on the building of wind power facilities. Should the current Chinese governmental regulations, incentive programs or the design of the market be modified, the Company's wind power projects may be adversely affected, which may have a material adverse effect on the business, financial condition and results of operations of the Company.

***The Company's insurance coverage may be insufficient***

While the Company believes that the insurance coverage obtained for the Company's wind projects addresses material insurable risks, provides coverage that is similar to what would be maintained by a prudent owner/operator of similar facilities at a similar stage of development, and is subject to deductibles, limits and exclusions which are customary or reasonable given the cost of procuring insurance, current operating conditions and insurance market conditions, there can be no assurance that such insurance will continue to be offered on an economically feasible basis, nor that all events that could give rise to a loss or liability are insured for, nor that the amounts of insurance are sufficient to cover each and every loss or claim that may occur involving the assets or operations of the Company. If any of these events occurs it may have a material adverse effect on the business, financial condition and results of operations of the Company.

The occurrence of a significant event which disrupts the ability of the Company's wind projects to produce or sell power for an extended period, including events which preclude existing customers from purchasing power, may have a material adverse effect on the business, financial position or results of operations of the Company.

***The turbines purchased by the Company may not be able to withstand all weather conditions at the project sites or perform to their specifications***

Turbines selected by the Company for its current wind power projects were chosen because of their advanced design, reasonable price, fast and easy-to-access maintenance and repair services and their expected ability to withstand anticipated local weather conditions, as well as to satisfy Chinese regulations for the sourcing of locally manufactured equipment and components. However, there can be no assurance that these turbines will be able to withstand all weather conditions that may be experienced, or that extreme weather will not otherwise materially impact the production of electricity considering that the Company's wind farms are and will be located in the northernmost part of China where winter temperatures range from -32°C to -17°C in January.

China's wind turbine manufacturing industry is relatively new and experiencing rapid growth. Certain of the Company's turbine suppliers are new to the industry and their products are unproven. In particular, one of the turbine suppliers, Daqing Deta Electric Co. Ltd. (which was acquired by Hanwei Energy Services Corp.), has a further contract with Hanwei Wind Power Equipment (Daqing) Co. Ltd. ("**Hanwei Wind**") to manufacture turbine equipment for the Company. Hanwei Wind itself is new to the wind power business. Wuhan Guoce Nordic New Energy Co., Ltd. is a joint venture between Chinese Wuhan Guoce Science & Technology Co., Ltd. and Swedish Deltawind AB. Even though Swedish Deltawind AB has been in business for a number of years, the joint venture was founded in 2006 in Wuhan, China and is new to the Chinese market. There is no assurance that the turbines purchased by the Company will be able to perform according to their specifications. In the event that they do not and cannot be corrected in an efficient manner, there may be an adverse effect on the production of electricity by the Company's current and future wind power projects.

The wind turbines comprising the Company's wind power projects may break down from time to time and may degrade over time. Breakdowns and degradation will adversely affect the operations and increase the expenses of, and decrease the revenues from, the Company's current wind power projects. In addition, any

equipment breakdown after expiry of the applicable warranty period will increase the expenses of the Company's current wind power projects.

In the event that the turbine suppliers fail to provide operations and maintenance support, the Company will be required to make arrangements for operation and maintenance of the Company's wind power projects. There can be no assurance that an alternative provider of operations and maintenance services will be available on terms acceptable to the Company, or at all. If any of these events occurs it may have a material adverse effect on the business, financial condition and results of operations of the Company.

***PRC economic, political and social conditions as well as government policies could adversely affect the Company's business***

The Company carries on substantially all of its business in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, economic growth rate, government control of foreign exchange, allocation of resources and balance of payment position. The PRC economy has been transitioning from a planned economy to a more market-oriented economy, and as a key market in the global economy, is also influenced by worldwide economic conditions including the recent global economic slowdown. For the past two decades the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Some of these measures will benefit the overall PRC economy, but may have a negative effect on the Company.

The Company's business, financial condition and results of operations may be adversely affected by:

- changes in PRC political, economic and social conditions;
- changes in policies of the PRC government, including without limitation, changes in policies affecting private business, foreign investment and regulation of the wind power industry;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- imposition of additional restrictions on currency conversion and remittances abroad.

The PRC government has previously taken actions to stabilize the country's economy and any possible social unrest. It has implemented various measures intended to strengthen and improve macroeconomic regulation and is slowly pushing forward reform programs to create stable momentum and growth. The Company cannot assure that such growth will be sustained in the future. Nor can the Company assure that any initiatives from the PRC government are necessarily applied or complied with at a local level. Macroeconomic initiatives that are beneficial to the region in which the Company's projects are located may not be complied with at a local level. In addition to any adverse effect this could have, the Company may be challenged in deciding whether to follow central or local interpretations of applicable laws and regulations. Following local interpretations of applicable laws and regulations may prove to be necessary in practice but could be inconsistent with PRC government interpretations and applications of the same laws and regulations, exposing the Company to potential future liability.

