

CHINA RECYCLING ENERGY CORP  
Form 10-Q  
May 16, 2016

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended March 31, 2016**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 000-12536**

**China Recycling Energy Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**Nevada**

**90-0093373**

**(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)**

**12/F, Tower A**

**Chang An International Building**

**No. 88 Nan Guan Zheng Jie**

**Xi'an City, Shaanxi Province, China**

(Address of Principal Executive Offices, Zip Code)

**Registrant's Telephone Number, Including Area Code: + 86-29-8765-1097**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes    No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes    No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer    Accelerated filer    Non-accelerated filer    Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes    No

The number of shares outstanding of the registrant's Common Stock, as of May 12, 2016 was 83,084,035.

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**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****AS OF MARCH 31, 2016 (UNAUDITED) AND DECEMBER 31, 2015**

	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$34,559,148	\$41,749,388
Restricted cash	866,712	1,130,344
Accounts receivable	33,640,810	15,399,778
Current portion of investment in sales-type leases, net	6,925,405	6,679,019
Interest receivable on sales type leases	554,541	555,451
Prepaid expenses	791,509	1,179,778
Other receivables	518,523	553,886
Total current assets	77,856,648	67,247,644
<b>NON-CURRENT ASSETS</b>		
Investment in sales-type leases, net	131,969,396	133,079,634
Long term investment	1,008,811	950,470
Long term deposit	57,319	57,033
Property and equipment, net	15,634	17,724
Construction in progress	90,284,296	115,522,068
Total non-current assets	223,335,456	249,626,929
<b>TOTAL ASSETS</b>	<b>\$301,192,104</b>	<b>\$316,874,573</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$130,784	\$427,732
Notes payable - bank acceptances	1,331,022	1,130,344

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Taxes payable	1,068,366	1,058,417
Accrued liabilities and other payables	2,262,066	3,199,395
Due to related parties	44,159	44,059
Deferred tax liability, net	1,532,207	1,538,105
Loans payable - current	6,190,800	6,159,911
Interest payable on entrusted loans	270,149	268,801
Current portion of entrusted loan payable	43,335,603	43,119,379
Total current liabilities	56,165,156	56,946,143
<b>NONCURRENT LIABILITIES</b>		
Deferred tax liability, net	10,691,719	10,771,348
Refundable deposit from customers for systems leasing	1,563,177	1,555,378
Loans payable	2,166,780	18,187,138
Entrusted loan payable	15,786,541	15,707,773
Total noncurrent liabilities	30,208,217	46,221,637
Total liabilities	86,373,373	103,167,780
<b>CONTINGENCIES AND COMMITMENTS</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 83,084,035 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	83,084	83,084
Additional paid in capital	111,714,392	111,714,392
Statutory reserve	13,944,016	13,823,789
Accumulated other comprehensive income	4,279,972	3,210,315
Retained earnings	84,634,401	84,661,602
Total Company stockholders' equity	214,655,865	213,493,182
Noncontrolling interest	162,866	213,611
Total equity	214,818,731	213,706,793
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$301,192,104</b>	<b>\$316,874,573</b>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME****(UNAUDITED)**

	THREE MONTHS ENDED MARCH 31,	
	2016	2015
Revenue		
Sales of systems	\$-	\$-
Contingent rental income	6,761	174,338
Total revenue	6,761	174,338
Cost of sales		
Cost of systems and contingent rental income	6,458	12,280
Total cost of sales	6,458	12,280
Gross profit	303	162,058
Interest income on sales-type leases	4,881,530	6,492,282
Total operating income	4,881,833	6,654,340
Operating expenses		
General and administrative	491,082	704,561
Total operating expenses	491,082	704,561
Income from operations	4,390,751	5,949,779
Non-operating income (expenses)		
Interest income	31,688	32,287
Interest expense	(1,349,570 )	(493,705 )
Loss on sale of construction in progress of Xuzhou Zhongtai	(2,823,328 )	-
Other income (expense)	2,976	(362,949 )
Total non-operating expenses, net	(4,138,234 )	(824,367 )
Income before income tax	252,517	5,125,412
Income tax expense	210,771	997,952

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Income before noncontrolling interest	41,746	4,127,460
Less: loss attributable to noncontrolling interest	(51,280 )	(8,338 )
Net income attributable to China Recycling Energy Corporation	93,026	4,135,798
Other comprehensive items		
Foreign currency translation gain (loss) attributable to China Recycling Energy Corporation	1,069,657	(793,715 )
Foreign currency translation gain (loss) attributable to noncontrolling interest	535	(964 )
Comprehensive income attributable to China Recycling Energy Corporation	\$ 1,162,683	\$ 3,342,083
Comprehensive loss attributable to noncontrolling interest	\$(50,745 )	\$(9,303 )
Basic weighted average shares outstanding	83,084,035	83,072,368
Diluted weighted average shares outstanding	83,084,035	83,072,368
Basic earnings per share	\$0.00	\$0.05
Diluted earnings per share	\$0.00	\$0.05

The accompanying notes are an integral part of these unaudited consolidated financial statements.



**CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	THREE MONTHS ENDED MARCH 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income including noncontrolling interest	\$41,746	\$4,127,460
Adjustments to reconcile income including noncontrolling interest to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,157	19,268
Investment income	(53,019 )	(4,473 )
Changes in deferred tax	(145,728 )	125,508
Loss on sale of construction in progress of Xuzhou Zhongtai	2,823,328	-
Changes in assets and liabilities:		
Interest receivable on sales type leases	3,657	(415,672 )
Collection of principal on sales type leases	1,548,477	1,357,399
Prepaid expenses	390,102	400,447
Accounts receivable	(17,975,738)	(72,133 )
Other receivables	(513,657 )	(740,307 )
Construction in progress	22,726,423	(4,285,439 )
Accounts payable	(103,005 )	294,480
Taxes payable	4,593	(867,846 )
Accrued liabilities and other payables	(942,141 )	(1,031,212 )
Net cash provided by (used in) operating activities	7,807,195	(1,092,520 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Changes of restricted cash	817,914	-
Acquisition of property and equipment	-	(19,711 )
Net cash provided by (used in) investing activities	817,914	(19,711 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of loans	(15,944,737)	(5,579,993 )
Long term payable	-	(2,393,972 )
Advance from related parties	100	-
Net cash used in financing activities	(15,944,637)	(7,973,965 )
<b>EFFECT OF EXCHANGE RATE CHANGE ON CASH AND EQUIVALENTS</b>	129,288	(132,408 )

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NET DECREASE IN CASH AND EQUIVALENTS	(7,190,240 )	(9,218,604 )
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	41,749,388	35,871,030
CASH AND EQUIVALENTS, END OF PERIOD	\$34,559,148	\$26,652,426
Supplemental cash flow data:		
Income tax paid	\$343,544	\$1,729,716
Interest paid	\$3,556,997	\$5,278,919

The accompanying notes are an integral part of these unaudited consolidated financial statements.

## CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016 (UNAUDITED) AND DECEMBER 31, 2015

#### 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

China Recycling Energy Corporation (the “Company” or “CREG”) was incorporated on May 8, 1980 as Boulder Brewing Company under the laws of the State of Colorado. On September 6, 2001, the Company changed its state of incorporation to the State of Nevada. In 2004, the Company changed its name from Boulder Brewing Company to China Digital Wireless, Inc. and on March 8, 2007, again changed its name from China Digital Wireless, Inc. to its current name, China Recycling Energy Corporation. The Company, through its subsidiaries, provides energy saving solutions and services, including selling and leasing energy saving systems and equipment to customers, in the Peoples Republic of China (“PRC”). On March 24, 2014, Xi’an TCH incorporated a new subsidiary, Zhongxun Energy Investment (Beijing) Co., Ltd (“Zhongxun”), with registered capital of \$5,695,502 (RMB 35,000,000). Zhongxun is 100% owned by Xi’an TCH and is principally engaged in project investment, investment management, economic information consulting, and technical services.

##### *Erdos TCH – Joint Venture*

On April 14, 2009, the Company formed a joint venture (the “JV”) with Erdos Metallurgy Co., Ltd. (“Erdos”) to recycle waste heat from Erdos’ metal refining plants to generate power and steam to be sold back to Erdos. The name of the JV was Inner Mongolia Erdos TCH Energy Saving Development Co., Ltd. with a term of 20 years. Total investment for the project was estimated at \$79 million (RMB 500 million) with an initial investment of \$17.55 million (RMB 120 million). Erdos contributed 7% of the total investment of the project, and Xi’an TCH Energy Technology Co., Ltd. (“Xi’an TCH”) contributed 93%. According to the parties’ agreement on profit distribution, Xi’an TCH and Erdos will receive 80% and 20%, respectively, of the profit from the JV until Xi’an TCH receives the complete return of its investment. Xi’an TCH and Erdos will then receive 60% and 40%, respectively, of the profit from the JV. On June 15, 2013, Xi’an TCH and Erdos entered into a share transfer agreement, pursuant to which Erdos transferred and sold its 7% ownership interest in the JV to Xi’an TCH for \$1.29 million (RMB 8 million), plus certain accumulated profits as described below. Xi’an TCH paid the \$1.29 million in July 2013 and, as a result, became the sole shareholder of the JV. In addition, Xi’an TCH paid Erdos accumulated profits from inception up to June 30, 2013 in accordance with a supplementary agreement entered on August 6, 2013. In August 2013, Xi’an TCH paid 20% of the accumulated profit (calculated under PRC GAAP) of \$226,000 to Erdos. The JV currently has two power generation systems in Phase I with a total of 18MW power capacity, and three power generation systems in Phase II with a total of 27MW power capacity.

*Pucheng Biomass Power Generation Projects*

On June 29, 2010, Xi'an TCH entered into a Biomass Power Generation ("BMPG") Project Lease Agreement with PuchengXinHeng Yuan Biomass Power Generation Co., Ltd. ("Pucheng"), a limited liability company incorporated in China. Under this lease agreement, Xi'an TCH leased a set of 12MW BMPG systems to Pucheng at a minimum of \$279,400 (RMB 1,900,000) per month for a term of 15 years.

On September 11, 2013, Xi'an TCH entered into a BMPG Asset Transfer Agreement (the "Pucheng Transfer Agreement") with Pucheng. The Pucheng Transfer Agreement provided for the sale by Pucheng to Xi'an TCH of a set of 12MW BMPG systems with completion of system transformation for a purchase price of RMB 100 million (\$16.48 million) in the form of 8,766,547 shares of common stock of the Company at the price of \$1.87 per share. These shares were issued to Pucheng on October 29, 2013. Also on September 11, 2013, Xi'an TCH entered into a BMPG Project Lease Agreement with Pucheng (the "Pucheng Lease"). Under the Pucheng Lease, Xi'an TCH leases this same set of 12MW BMPG system to Pucheng, and combined this lease with the lease for the 12MW BMPG station of Pucheng Phase I project, under a single lease to Pucheng for RMB 3.8 million (\$0.63 million) per month (the "Pucheng Phase II Project"). The term for the combined lease is from September 2013 to June 2025. The lease agreement for the 12MW station from Pucheng Phase I project terminated upon the effective date of the Pucheng Lease. The ownership of two 12 MW BMPG systems will be transferred to Pucheng at no additional charge when the Pucheng Lease expires.

*Zhongbao Waste Heat Power Generation Projects*

On September 30, 2010, Xi'an TCH delivered to ZhongbaoBinhai Nickel Co., Ltd. ("Zhongbao") a 7MW capacity waste heat power generation ("WHPG") system, an integral part of the facilities designed to produce 80,000 tons of nickel-alloy per year according to the recovery and power generation of waste heat agreement with Zhongbao, a nickel-alloy manufacturing established in June 2009. The waste heat agreement with Zhongbao has a term of nine years and provides that Xi'an TCH will recycle waste heat from the nickel-alloy rotary kilns of Zhongbao to generate power and steam, which will be supplied back to Zhongbao. On December 22, 2014, Xi'an TCH entered into a WHPG System Repurchase Agreement with ZhonggangBinhai Enterprise Ltd. ("Zhonggang"), currently a 100% owner of Zhongbao. Under the Repurchase Agreement, Zhonggang would purchase the WHPG System from Xi'an TCH and repay the outstanding energy saving service fees owed to Xi'an TCH. The purchase price for the WHPG System was RMB 60 million (\$9.76 million). As of December 31, 2014, Zhonggang paid in full all of the Repurchase Price and the outstanding energy saving service fees of RMB 1.5 million (\$243,902) to Xi'an TCH. The ownership of the WHPG System was transferred to Zhonggang.

*Shenqiu Yuneng Biomass Power Generation Projects*

On May 25, 2011, Xi'an TCH entered into a Letter of Intent with ShenqiuYuNeng Thermal Power Co., Ltd. ("Shenqiu") to reconstruct and transform a Thermal Power Generation System owned by Shenqiu into a 75T/H BMPG System for \$3.57 million (RMB 22.5 million). The project commenced in June 2011 and was completed in the third quarter of 2011. On September 28, 2011, Xi'an TCH entered into a BMPG Asset Transfer Agreement with Shenqiu (the "Shenqiu Transfer Agreement"). Pursuant to the Shenqiu Transfer Agreement, Shenqiu sold Xi'an TCH a set of 12 MW BMPG systems (after Xi'an TCH converted the system for BMPG purposes). As consideration for the BMPG systems, Xi'an TCH agreed to pay Shenqiu \$10,937,500 (RMB 70 million) in cash in three installments within six months upon the transfer of ownership of the systems. By the end of 2012, all of the consideration was paid. On September 28, 2011, Xi'an TCH and Shenqiu also entered into a BMPG Project Lease Agreement (the "2011 Shenqiu Lease"). Under the 2011 Shenqiu Lease, Xi'an TCH agreed to lease a set of 12MW BMPG systems to Shenqiu at a monthly rental rate of \$286,000 (RMB 1,800,000) for 11 years. Upon expiration of the 2011 Shenqiu Lease, ownership of this system will be transferred from Xi'an TCH to Shenqiu at no additional cost. In connection with the 2011 Shenqiu Lease, Shenqiu paid one month's rent as a security deposit to Xi'an TCH, in addition to providing personal guarantees.