***The Company's operations are subject to the uncertainty of the PRC legal system***

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters, such as foreign investment, corporate organization and governance,

commerce, taxation and trade. However, as these laws and regulations are relatively new, and due to the limited volume of published cases and judicial interpretation and their lack of precedential force, interpretation and enforcement of these laws and regulations involve significant uncertainties. In addition, PRC government policies and internal rules (some of which are not published on a timely basis or at all) may have retroactive effect. As a result, the Company may breach one or more such policies and internal rules without being aware of such breach. Because these laws and regulations may not be comprehensive, and because of the limited volume of published cases and judicial interpretations and the nonbinding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainty. Additionally, China does not have a treaty with Canada for reciprocal enforcement of court judgments. Such uncertainty may make it difficult for the Company to enforce its contractual and other rights. The Company cannot provide any assurance that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material adverse effect on its business, financial condition and results of operations.

***The Company is subject to risks presented by fluctuations in foreign currencies***

The Company publishes its financial statements in Canadian dollars, while most of its revenue is denominated in Renminbi. Since 1994, the conversion of Renminbi into Canadian and U.S. dollars has been based on rates set by the People's Bank of China, which rates are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. The PRC government has indicated that it intends to ultimately make the Renminbi freely convertible. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. However, the Company cannot predict when the PRC government will allow free conversion of Renminbi into foreign currencies. Renminbi devaluation and exchange rate fluctuations may adversely affect its results of operations and financial condition and may result in foreign exchange losses. In addition, the Company may not be able to increase the Renminbi prices of its domestic sales to offset fully any depreciation of the Renminbi due to political, competitive or social factors.

Any significant fluctuation in the exchange rates between the Renminbi and other currencies, such as the Canadian dollar, U.S. dollar, Euro or Hong Kong dollar may have an adverse impact on the Company's results of operations.

***Cost of material and labour have been rising in China***

Labour costs in PRC have traditionally been significantly less than those in other more developed countries. However, such costs have begun to rise and there is no guarantee that they will not continue to rise. The cost of building materials and other components necessary for the Company's wind power projects in China are also increasing, due in part to greater demand as a result of the high level of building activity in China. Any such increased cost could have an adverse effect on the Company.

***The Company's net profitability is subject to changes in PRC tax treatment***

PRC currently has a number of tax laws imposed by both national and regional government authorities. Applicable PRC taxes include, among others, enterprise sales tax including city construction tax and education surcharge, enterprise income tax, value-added tax, withholding tax for dividends, and land use tax.

The Company currently enjoys certain tax preferences granted by Chinese government. These tax preferences may change from time to time or be cancelled altogether. These changes along with other future changes in PRC tax treatment could have a negative impact on the Company.

## Outlook

In the near term, the Company intends to grow by bringing Wind Farm #1 into production and complete construction of the second wind farm project by the end of year 2009. The Company is also seeking to obtain additional approvals from government and power purchase and grid connection agreements for its next projects. The Company will also be focused on moving the remainder of its development pipeline. Based on its existing portfolio of wind power development projects, the Company expects strong growth in installed wind power production capacity over the next five years.

Longjiang plans to have 547 MW in capacity of wind farms fully-constructed and producing power within six years. The total investment for this development is projected to be RMB 5.8 billion Yuan (US\$ 0.85 billion), approximately 70% to 80% of which will be financed by bank loans and 20% to 30% financed by equity investment. Longjiang's six year development plan is as follows:

<b>Phases</b>	<b>Projects</b>	<b>Construction Period (quarter/year)</b>	<b>Installed Capacity (MW)</b>	<b>Status</b>
Phase I	Wind Farm #1 (Ruihao)	Q3/2007-Q4/2009	49.0	Under construction.
Phase II	Wind Farm #2 (Ruifeng)	Q2/2009-Q4/2009	49.5	All paperwork is finished. Officially approved by Heilongjiang DRC.
Phase III	Wind Farms #3 (Guofeng) and #4 (Ruili)	Q2/2010-Q4/2011	100.0	All paperwork is finished.  In the process of application for approval.
Phase IV	Sino-Demark	Q2/2011-Q4/2013	200.0	In the process of feasibility study.
Phase V	Guofeng, Yuanfeng, Tongfeng	Q2/2012-Q4/2014	148.5	In the process of feasibility study and paperwork.
<b>Total</b>		<b>Q3/2007</b> – <b>Q4/2014</b>	<b>547.0</b>	

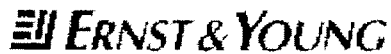
The Company's current strategy also includes, where possible, retaining the carbon credits associated with the Clean Development Mechanism ("CDM") resulting from its renewable energy electricity generation in order to maximize its exposure to the emerging market for carbon credits. Management believes that the carbon credit market in China and in the world will continue to develop and, if so, may provide enhanced value to the Company.

In addition to its organic growth plan, Longjiang intends to opportunistically acquire wind farm projects in areas surrounding Daqing from entities that lack the financial ability or operational expertise to construct and operate wind farms.

# **Daqing Longjiang Wind Power Co., Ltd.**

**Financial Statements**  
**(Expressed in Canadian dollars)**

**Year Ended March 31, 2009**



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## AUDITORS' REPORT

To the Board of Directors of  
**Daqing Longjiang Wind Power Co., Ltd.**

We have audited the balance sheets of **Daqing Longjiang Wind Power Co., Ltd.** (the "Company") as at March 31, 2009 and 2008 and the statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Ernst & Young LLP*

Vancouver, Canada,

July 24, 2009,

Chartered Accountants

## Daqing Longjiang Wind Power Co., Ltd.

Balance Sheets

(Expressed in Canadian dollars)

	<u>March 31, 2009</u>	<u>March 31, 2008</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 3)	\$ 9,612,080	\$ 35,682,102
Accounts receivable	530,532	--
Other receivables (Note 4)	3,537,388	78,040
Due from related party (Note 9)	204,154	--
Value added tax recoverable, short term	1,850,337	31,596
<b>Total current assets</b>	<b>15,734,491</b>	<b>35,791,738</b>
Value added tax recoverable, long term	5,045,470	2,736,169
Prepayments for construction of wind farm	21,553,894	28,227,134
Equipment and furniture (Note 5)	312,819	238,220
Wind farm power plant costs (Note 6)	58,109,706	11,725,158
<b>Total assets</b>	<b>\$ 100,756,380</b>	<b>\$ 78,718,419</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 4,806,498	\$ 1,487,908
Other payable (Note 7)	852,150	--
Current portion of long-term debt (Note 8)	5,493,000	--
Due to related parties (Note 9)	928,848	1,504,383
<b>Total current liabilities</b>	<b>12,080,496</b>	<b>2,992,291</b>
Long-term debt (Note 8)	60,423,000	52,596,000
<b>Total liabilities</b>	<b>72,503,496</b>	<b>55,588,291</b>
<b>Shareholders' Equity</b>		
Paid-in capital	\$ 23,567,778	\$ 23,567,778
Accumulated other comprehensive income	5,869,917	96,693
Deficit	(1,184,811)	(534,343)
<b>Total shareholders' equity</b>	<b>\$ 28,252,884</b>	<b>\$ 23,130,128</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 100,756,380</b>	<b>\$ 78,718,419</b>
Commitments (Note 14)		

See accompanying notes to the financial statements

Approval by the Board of Directors:

Signed: Jun Liu

Director

Signed: Walter Huang

Director

## Daqing Longjiang Wind Power Co., Ltd.

Statements of Operations and Comprehensive Loss  
(Expressed in Canadian dollars)

	Year ended March 31, 2009	Year ended March 31, 2008
Electricity sales during testing phase	\$ 406,665	\$ --
Less: recorded as recovery of wind farm power plant cost	(406,665)	--
<b>Revenue (Note 2)</b>	--	--
<b>Expenses</b>		
Advertising and promotion	1,656	2,773
Accommodation and travel	119,815	103,248
Amortization	29,701	2,816
Entertainment	115,262	72,675
Office	46,851	85,157
Professional fees	186,595	128,995
Others	24,622	43,829
Wages and salary	146,235	87,103
	670,737	526,596
<b>Other Income</b>		
Interest income	254,901	31,241
<b>Net loss for the year</b>	\$ 415,836	\$ 495,355
Income tax expenses - current	28,766	--
- future	(28,766)	--
Other comprehensive income		
From translation of foreign entity	5,773,224	237,418
<b>Comprehensive income (loss) for the year</b>	5,357,388	(257,937)

See accompanying notes to the financial statements

## Daqing Longjiang Wind Power Co., Ltd.

Statements of Shareholders' Equity

(Expressed in Canadian dollars)

	Paid-in Capital	Accumulated Other Comprehensive Income / (Loss)	Deficits
Balance as at April 1, 2007	\$ 9,138,020	\$ (140,725)	\$ (12,820)
Additions	14,429,758	--	--
Other comprehensive income from translation of foreign entity	--	237,418	--
Adjusting purchases from a related party to carrying value (note 9)	--	--	(26,168)
Net loss	--	--	(495,355)
As at March 31, 2008	23,567,778	96,693	(534,343)
Other comprehensive income from translation of foreign entity	--	5,773,224	--
Adjusting purchases from a related party to carrying value (note 9)	--	--	(234,632)
Net loss	--	--	(415,836)
As at March 31, 2009	\$ 23,567,778	\$ 5,869,917	\$ (1,184,811)