On October 8, 2012, Xi'an TCH entered into a Letter of Intent for technical reformation of Shenqiu Project Phase II with Shenqiu for technical reformation to enlarge the capacity of the Shenqiu Project Phase I (the "Shenqiu Phase II Project"). The technical reformation involved the construction of another 12MW BMPG system. After the reformation, the generation capacity of the power plant increased to 24MW. The project commenced on October 25, 2012 and was completed during the first quarter of 2013. The total cost of the project was \$11.1 million (RMB 68 million). On March 30, 2013, Xi'an TCH and Shenqiu entered into a BMPG Project Lease Agreement (the "2013 Shenqiu Lease"). Under the 2013 Shenqiu Lease, Xi'an TCH agreed to lease the second set of 12MW BMPG systems to Shenqiu for \$239,000 (RMB 1.5 million) per month for 9.5 years. When the 2013 Shenqiu Lease expires, ownership of this system will be transferred from Xi'an TCH to Shenqiu at no additional cost.

*Shanxi Datong Coal Group Power Generation Projects*

In February 2011, Xi'an TCH entered into an agreement with Shanxi Datong Coal Group Steel Co., Ltd. ("Shanxi Datong") to recycle gas and steam from groups of blast-furnaces and converters at Shanxi Datong's metal refining plants to generate power and pursuant to which Xi'an TCH agreed to install two 3MW Blast Furnace Power Recovery Turbine (the "BPRT") systems and, one 15MW Waste Gas Power Generation ("WGPG") system with a total of 21MW power capacity for an estimated total investment of \$28.6 million (RMB 180 million). In June 2013, the two 3MW BPRT power generation systems were completed. The lease term is 30 years, during which time Shanxi Datong will pay a service fee to Xi'an TCH. The service fee was based on an average of 8,000 electricity-generating hours per year and \$0.05 (RMB 0.33) per kilowatt hour ("kWh") for the first five years from the completion of each power generation station. For each of the leases, at the 6th, 11th and 21st year anniversary of the date of the lease, the rates will change to RMB 0.3 kWh, 0.27 kWh and 0.25 kWh, respectively. In May 2012, Shanxi Datong and Tianjin Construction Materials Group (Holding) Co., Ltd. were restructured and renamed as Datong Coal Mine Tianjian Iron & Steel Co., Ltd. ("Datong"). On June 10, 2013, Xi'an TCH and Shanxi Datong entered into a supplemental agreement relating to the

minimum service fee. The minimum service fee per month for the first five years was \$0.19 million (RMB 1.2 million), \$0.18 million (RMB 1.1 million) for the second five years, \$0.16 million (RMB 1.0 million) for the following 10 years and \$0.15 million (RMB 0.9 million) for the last 10 years. After 30 years, the units will be transferred to Datong at no additional charge. On May 26, 2015, the 15MW WGPG system was completed.

Due to the change of its strategic plan, Datong notified Xi'an TCH that it would not be able to fulfill its obligations under the Cooperative Agreement and requested to repurchase the two 3MW BPRT systems and one 15MW WGPG system (the "Systems") from Xi'an TCH and terminate the Cooperative Agreement. On May 29, 2015, Xi'an TCH entered into a Repurchase Agreement for the Recycling Economy Project with Datong. Under the Repurchase Agreement, Datong agreed to repurchase the Systems from Xi'an TCH and pay outstanding energy saving service fees of RMB 1.2 million (\$193,548) to Xi'an TCH within five working days from the execution of the Repurchase Agreement. The Systems were transferred to Datong for a total price of RMB 250 million (\$40.32 million) with RMB 100 million for two BPRT systems and RMB 150 million for one WGPG system. As of June 30, 2015, Xi'an TCH received payment in full and the systems were transferred. The outstanding balance of net investment receivable at the date of transfer was \$13.37 million. The Company recorded a \$2.98 million gain from two BPRT systems as non-operating income and a \$3.02 million gain from the WGPG system as gross profit from the sale.

#### *Jitie Power Generation Projects*

In May 2013, Xi'an TCH signed a contract with Sinosteel Jilin Ferroalloys Co., Ltd. ("Jitie") to build furnace gas WHPG systems for electricity generation from recycled heat and steam from groups of ferroalloy furnaces and electric furnaces (the "Jitie Project"). According to the contract, Xi'an TCH installed a 7.5 MW and a 3 MW turbine power generation system with a total of 10.5 MW power capacity for an estimated total investment of \$9.71 million (RMB 60 million). The lease term is 24 years. During the term of this lease, Jitie will pay a service fee to Xi'an TCH based on the actual generating capacity with a minimum service fee per month of \$300,000 (RMB 1.8 million). Xi'an TCH is responsible for the systems operation and will own the power generation systems. In December 2013, the Jitie Project was completed and began operations.

On June 18, 2015, Xi'an TCH entered into a WHPG system Repurchase Agreement with Jitie. Under the Repurchase Agreement, Jitie repurchased the Jitie Project from Xi'an TCH and paid outstanding energy saving service fees of RMB 1.8 million (\$294,599) to Xi'an TCH within five working days from the execution of the Repurchase Agreement on June 18, 2015. The Jitie Project was transferred to Jitie for a total price of RMB 90 million (\$14.73 million). In July 2015, Xi'an TCH received payment in full and the systems were transferred. The outstanding balance of net investment receivable on the date of the transfer was \$13.10 million. The Company recorded a \$1.62 million gain from this transaction.

#### *Yida Coke Oven Gas Power Generation Projects*

On June 28, 2014, Xi'an TCH entered into an Asset Transfer Agreement (the "Transfer Agreement") with Qitaihe City BoliYida Coal Selection Co., Ltd. ("Yida"), a limited liability company incorporated in China. The Transfer Agreement provided for the sale to Xi'an TCH of a 15 MW coke oven gas power generation station, which had been converted from a 15 MW coal gangue power generation station from Yida. As consideration for the Transfer Asset, Xi'an TCH was to pay to Yida RMB 115 million (\$18.69 million) in the form of the common stock shares of the Company at the average closing price per share of the Stock for the 10 trading days prior to the closing date of the transaction (\$2.27 per share). The exchange rate between the US Dollar and Chinese RMB in connection with the stock issuance is the rate equal to the middle rate published by the People's Bank of China on the closing date of the assets transfer. Accordingly, the Company issued 8,233,779 for the Yida 15 MW coke oven gas power generation station, the fair value of 8,233,779 shares was \$14.49 million based on the stock price at agreement date (\$1.76 per share), and was the cost of the power generation station.