See accompanying notes to the financial statements

**Daqing Longjiang Wind Power Co., Ltd.**

Statements of Cash Flows

(Expressed in Canadian dollars)

		<b>Year ended March 31, 2009</b>		<b>Year ended March 31, 2008</b>
<b>Cash provided by (used in) operating activities</b>				
Net loss for the year	\$	(415,836)	\$	(495,355)
Amortization		29,701		2,816
		(386,135)		(492,539)
Net change in non-cash working capital				
Other receivables		(293,161)		(74,060)
Accounts payable and accrued liabilities		(786,510)		400,306
Due from related party		(183,092)		-
		(1,648,898)		(166,293)
<b>Cash used in investing activities</b>				
Loan given to a supplier		(3,284,200)		-
Repayment of loan given to a supplier		492,630		-
Property and equipment		(42,499)		(216,796)
Wind farm power plant costs		(26,996,039)		(31,222,393)
		(29,830,108)		(31,439,189)
<b>Cash provided (used) by financing activities</b>				
Cash from related parties		-		1,427,671
Cash from supplier loan		852,150		-
Repayment to related parties		(857,840)		-
Cash from long term debt		-		50,184,000
Contribution from shareholders		-		14,429,758
		(5,690)		66,041,429
Effect of exchange rate changes on cash and cash equivalents		5,414,674		1,244,356
Increase in cash and cash equivalents		(26,070,022)		35,680,303
Cash and cash equivalents, beginning of year		35,682,102		1,799
Cash and cash equivalents, end of year	\$	9,612,080	\$	35,682,102
<b>Supplemental cash flow information</b>				
Interest paid in cash	\$	4,572,954	\$	-

**Daqing Longjiang Wind Power Co., Ltd.**  
**Notes to the financial statements**  
**For the year ended March 31, 2009**

**1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

**Nature of business**

Daqing Longjiang Wind Power Co., Ltd. (“DQLJ” or the “Company”) was incorporated under the laws of the People’s Republic of China (“China”) on January 24, 2007.

The Company is in the business of developing wind energy projects in China. The Company is focusing on wind energy development and to build, own and operate wind farms to provide clean energy. The first 49MW wind farm is currently under construction. To date, the Company has not earned significant revenues and is considered to be in the development stage.

**Basis of presentation**

The financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).

**Going concern**

The Company has incurred a net loss of \$415,836 for the year ended March 31, 2009 (year ended March 31, 2008 – \$495,355) and has an accumulated deficit of \$1,184,811 as at March 31, 2009 (March 31, 2008 – \$534,343).

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. The continued operations of the Company are dependent upon the ability of the Company to obtain necessary financing to repay the loan of \$65,916,000 (RMB360,000,000) to China Agricultural Development Bank Du Mon Branch (Note 8) by the repayment dates, to complete the development and construction of the wind generated electrical projects, and to fund corporate overhead costs until future operations are profitable. Management’s plan in this regard is to refinance through debt, raise equity financing as required.

These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Significant areas requiring management estimates in the preparation of these financial statements include, amongst other things, percentage of completion of wind farm power plan progress, assessment of impairment of long-lived assets and income taxes.

**Daqing Longjiang Wind Power Co., Ltd.**  
**Notes to the financial statements**  
**For the year ended March 31, 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and bank deposits that are readily convertible to cash with maturities of three months or less when purchased.

**Capitalization of loan interest**

The Company capitalizes the interest expenses directly related to construction of the wind farm power plant and the amount is recorded in the cost of the wind farm power plant. For the year ended March 31, 2009, interest of \$4,401,145 (year ended March 31, 2008 – 521,102) has been capitalized and included in the cost of the wind farm power plant.

**Foreign Currency Translation**

The Company's economic activities are in China. The functional currency is Chinese Renminbi ("RMB"). The Company uses Canadian dollars as its reporting currency of the financial statements. According to EIC 130 – Translation Method, When The Reporting Currency Differs from the Measurement Currency or There Is a Change in The Reporting Currency, the financial statements presented are translated into the reporting currency using the current rate method. Under this method, revenues and expenses of the Company are translated into Canadian dollars using average exchange rates for the period and assets and liabilities are translated using the exchange rate at the end of the period. All resulting exchange differences are reported as accumulated other comprehensive income (loss), which is presented as a separate component of shareholders' equity.

**Revenue Recognition**

The Company recognizes electricity sales revenue at the time of generation and delivery to the purchasing party as metered at the point of interconnection with the transmission system. Electricity sales revenue generated during testing phase was recorded as cost recovery to wind farm power plant costs. During year ended March 31, 2009, electricity sales revenue generated during testing phase was \$406,665 (year ended March 31, 2008: nil).

Interest income is recognized as earned.

**Equipment and Furniture**

Equipment and furniture are recorded at cost. Amortization is provided on the straight line basis over the estimated useful life of the assets commencing when the asset is brought into use as follows:

Machinery & equipment	10 to 30 year
Automobiles	10 year
Furniture	5 year

Wind farm power plant is stated at cost, which comprises all direct costs of construction. Wind farm power plant costs are transferred to property, plant and equipment, and depreciation of the asset on a straight line basis commences when construction is complete. No amortization was recorded for wind farm power plant to date.

**Impairment of Long-lived Assets**

Long-lived assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable from the future undiscounted net cash flows expected to be generated by the asset. If the asset is not fully recoverable, an impairment loss would be recognized in that period for the difference between the carrying value of the asset and its estimated fair value based on discounted net future cash flows or quoted market prices. There have been no impairment losses recognized to date.

**Daqing Longjiang Wind Power Co., Ltd.**  
**Notes to the financial statements**  
**For the year ended March 31, 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Financial Instruments**

The Company classifies its financial instruments into one of the following categories: held-for-trading, available-for-sale, loans and receivables, held-to-maturity and other financial liabilities. Held-for-trading financial assets and financial liabilities are financial assets and financial liabilities which are acquired for resale prior to maturity or are financial assets and liabilities designed as such by the Company. Loans and receivables are non-derivative financial assets to be received by the Company on specific dates or on demand. Held-to-maturity assets are non-derivative financial assets with a fixed maturity which the Company intends to hold until maturity. Available-for-sale financial assets are those non-derivative financial assets which are so designated by the Company or that do not fall into another category. All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items in which case they are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

Financial assets and liabilities “held-for-trading” are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets “available-for-sale” are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

Financial assets “held-to-maturity”, “loans and receivables”, and financial liabilities “other financial liabilities” are subsequently measured at amortized cost using the effective interest rate method.

Cash and cash equivalents are classified as “held-for-trading”, accounts receivable, other receivables and due from related parties are classified as “loans and receivables”, accounts payable and accrued liabilities, due to related parties, long term debt are classified as “other financial liabilities”.

**Comprehensive Income (Loss) and Equity**

CICA Handbook Section 1530 – Comprehensive Income establishes standards for reporting comprehensive income and displaying accumulated other comprehensive income (AOCI) as a separate component of shareholders’ equity. Comprehensive income (loss) is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income (loss) refers to items recognized in comprehensive income (loss) that are excluded from net income (loss) calculated in accordance with Canadian GAAP. The statement of comprehensive income (loss) reflects the changes in AOCI in the period.

**Income Taxes**

The Company uses the liability method of accounting for income taxes. Under this method, future income taxes assets and liabilities are determined based on “temporary differences” (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the substantively enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company’s provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted.

**Daqing Longjiang Wind Power Co., Ltd.**  
**Notes to the financial statements**  
**For the year ended March 31, 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**  
**Adoption of New Accounting Standards**

(i) *Section 1400, General Standards of Financial Statement Presentation*

On April 1, 2008, the Company adopted CICA Handbook Section 1400. The standard requires assessment of an entity's ability to continue as a going concern and disclosure of any material uncertainties that cast doubt on its ability to continue as a going concern. This new requirement has no impact on the Company's financial statements.

(ii) *Section 1535, Capital Disclosures*

On April 1, 2008, the Company adopted CICA Handbook Section 1535, Capital Disclosures. This standard requires disclosure regarding what the Company defines as capital and its objectives, policy and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. This standard has no impact on the Company's financial statements. Please refer to discussion on capital disclosure in note 12.

(iii) *Section 3862, Financial Instruments Disclosures, and Section 3863, Financial Instruments Presentation*

On April 1, 2008, the Company adopted CICA Handbook Sections 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These new standards require disclosure on financial instrument related risks, as discussed further in Note 11. These standards had no impact on the classification or presentation of the Company's financial statements.

**New Accounting Pronouncement**

(i) International Financial Reporting Standards

The CICA has announced that Canadian GAAP for publicly accountable enterprises companies will be replaced with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. We will begin reporting our financial statements in accordance with IFRS on April 1, 2011. The impact on our financial position and results of operations has not yet been determined.

(ii) Goodwill and intangible assets

In February 2008, The CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Intangible Assets, and section 3450, Research and Development Costs. The new pronouncement establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of tangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from standards included in the previous Section 3062, This standard will be effective for annual financial statements relating to fiscal year beginning on or after October 1, 2008 The Company does not anticipate any impact to its financial statements arising from the accounting pronouncement.