On June 28, 2014, Xi'an TCH also entered into a Coke Oven Gas Power Generation Project Lease Agreement (the "Lease Agreement") with Yida. Under the Lease Agreement, Xi'an TCH leased the Transfer Asset to Yida for RMB 3 million (\$0.49 million) per month, and the term of the lease is from June 28, 2014 to June 27, 2029. Yida provided an RMB 3 million (\$0.49 million) security deposit (without interest) for the lease. Xi'an TCH will transfer the Transfer Asset back to Yida at no cost at the end of the lease term.

#### *The Fund Management Company*

On June 25, 2013, Xi'an TCH and HongyuanHuifu Venture Capital Co. Ltd. ("HongyuanHuifu") jointly established Hongyuan Recycling Energy Investment Management Beijing Co., Ltd. (the "Fund Management Company") with registered capital of RMB 10 million. Xi'an TCH made an initial capital contribution of RMB 4 million (\$650,000) and has a 40% ownership interest in the Fund Management Company. With respect to the Fund Management Company, voting rights and dividend rights are allocated 80% and 20% between HongyuanHuifu and Xi'an TCH, respectively.

The Fund Management Company serves as the general partner of Beijing Hongyuan Recycling Energy Investment Center, LLP (the “HYREF Fund”), a limited liability partnership established on July 18, 2013 in Beijing. The Fund Management Company made an initial capital contribution of RMB 5 million (\$830,000) to the HYREF Fund. An initial total amount of RMB 460 million (\$75 million) has been fully subscribed by all partners for the HYREF Fund. The HYREF Fund has three limited partners: (1) China Orient Asset Management Co., Ltd., which made an initial capital contribution of RMB 280 million (\$46.67 million) to the HYREF Fund and is a preferred limited partner; (2) HongyuanHuifu, which made an initial capital contribution of RMB 100 million (\$16.67 million) to the HYREF Fund and is an ordinary limited partner; and (3) the Company’s wholly-owned subsidiary, Xi’an TCH, which made an initial capital contribution of RMB 75 million (\$12.5 million) to the HYREF Fund and is a secondary limited partner. The term of the HYREF Fund’s partnership is six years from the date of its establishment, expiring on July 18, 2019. The term is three years from the date of contribution for the preferred limited partner, or four years from the date of contribution for the ordinary limited partner. The total size of the HYREF Fund is RMB 460 million (\$76.66 million). The HYREF Fund was formed for the purpose of investing in Xi’an Zhonghong New Energy Technology Co., Ltd., a 90% owned subsidiary of Xi’an TCH, for the construction of two coke dry quenching (“CDQ”) WHPG stations with Jiangsu Tianyu Energy and Chemical Group Co., Ltd. (“Tianyu”) and one CDQ WHPG station with Boxing County Chengli Gas Supply Co., Ltd. (“Chengli”).

#### *Chengli Waste Heat Power Generation Projects*

On July 19, 2013, Xi’an TCH formed a new company “Xi’an Zhonghong New Energy Technology Co., Ltd.” (“Zhonghong”) with registered capital of RMB 30 million (\$4.85 million). Xi’an TCH paid RMB 27 million (\$4.37 million) and owns 90% of Zhonghong. Zhonghong is engaged to provide energy saving solution and services, including constructing, selling and leasing energy saving systems and equipment to customers.

On July 24, 2013, Zhonghong entered into a Cooperative Agreement of CDQ and CDQ WHPG Project with Boxing County Chengli Gas Supply Co., Ltd. (“Chengli”). The parties entered into a supplement agreement on July 26, 2013. Pursuant to these agreements, Zhonghong will design, build and maintain a 25 MW CDQ system and a CDQ WHPG system to supply power to Chengli, and Chengli will pay energy saving fees (the “Chengli Project”). Chengli will contract the operation of the system to a third party contractor that is mutually agreed to by Zhonghong. In addition, Chengli will provide the land for the CDQ system and CDQ WHPG system at no cost to Zhonghong. The term of the Agreements is for 20 years. The first 800 million watt hours generated by the Chengli Project will be charged at RMB 0.42 (\$0.068) per kilowatt hour (excluding tax); thereafter, the energy saving fee will be RMB 0.20 (\$0.036) per kilowatt hour (excluding tax). The operating time shall be based upon an average 8,000 hours annually. If the operating time is less than 8,000 hours per year due to a reason attributable to Chengli, then time charged shall be 8,000 hours a year, and if it is less than 8,000 hours due to a reason attributable to Zhonghong, then it shall be charged at actual operating hours. The construction of the Chengli Project was completed in the second quarter of 2015 and the project is currently under commissioning tests which the Company expects to complete in the second quarter of 2016. When operations begin, Chengli shall ensure its coking production line works properly and that working hours for the CDQ system are at least 8,000 hours per year, and Zhonghong shall ensure that working hours and the CDQ WHPG system will be at least 7,200 hours per year.



On July 22, 2013, Zhonghong entered into an Engineering, Procurement and Construction (“EPC”) General Contractor Agreement for the Boxing County Chengli Gas Supply Co., Ltd. CDQ Power Generation Project (the “Huaxin Project”) with Xi’an Huaxin New Energy Co., Ltd. (“Huaxin”). Zhonghong, as the owner of the Huaxin Project, contracted EPC services for a CDQ system and a 25 MW CDQ WHPG system for Chengli to Huaxin. Huaxin shall provide construction, equipment procurement, transportation, installation and adjustment, test run, construction engineering management and other necessary services to complete the Huaxin Project and ensure the CDQ system and CDQ WHPG system for Chengli meet the inspection and acceptance requirements and work normally. The Huaxin Project is a turn-key project where Huaxin is responsible for monitoring the quality, safety, duration and cost of the project. The total contract price is RMB 200 million (\$33.34 million), which includes all the materials, equipment, labor, transportation, electricity, water, waste disposal, machinery and safety costs.

#### *Tianyu Waste Heat Power Generation Project*

On July 19, 2013, Zhonghong entered into a Cooperative Agreement (the “Tianyu Agreement”) for Energy Management of CDQ and CDQ WHPG Project with Jiangsu Tianyu Energy and Chemical Group Co., Ltd. (“Tianyu”). Pursuant to the Tianyu Agreement, Zhonghong will design, build, operate and maintain two sets of 25 MW CDQ systems and CDQ WHPG systems for two subsidiaries of Tianyu – Xuzhou Tian’an Chemical Co., Ltd. (“Xuzhou Tian’an”) and Xuzhou Huayu Coking Co., Ltd (“Xuzhou Huayu”) – to be located at Xuzhou Tian’an and Xuzhou Huayu’s respective locations (the “Tianyu Project”). Upon completion of the Tianyu Project, Zhonghong will charge Tianyu an energy saving service fee of RMB 0.534 (\$0.087) per kilowatt hour (excluding tax). The operating time will be based upon an average 8,000 hours annually for each of Xuzhou Tian’an and Xuzhou Huayu. If the operating time is less than 8,000 hours per year due to a reason attributable to Tianyu, then time charged will be 8,000 hours a year. The term of the Tianyu Agreement is 20 years. The construction of the Tianyu Project is anticipated to be completed between the end of 2015 and the middle of 2016. Tianyu will provide the land for the CDQ and CDQ WHPG systems for free. Tianyu also guarantees that it will purchase all of the power generated by the CDQ WHPG systems.