**Daqing Longjiang Wind Power Co., Ltd.**  
**Notes to the financial statements**  
**For the year ended March 31, 2009**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**New Accounting Pronouncement (Cont'd)**

(iii) Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the CICA issued EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to the Company's fiscal year ending March 31, 2010 with retrospective application without restatement of prior periods. The Company is in the process of evaluating the impact of this new guidance.

(iv) Consolidation and non-controlling interests

In January 2009, the CICA issued Section 1601 Consolidations and Section 1602 Non-controlling Interests. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These new standards will not have a material impact on its financial statements unless the Company enters into a business acquisition subsequent to January 1, 2011.

(v) Business combination

In January 2009, the CICA issued Section 1582, Business Combinations replacing Section 1581 Business Combinations. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. This new standard will not have a material impact on its financial statements unless the Company enters into a business acquisition subsequent to January 1, 2011.

**3. CASH AND CASH EQUIVALENTS**

As of March 31, 2009, there was no cash equivalent (March 31, 2008 - nil).

**4. OTHER RECEIVABLE**

	March 31, 2009	March 31, 2008
Loan receivable	3,424,064	--
Other	113,324	78,040
	<u>3,537,388</u>	<u>78,040</u>

Loan receivable represents a short term unsecured loan of \$3,424,064 to a supplier bearing an annual interest of 8.83%.

**Daqing Longjiang Wind Power Co., Ltd.**  
**Notes to the financial statements**  
**For the year ended March 31, 2009**

**5. EQUIPMENT AND FURNITURE**

	March 31, 2009			March 31, 2008		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Machinery & equipment	18,147	(1,762)	16,385	12,645	(340)	12,305
Automobiles	297,879	(28,757)	269,122	206,823	(1,982)	204,841
Furniture	33,629	(6,317)	27,312	21,719	(645)	21,074
	349,655	(36,836)	312,819	241,187	(2,967)	238,220

**6. WIND FARM POWER PLANT COSTS**

	Construction	Equipment	Capitalized	Total
	In Progress		Interest	
Balance – March 31, 2007	-	-	-	-
Addition	4,522,074	6,084,087	521,102	11,127,263
Foreign exchange effect from translating of foreign entity	242,982	326,913	28,000	597,895
Balance – March 31, 2008	4,765,056	6,411,000	549,102	11,725,158
Addition	5,643,938	29,297,681	4,401,145	39,342,764
Cost recovery – sales of electricity during testing phase	-	(406,665)		(406,665)
Foreign exchange effect from translating of foreign entity	1,856,010	4,947,090	645,349	7,448,449
Balance - March 31, 2009	12,265,004	40,249,106	5,595,596	58,109,706

The wind farm power plant was pledged as collateral for the long-term loan from the China Agriculture Development Bank Du Mon Branch (Note 8).

As at March 31, 2009, the Company had one wind farm under development.

**7. OTHER PAYABLE**

Other payable represents a loan from a supplier which is unsecured, non-interest bearing and without specific terms of repayment.

**8. LONG-TERM DEBT**

In January 2008, the Company entered into a loan agreement to borrow \$ 65.9 million (RMB 360 million) from China Agricultural Development Bank Du Mon Branch for a ten-year term expiring in 2017, bearing an interest payable quarterly at a variable rate, which is adjusted annually at February 20 according to the commercial RMB loan interest rate published by People's Bank of China at that time. The interest rate as at March 31, 2009 was 5.94% per annum (March 31, 2008: 7.83%). The loan is collateralized by the wind farm power plant and the future revenue of the wind farm power plant.

**Daqing Longjiang Wind Power Co., Ltd.**  
**Notes to the financial statements**  
**For the year ended March 31, 2009**

**8. LONG-TERM DEBT (Cont'd)**

The principle of the loan is repayable according to the following schedule:

December 20, 2009	\$	5,493,000 RMB	30,000,000
December 20, 2010	\$	5,859,200 RMB	32,000,000
December 20, 2011	\$	6,774,700 RMB	37,000,000
December 20, 2012	\$	7,690,200 RMB	42,000,000
December 20, 2013	\$	7,690,200 RMB	42,000,000
December 20, 2014	\$	7,873,300 RMB	43,000,000
December 20, 2015	\$	7,873,300 RMB	43,000,000
December 20, 2016	\$	8,239,500 RMB	45,000,000
December 20, 2017	\$	8,422,600 RMB	46,000,000
		<b>65,916,000</b>	<b>360,000,000</b>
<b>Less: Current portion</b>	\$	5,493,000 RMB	30,000,000
		<b>60,423,000</b>	<b>330,000,000</b>

**9. RELATED PARTY BALANCE AND TRANSACTIONS**

As at March 31, 2009, the Company has due to related parties balances totaling \$928,848 (March 31, 2008 - \$1,504,383) which represents the amounts owing to (1) Heilongjiang Ruihao Technology Group (“Ruihao”), the major shareholder of the Company, of \$580,958 (March 31, 2008 - \$1,475,163), (2) Daqing Zhongdan Energy Co., Ltd., a subsidiary of Ruihao, of \$347,890 (March 31, 2008 - \$29,220). These amounts are unsecured, non-interest bearing and without specific terms of repayment.

As at March 31, 2009, the Company has a due from related parties balance of \$204,154 (March 31, 2008 - \$nil) which represents amount due from directors of \$74,781 and the amount of \$129,373 due from China Wind Power International Corp., a company under the same management of the Company. These amounts are unsecured, non-interest bearing, without specific terms of repayment and expected to be repaid within one year.

The Company rented office space from Ruihao free of charge for the period from May 18, 2007 to November 17, 2009.

The Company used 137,780 square meters of land owned by Ruihao to build the wind farm free of charge from October 1, 2007 to September 30, 2037.

One of the directors of the Company and his spouse provided guarantees of the loan from China Agricultural Development Bank Du Mon Branch free of charge (note 8).

All related party transactions above are recorded at the exchange amounts as agreed upon by the related parties.

During the year ended March 31, 2009, the Company purchased wind turbines of \$15,642,124 (year ended March 31, 2008 - \$1,744,549) from Daqing Deta Electric Co., Ltd., (“Deta”), a company that was under significant influence of the Company’s management. On November 25, 2008, Deta was acquired by a third party and ceased to be a related party of the Company from that time forward. The purchases from Deta as a related party were recorded at the carrying amounts of Deta. Difference of \$234,632 (year ended March 31, 2008 - \$26,168) between the exchange amounts and the carrying amounts were recorded in deficit.

**Daqing Longjiang Wind Power Co., Ltd.**  
**Notes to the financial statements**  
**For the year ended March 31, 2009**

**10. INCOME TAX**

The Company is subject to income taxes in China on its taxable income as reported in its statutory accounts at a tax rate in accordance with the relevant income tax laws.

(a) Income Tax Expenses

The actual tax recovery differs from expected tax recovery due to the following items:

	March 31, 2009	March 31, 2008
Net loss for the year	\$(415,837)	\$(495,355)
Statutory tax rate	18.75%	31%
Expected tax recovery	\$(77,969)	\$(153,560)
Non-deductable items	\$24,631	\$24,617
Difference between statutory tax rate and future tax rate	(22,200)	\$24,956
Change in Valuation Allowance	75,538	\$103,987
Net tax provision	-	-

(b) Future Income Tax Assets

The table below shows tax effects of temporary differences that give rise to the Company's future tax assets are as follows:

	March 31, 2009	March 31, 2008
Undeducted pre-operating expenses or tax loss carry forward	\$ 31,654	\$ 107,192
Valuation Allowance	(31,654)	(107,192)
Net Future Tax Asset	-	-

Due to the uncertainty of future taxable income, a valuation allowance has been fully provided against future income tax assets. The Company evaluates its valuation allowance requirements on an annual basis. When circumstances change and this causes a change in management's judgment about the realizability of deferred tax assets, the impact of change on the valuation allowances is generally reflected in the current income.

According to The Enterprise Income Tax Law (effective on January 1, 2008) and The Implementing Regulations for the Enterprise Income Tax Law, the wind power generation project is eligible for tax exemption from the first tax year when the income generated from the project production to the third tax year, and for tax reduction by half from the fourth year to the sixth year. Subsequent to year end the company has received approval for eligibility of tax exemption. As a result, the actual tax rate for the Company will be 0% for calendar year 2009 to 2011, 12.5% for calendar year 2012 to 2014 and 25% starting 2015. The company's future tax assets will change as a result of the change in tax rates and will depend on which year the tax loss carry forward and other expense amounts will be expected to be utilized.

At March 31, 2009, the Company has non-capital losses of \$253,229 available to offset future taxable income in China. The Company has not recognized any future benefit for these tax losses, as their realization did not meet the requirements of "more likely than not" under the liability method of tax allocation.

**Daqing Longjiang Wind Power Co., Ltd.**  
**Notes to the financial statements**  
**For the year ended March 31, 2009**

**11. FINANCIAL INSTRUMENTS**

*Categories of financial assets and liabilities*

The Company's financial instruments are classified into the following categories with balances as at March 31, 2009 and March 31, 2008 as follows:

	March 31, 2009	March 31, 2008
Held for trading (1)	9,612,080	35,682,102
Loans and receivables (2)	4,272,074	78,040
Other financial liabilities (3)	72,503,496	55,588,291

(1) Includes only cash and cash equivalents.