On July 22, 2013, Zhonghong entered into an EPC General Contractor Agreement for the Tianyu Project with Xi’an Huaxin New Energy Co., Ltd. (“Huaxin”). Zhonghong, as the owner of the Tianyu Project, contracted EPC services for two CDQ systems and two 25 MW CDQ WHPG systems for Tianyu to Huaxin. Huaxin shall provide construction, equipment procurement, transportation, installation and adjustment, test run, construction engineering management and other necessary services to complete the Tianyu Project and ensure the CDQ and CDQ WHPG systems for Tianyu meet the inspection and acceptance requirements and work normally. The Tianyu Project is a turn-key project where Huaxin is responsible for monitoring the quality, safety, duration and cost of the project. The total contract price is RMB 400 million (\$66.68 million), which includes all the materials, equipment, labor, transportation, electricity, water, waste disposal, machinery and safety costs.

#### *Zhongtai Waste Heat Power Generation Energy Management Cooperative Agreement*

On December 6, 2013, Xi'an entered into a CDQ and WHPG Energy Management Cooperative Agreement (the "Zhongtai Agreement") with Xuzhou Zhongtai Energy Technology Co., Ltd. ("Zhongtai"), a limited liability company incorporated in Jiangsu Province, China.

Pursuant to the Zhongtai Agreement, Xi'an TCH will design, build and maintain a 150 ton per hour CDQ system and a 25 MW CDQ WHPG system and sell the power to Zhongtai, and Xi'an TCH will also build a furnace to generate steam from the waste heat of the smoke pipeline and sell the steam to Zhongtai.

The construction period of the Project is expected to be 18 months from the date when conditions are ready for construction to begin. Zhongtai will start to pay an energy saving service fee from the date when the WHPG station passes the required 72 hour test run. The payment term is 20 years. For the first 10 years, Zhongtai shall pay an energy saving service fee at RMB 0.534 (\$0.089) per kilowatt hour (including value added tax) for the power generated from the system. For the second 10 years, Zhongtai shall pay an energy saving service fee at RMB 0.402 (\$0.067) per kilowatt hour (including value added tax). During the term of the contract the energy saving service fee shall be adjusted at the same percentage as the change of local grid electricity price. Zhongtai shall also pay an energy saving service fee for the steam supplied by Xi'an TCH at RMB 100 (\$16.67) per ton (including value added tax). Zhongtai and its parent company will provide guarantees to ensure Zhongtai will fulfill its obligations under the Agreement. Upon the completion of the term, Xi'an TCH will transfer the systems to Zhongtai at RMB 1 (\$0.16). Zhongtai shall provide waste heat to the systems for no less than 8,000 hours per year and waste gas volume no less than 150,000 Nm<sup>3</sup> per hour with a temperature no less than 950°C. If these requirements are not met, the term of the Agreement will be extended accordingly. If Zhongtai wants to terminate the Zhongtai Agreement early, it shall provide Xi'an TCH a 60 day notice and pay the termination fee and compensation for the damages to Xi'an TCH according to the following formula: 1) if it is less than five years into the term when Zhongtai requests termination, Zhongtai shall pay: Xi'an TCH's total investment amount plus Xi'an TCH's annual investment return times five years minus the years in which the system has already operated); or 2) if it is more than five years into the term when Zhongtai requests the termination, Zhongtai shall pay: Xi'an TCH's total investment amount minus total amortization cost (the amortization period is 10 years).

In March 2016, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Zhongtai and Xi'an Huaxin. The Transfer Agreement provided for the sale to Zhongtai of the CDQ Waste Heat Power Generation Project from Xi'an TCH. Xi'an TCH agreed to transfer to Zhongtai all the project assets under construction under the Agreement. Additionally, Huaxin should continue to construct and complete the Project and Xi'an agreed to transfer all its rights and obligation under the "EPC" Contract to Zhongtai. As consideration for the transfer of the Project, Zhongtai agreed to pay to Xi'an an aggregate transfer price of RMB 167,360,000 (\$25.77 million) including a payment of RMB 152,360,000 (\$23.46 million) for the construction of the Project and a payment of RMB 15,000,000 (\$2.31 million) as payment for partial loan interest incurred during the construction period whereby (a) RMB 50,000,000 (\$7.70 million) was due by Zhongtai to Xi'an TCH within 20 business days after the Transfer Agreement is signed, (b) RMB 30,000,000 (\$4.62 million) will be paid by Zhongtai to Xi'an TCH within 20 business days after the Project is completed, but no later than July 30, 2016 and (c) RMB 87,360,000 (\$13.45 million) will be paid by Zhongtai to Xi'an TCH no later than July 30, 2017. Xuzhou Taifa Special Steel Technology Co., Ltd. ("Xuzhou Taifa") has guaranteed the payments. The ownership of the Project was conditionally transferred to Zhongtai within 3 business days following the initial payment of RMB 50,000,000 (\$7.70 million) by Zhongtai to Xi'an TCH and the full ownership of the Project will be officially transferred to Zhongtai after it completes the entire payment pursuant to the Transfer Agreement. As of March 31, 2016, Xi'an TCH had received the first payment of \$7.70 million. The Company recorded a \$2.82 million loss from this transaction.

#### *Rongfeng CDQ Power Generation Energy Management Cooperative Agreement*

On December 12, 2013, Xi'an TCH entered into a CDQ Power Generation Energy Management Cooperative Agreement with Tangshan Rongfeng Iron & Steel Co., Ltd. (the "Rongfeng Agreement"), a limited liability company incorporated in Hebei Province, China.

Pursuant to the Rongfeng Agreement, Xi'an TCH will design, build and maintain a CDQ and a CDQ WHPG system and sell the power to Rongfeng. The construction period of the Project is expected to be 18 months after the Agreement takes effect and from the date when conditions are ready for construction to begin.

Rongfeng will start to pay an energy saving service fee from the date when the WHPG station passes the required 72 hour test run. The payment term is 20 years. For the first 10 years, Rongfeng shall pay an energy saving service fee at RMB 0.582 (\$0.095) per kilowatt hour (including tax) for the power generated from the system. For the second 10 years, Rongfeng shall pay an energy saving service fee at RMB 0.432 (\$0.071) per kWh (including tax). During the term of the contract the energy saving service fee shall be adjusted at the same percentage as the change of local grid electricity price. Rongfeng and its parent company will provide guarantees to ensure Rongfeng will fulfill its obligations under the Rongfeng Agreement. Upon the completion of the term, Xi'an TCH will transfer the systems to Rongfeng at RMB 1. Rongfeng shall provide waste heat to the systems for no less than 8,000 hours per year with a temperature no less than 950°C. If these requirements are not met, the term of the Agreement will be extended accordingly. If Rongfeng wants to terminate the Agreement early, it shall provide Xi'an TCH a 60 day notice and pay the termination fee and compensation for the damages to Xi'an TCH according to the following formula: 1) if it is less than five years (including five years) into the term when Rongfeng requests termination, Rongfeng shall pay: Xi'an

TCH's total investment amount plus Xi'an TCH's average annual investment return times (five years minus the years of which the system has already operated); 2) if it is more than five years into the term when Rongfeng requests the termination, Rongfeng shall pay: Xi'an TCH's total investment amount minus total amortization cost (the amortization period is 10 years).