(2) Includes accounts receivable, other receivable and due from related party.

(3) Includes accounts payable and accrued liabilities, other payable, due to related parties and long-term debt.

*Fair value of financial instruments*

The fair value of the Company's cash and cash equivalents, other receivables, accounts payable and accrued liabilities and other payable are estimated to approximate their carrying values as they are short term in nature. It's impractical to determine the fair value of due from related party and due to related parties with sufficient reliability due to the nature of the financial instrument, the absence of secondary markets and the significant cost of obtaining external appraisals.

The fair value of long-term debt is estimated using discounted cash flow analysis, based upon the Company's current borrowing rate and approximates to its carrying value.

*Risks arising from financial instruments and risk management*

In the normal course of business, the Company is exposed various types of market risks, including changes in foreign exchange rates, interest rates and material price, that may potentially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis.

*Currency risk*

A substantial portion of the Company's business is carried out in Chinese Renminbi, and the Company maintains Renminbi denominated bank accounts, term-deposits, receivables and payables. Fluctuations in exchange rates among the Canadian dollar the Chinese Renminbi could have a material effect on the business, results of operations and financial condition of the company. A fluctuation of +/-1%, provided as an indicative range in currency movement, would, everything else being equal, have effects on net loss after tax for the year ended March 31, 2009 and net value of financial instruments as at March 31, 2009 of approximately \$4,000 and \$585,000, respectively.

*Credit risk*

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, accounts receivable and other receivables. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

**Daqing Longjiang Wind Power Co., Ltd.**  
**Notes to the financial statements**  
**For the year ended March 31, 2009**

**11. FINANCIAL INSTRUMENTS (Cont'd)**

The Company has deposited the cash and cash equivalent with reputable financial institutions, from which management believes the risk of loss to be remote.

Other receivables as at March 31, 2009 include mainly a short term unsecured loan of \$3,424,064 [March 31, 2008: \$nil] to one of its suppliers bearing an annual interest of 8.83%. Accounts receivable as at March 31, 2009 represents receivable from one customer. Management manages credit risk by assessing and monitoring its receivables specifically. Management believes the risks of loss are remote.

Interest rate risk

The Company's long term debt is subject to interest rate risk. As the Company capitalized the interest expenses directly related to construction of the wind farm power plant, interest fluctuation has no effect on the Company's net loss after tax for the year ended March 31, 2009. Interest fluctuation of +/-100 basis points, would, everything else being equal, have an effect on the Company's wind farm power plant cost as at March 31, 2009 of approximately \$659,160 (March 31, 2008: \$70,000).

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at March 31, 2009, the Company was holding cash and cash equivalents of \$9,612,080. The contractual maturities of the Company's long-term debt were presented in Note 8. The Company has determined that expected cash flows from operations in 2009, together with cash and cash equivalents on hand will be more than sufficient to fund its requirements for investments in working capital and wind farm development.

**12. CAPITAL MANAGEMENT**

The Company's objectives in managing capital are to achieve and maintain an optimal capital structure to reduce the overall cost of capital and to preserve the Company's capacity to deploy capital to pursue its strategy of growth and provide returns to shareholders and other stakeholders.

The Company defines capital as shareholder's equity (excluding accumulated other comprehensive income) and bank loan.

Total managed capital was as follows.

	March 31, 2009	March 31, 2008
Shareholder's equity (excluding accumulated other comprehensive income)	22,382,967	23,033,435
Bank loan	65,916,000	52,596,000
	88,298,967	75,629,435

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to adjust the amount of debt outstanding, issue new shares, adjust the amount of dividends to shareholders or return capital to its shareholders.

The Company is not subject to externally imposed minimum capital requirements.

**Daqing Longjiang Wind Power Co., Ltd.**  
**Notes to the financial statements**  
**For the year ended March 31, 2009**

**13. SEGMENTED INFORMATION**

The Company conducts its business as a single operating segment, being the development and operation of wind farm power plant. All of the Company's assets are located in China and all expenses are incurred in China.

**14. COMMITMENTS**

The Company has capital commitments to incur additional \$11.3 million to complete the first wind farm power plant. The estimated period of this commitment is from April 1, 2009 to December 31, 2009.

**15. SUBSEQUENT EVENT**

On April 1, 2009, the Company increased its registered capital and paid in capital from \$23,567,778 (RMB162,162,000) to \$44,400,798 (RMB 275,262,000).

On July 13, 2009, the Company increased its registered capital and paid in capital from \$44,400,798 (RMB275,262,000) to \$50,023,998 (RMB308,262,000).