On November 16, 2015, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Rongfeng and Xi'an Huaxin New Energy Co., Ltd., a limited liability company incorporated in China ("Xi'an Huaxin"). The Transfer Agreement provided for the sale to Rongfeng of the CDQ Waste Heat Power Generation Project (the "Project") from Xi'an TCH. Additionally, Xi'an TCH would transfer to Rongfeng the Engineering, Procurement and Construction ("EPC") Contract for the CDQ Waste Heat Power Generation Project which Xi'an TCH had entered into with Xi'an Huaxin in connection with the Project. As consideration for the transfer of the Project, Rongfeng is to pay to Xi'an TCH an aggregate purchase price of RMB 165,200,000 (\$25.45 million), whereby (a) RMB 65,200,000 (\$10.05 million) was to be paid by Rongfeng to Xi'an TCH within 20 business days after signing the Transfer Agreement, (b) RMB 50,000,000 (\$7.70 million) is to be paid by Rongfeng to Xi'an TCH within 20 business days after the Project is completed, but no later than March 31, 2016 and (c) RMB 50,000,000 (\$7.70 million) will be paid by Rongfeng to Xi'an TCH no later than September 30, 2016. Mr. Cheng Li, the largest shareholder of Rongfeng, has personally guaranteed the payments. The ownership of the Project was conditionally transferred to Rongfeng within 3 business days following the initial payment of RMB 65,200,000 (\$10.05 million) by Rongfeng to Xi'an TCH and the full ownership of the Project will be officially transferred to Rongfeng after it completes the entire payment pursuant to the Transfer Agreement. As of December 31, 2015, Xi'an TCH had received the first payment of \$10.05 million, and on April 6, 2016, the second payment of \$7.70 million was received. The Company recorded a \$3.78 million loss from this transaction in 2015.

*Baoliyuan CDQ Power Generation Energy Management Cooperative Agreement*

On March 26, 2014, Xi'an TCH entered into a CDQ Waste Heat Recycling Project Energy Management Cooperative Agreement with Tangshan Baoliyuan Coking Co., Ltd. ("Baoliyuan"), a limited liability company incorporated in Hebei Province, China.

Pursuant to the Agreement, Xi'an TCH agreed to design, build and maintain a CDQ and a CDQ WHPG system and sell the power to Baoliyuan (the "CDQ Project") and Xi'an TCH will also build a high scale waste water treatment system for Baoliyuan and charge monthly payments for two years (the "Waste Water Treatment Project").

Baoliyuan agreed to pay an energy saving fee from the date when the WHPG station passed the required 72 hour test run. The payment term was twenty years and Baoliyuan agreed to pay an energy saving fee at RMB 0.7 (\$0.114) per kilowatt hour (including tax) for the power generated from the system, from which Xi'an TCH shall take 92.86% and Baoliyuan was to take 7.14% as parties to share the energy saving benefits. During the term of the contract the energy saving fee was to be adjusted at the same percentage as the change of local grid electricity price. Baoliyuan was to provide guarantees to ensure it would fulfill its obligations under the Agreement. Upon the completion of the term, Xi'an TCH was to transfer the systems to Baoliyuan at RMB 1.

Baoliyuan was to provide waste heat to the systems for no less than 8,000 hours per year and coking production was to reach 80% of its capacity. If these requirements were not met, the energy saving fee was to be calculated according to such hours and capacity.

Baoliyuan could terminate the Agreement prior to the end of the term by providing Xi'an TCH with 60 days' notice and upon the payment of the termination fee and compensation for the damages to Xi'an TCH according to the following formula: 1) if it was less than five years (including five years) into the term when Baoliyuan requested termination, Baoliyuan was to pay Xi'an TCH's total investment amount plus Xi'an TCH's average annual investment return times (five years minus the years of which the system had already operated); 2) if it was more than five years into the term when Baoliyuan requested the termination, Baoliyuan was to pay Xi'an TCH's total investment amount minus total amortization cost (the amortization period is twenty years).

From the first month of the completion of Waste Water Treatment Project, Baoliyuan was to pay a fixed monthly fee for the waste water treatment system at RMB 1.05 million per month (\$171,010) for the first 12 months and RMB 940,000 per month (\$153,094) for the next 12 months.

The Baoliyuan project was cancelled in May 2015 because the project required blasting and leveling of a mountain and Baoliyuan could not obtain all the necessary permits for the construction from the local government due to environmental concerns of the government.

#### *Formation of Zhongxun*

On March 24, 2014, Xi'an TCH incorporated a new subsidiary, Zhongxun Energy Investment (Beijing) Co., Ltd ("Zhongxun") with registered capital of \$5,695,502 (RMB 35,000,000). Zhongxun is 100% owned by Xi'an TCH and is mainly engaged in project investment, investment management, economic information consulting, and technical services.

#### *Summary of Sales-Type Lease at March 31, 2016*

##### *Status at March 31, 2016*

As of March 31, 2016, Xi'an TCH leases the following systems: (i) BMPG systems to Pucheng Phase I and II (15 and 11 year terms, respectively); (ii) BMPG systems to Shenqiu Phase I (11 year term); (iii) Shenqiu Phase II (9.5 year term); and (iv) WGPG systems to Yida (15 year term). In addition, as of March 31, 2016, Erdos TCH leased power and steam generating systems from waste heat from metal refining to Erdos (five systems) for a term of 20 years.

#### *Asset Repurchase Agreement*

During the year ended December 31, 2015 and the period ended March 31, 2016, the Company entered into the following Asset Repurchase Agreements:

On May 29, 2015, Xi'an TCH entered into a Repurchase Agreement for the Recycling Economy Project with Datong. Under the Repurchase Agreement, Datong agreed to repurchase the Systems from Xi'an TCH and pay outstanding energy saving service fees of RMB 1.2 million (\$193,548) to Xi'an TCH within five working days from the execution of the Repurchase Agreement. The Systems would be transferred to Datong for a total price of RMB 250 million (\$40.32 million) with RMB 100 million for two BPRT systems and RMB 150 million (\$24.54 million) for one WGPG system. Datong paid the repurchase price to Xi'an TCH and, as of June 30, 2015, the systems were transferred. The outstanding balance of net investment receivable on the date of transfer was \$13.37 million. The Company recorded a \$2.98 million gain from two BPRT systems as non-operating income and a \$3.02 million gain from the WGPG system as gross profit from the sale.

On June 18, 2015, Xi'an TCH entered into a WHPG system Repurchase Agreement with Jitie. Under the Repurchase Agreement, Jitie agreed to repurchase the Jitie Project from Xi'an TCH and pay outstanding energy saving service fees of RMB 1.8 million (\$294,599) to Xi'an TCH within five working days from the execution of the Repurchase Agreement on June 18, 2015. The Jitie Project would be transferred to Jitie for a total price of RMB 90 million (\$14.73 million), and Jitie agreed to pay RMB 45 million within five working days from the execution of the Repurchase Agreement and pay another RMB 45 million within 15 working days from the execution of the Repurchase Agreement. As of June 30, 2015, Xi'an TCH received payment in full and the systems were transferred. The outstanding balance of net investment receivable at date of transfer was \$13.10 million. The Company recorded a \$1.62 million gain from this transaction.

On November 16, 2015, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Rongfeng and Xi'an Huaxin New Energy Co., Ltd., a limited liability company incorporated in China ("Xi'an Huaxin"). The Transfer Agreement provided for the sale to Rongfeng of the CDQ Waste Heat Power Generation Project (the "Project") from Xi'an TCH. Additionally, Xi'an TCH agreed to transfer to Rongfeng the Engineering, Procurement and Construction ("EPC") Contract for the CDQ Waste Heat Power Generation Project which Xi'an TCH had entered into with Xi'an Huaxin in connection with the Project. As consideration for the transfer of the Project, Rongfeng will pay to Xi'an TCH an aggregate purchase price of RMB 165,200,000 (\$25.45 million), whereby (a) RMB 65,200,000 (\$10.05 million) will be paid by Rongfeng to Xi'an TCH within 20 business days after the Transfer Agreement is signed, (b) RMB 50,000,000 (\$7.70 million) will be paid by Rongfeng to Xi'an TCH within 20 business days after the Project is completed, but no later than March 31, 2016 and (c) RMB 50,000,000 (\$7.70 million) will be paid by Rongfeng to Xi'an TCH no later than September 30, 2016. Mr. Cheng Li, the largest shareholder of Rongfeng, has personally guaranteed the payments. The ownership of the Project was conditionally transferred to Rongfeng within 3 business days following the initial payment of RMB 65,200,000 (\$10.05 million) by Rongfeng to Xi'an TCH and the full ownership of the Project will be officially transferred to Rongfeng after it completes the entire payment pursuant to the Transfer Agreement. As of March 31, 2016, Xi'an TCH received the first payment of \$10.05 million and the second payment of \$7.70 million. The Company recorded a \$3.78 million loss from this transaction.

In March 2016, Xi'an TCH entered into a Transfer Agreement of CDQ and a CDQ WHPG system with Zhongtai and Xi'an Huaxin. The Transfer Agreement provided for the sale to Zhongtai of the CDQ Waste Heat Power Generation Project from Xi'an TCH. Xi'an TCH agreed to transfer to Zhongtai all the project assets under construction under the Agreement. Additionally, Huaxin should continue to construct and complete the Project and Xi'an agreed to transfer all its rights and obligation under the "EPC" Contract to Zhongtai. As consideration for the transfer of the Project, Zhongtai should pay to Xi'an an aggregate transfer price of RMB 167,360,000 (\$25.77 million) including RMB 152,360,000 (\$23.46 million) payments for the construction of the Project and RMB 15,000,000 (\$2.31 million) partial loan interest incurred during the construction period whereby (a) RMB 50,000,000 (\$7.70 million) should be paid by Zhongtai to Xi'an TCH within 20 business days after the Transfer Agreement is signed, (b) RMB 30,000,000 (\$4.62 million) will be paid by Zhongtai to Xi'an TCH within 20 business days after the Project is completed, but no later than July 30, 2016 and (c) RMB 87,360,000 (\$13.45 million) will be paid by Zhongtai to Xi'an TCH no later than July 30, 2017. Xuzhou Taifa Special Steel Technology Co., Ltd. ("Xuzhou Taifa") has guaranteed the payments. The ownership of the Project was conditionally transferred to Zhongtai within 3 business days following the initial payment of RMB 50,000,000 (\$7.70 million) by Zhongtai to Xi'an TCH and the full ownership of the Project will be officially transferred to Zhongtai after it completes the entire payment pursuant to the Transfer Agreement. As of March 31, 2016, Xi'an TCH had received the first payment of \$7.70 million. The Company recorded a \$2.82 million loss from this transaction.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation



The unaudited financial statements included herein were prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) that are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) were omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited financial statements and footnotes included in the Company’s 2015 audited financial statements included in the Company’s Annual Report on Form 10-K. The results for the three months ended March 31, 2016 are not necessarily indicative of the results expected for the full year ending December 31, 2016.

#### Basis of Consolidation

The consolidated financial statements include the accounts of CREG and its subsidiary, Sifang Holdings, its wholly owned subsidiaries, Huahong New Energy Technology Co., Ltd. (“Huahong”) and Shanghai TCH, Shanghai TCH’s wholly-owned subsidiary, Xi’an TCH Energy Tech Co., Ltd. (“Xi’an TCH”) and Xi’an TCH’s subsidiaries, Erdos TCH Energy Saving Development Co., Ltd (“Erdos TCH”), 100% owned by Xi’an TCH (See note 1), Zhonghong, 90% owned by Xi’an TCH, and Zhongxun, 100% owned by Xi’an TCH. Substantially all of the Company’s revenues are derived from the operations of Shanghai TCH and its subsidiaries, which represent substantially all of the Company’s consolidated assets and liabilities as of March 31, 2016 and December 31, 2015, respectively. All significant inter-company accounts and transactions were eliminated in consolidation.

## Use of Estimates

In preparing these consolidated financial statements in accordance with US GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheets as well as revenues and expenses during the period reported. Actual results may differ from these estimates.

## Revenue Recognition

### *Sales-type Leasing and Related Revenue Recognition*

The Company constructs and leases waste energy recycling power generating projects to its customers. The Company typically transfers ownership of the waste energy recycling power generating projects to its customers at the end of the lease. The investment in these projects is recorded as investment in sales-type leases in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 840, “Leases,” and its various amendments and interpretations. The Company finances construction of waste energy recycling power generating projects. The sales and cost of sales are recognized at the inception of the lease. The investment in sales-type leases consists of the sum of the minimum lease payments receivable less unearned interest income and estimated executory cost. Minimum lease payments are part of the lease agreement between the Company (as the lessor) and the customer (as the lessee). The discount rate implicit in the lease is used to calculate the present value of minimum lease payments. The minimum lease payments consist of the gross lease payments net of executory costs and contingent rentals, if any. Unearned interest income is amortized to income over the lease term to produce a constant periodic rate of return on net investment in the lease. While revenue is recognized at the inception of the lease, the cash flow from the sales-type lease occurs over the course of the lease, which results in interest income and reduction of receivables. Revenue is recognized net of sales tax.

### *Contingent Rental Income*

The Company records income from actual electricity usage in addition to minimum lease payments of each project as contingent rental income in the period contingent rental income is earned. Contingent rent is not part of minimum lease payments.

## Cash and Equivalents

Cash and equivalents includes cash on hand, demand deposits placed with banks or other financial institutions and all highly liquid investments with an original maturity of three months or less as of the purchase date of such investments.

#### Accounts Receivable

As of March 31, 2016 and December 31, 2015, the Company had accounts receivable of \$33,640,810 (mainly from sale of CDQ and a CDQ WHPG system to Rongfeng and sale of CDQ and a CDQ WHPG system to Zhongtai), and \$15,399,778 (mainly from sale of CDQ and a CDQ WHPG system to Rongfeng), respectively.

#### Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Expenditures for maintenance and repairs are expensed as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method over the estimated lives as follows:

Building	20 years
Vehicles	2 - 5 years
Office and Other Equipment	2 - 5 years
Software	2 - 3 years

#### Impairment of Long-lived Assets

In accordance with FASB ASC Topic 360, "*Property, Plant, and Equipment*," the Company reviews its long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. If the total expected undiscounted future net cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying amount of the asset. There was no impairment as of March 31, 2016 and December 31, 2015.

#### Notes Payable – Banker's Acceptances

The Company endorses banker's acceptances that are issued from a bank to vendors as payment for its obligations. Most of the banker's acceptances have maturity dates of less than six months following their issuance.

## Cost of Sales

Cost of sales consists primarily of the direct material of the power generating system and expenses incurred directly for project construction for sales-type leasing and sales tax and additions for contingent rental income.

## Noncontrolling Interests

The Company follows FASB ASC Topic 810, "*Consolidation*," which established new standards governing the accounting for and reporting of noncontrolling interests ("NCIs") in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability (as was previously the case), that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions rather than as step acquisitions or dilution gains or losses, and that losses of a partially-owned consolidated subsidiary be allocated to NCIs even when such allocation might result in a deficit balance.

The net income (loss) attributed to NCIs was separately designated in the accompanying statements of income and comprehensive income (loss). Losses attributable to NCIs in a subsidiary may exceed an NCI's interests in the subsidiary's equity. The excess attributable to NCIs is attributed to those interests. NCIs shall continue to be attributed their share of losses even if that attribution results in a deficit NCI balance.

## Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and equivalents, restricted cash, accounts receivable, other receivables, accounts payable, accrued liabilities and short-term debts, the carrying amounts approximate their fair values due to their short maturities. Receivables on sales-type leases are based on interest rates implicit in the lease.

FASB ASC Topic 820, "*Fair Value Measurements and Disclosures*," requires disclosure of the fair value ("FV") of financial instruments held by the Company. FASB ASC Topic 825, "*Financial Instruments*," defines FV, and establishes a three-level valuation hierarchy for disclosures of FV measurement that enhances disclosure requirements for FV measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their FV because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to FV measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, "*Distinguishing Liabilities from Equity*," and ASC 815, "*Derivatives and Hedging*."

The following are the considerations with respect to disclosures of FV of long-term debt obligations:

As of March 31, 2016, the Company's long-term debt obligations consisted of the following: (i) various long-term bank loans of \$2.17 million, and (ii) Zhonghong entrusted loan of \$59.12 million. As of December 31, 2015, the Company's long-term debt obligations consisted of the following: (i) various long-term bank loans and Zhongrong International Trust Co., Ltd. ("ZRIT") trust loan payable of \$18.19 million, and (ii) Zhonghong entrusted loan of \$58.83 million.

FV measurements and approximations for certain financial instruments are based on what a reporting entity would likely have to pay to transfer the financial obligation to an entity with a comparable credit rating. The Company's bank loans and trust loans payable are privately held (i.e., nonpublic) debt; therefore, pricing inputs are not observable. For this reason, the Company classified bank loans and trust loans payable as a Level 3 FV measurement in the valuation hierarchy.

For the Company's long-term bank loans, ZRIT trust loan and Zhonghong entrusted loans noted above, the Company believes the carrying amounts approximate their FV. Based on the Company's understanding of the credit markets, the Company's business is in a sector (energy-saving green) that is supported by the PRC government and the lending bank, the Company believes it could have obtained similar loans on similar terms and interest rates. In addition, in connection with the FV measurement, the Company considered nonperformance risk (including credit risk) relating to the debt obligations, including the following: (i) the Company is considered a low credit risk customer to the lending bank and its creditors; (ii) the Company has a good history of making timely payments and have never defaulted on any loans; and (iii) the Company has a stable and continuous cash inflow from collections from its sales-type lease of energy saving projects.



As of March 31, 2016 and December 31, 2015, the Company did not identify any assets and liabilities that are required to be presented on the balance sheet at FV.

### Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with FASB ASC Topic 718 “*Compensation—Stock Compensation*,” and FASB ASC Topic 505, “*Equity*.” The Company recognizes in its statement of operations FV at the grant date for stock options and other equity-based compensation issued to employees and non-employees.

### Basic and Diluted Earnings per Share

The Company presents net income (loss) per share (“EPS”) in accordance with FASB ASC Topic 260, “*Earning Per Share*.” Accordingly, basic income (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of shares outstanding, without consideration for common stock equivalents. Diluted EPS is computed by dividing the net income by the weighted-average number of common shares outstanding as well as common share equivalents outstanding for the period determined using the treasury-stock method for stock options and warrants and the if-converted method for convertible notes. The Company made an accounting policy election to use the if-converted method for convertible securities that are eligible to receive common stock dividends, if declared. Diluted EPS reflect the potential dilution that could occur based on the exercise of stock options or warrants or conversion of convertible securities using the if-converted method.

The following table presents a reconciliation of basic and diluted EPS for the three months ended March 31, 2016 and 2015:

	2016	2015
Net income	\$93,026	\$4,135,798
Weighted average shares outstanding – basic	83,084,035	83,072,368
Effect of dilutive securities:		
Options granted	-	-
Weighted average shares outstanding – diluted	83,084,035	83,072,368
Earnings per share – basic	\$0.00	\$0.05
Earnings per share – diluted	\$0.00	\$0.05



## Foreign Currency Translation and Comprehensive Income (Loss)

The Company's functional currency is the Renminbi ("RMB"). For financial reporting purposes, RMB were translated into United States Dollars ("USD" or "\$") as the reporting currency. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at the average rate of exchange prevailing during the reporting period. Translation adjustments arising from the use of different exchange rates from period to period are included as a component of stockholders' equity as "Accumulated other comprehensive income." Gains and losses resulting from foreign currency transactions are included in income. There was no significant fluctuation in the exchange rate for the conversion of RMB to USD after the balance sheet date.

The Company uses FASB ASC Topic 220, "*Comprehensive Income*." Comprehensive income is comprised of net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders.

## Segment Reporting

FASB ASC Topic 280, "*Segment Reporting*," requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. FASB ASC Topic 280 has no effect on the Company's financial statements as substantially all of the Company's operations are conducted in one industry segment. All of the Company's assets are located in the PRC.

## New Accounting Pronouncements

In August 2014, the FASB issued Presentation of Financial Statements — Going Concern. This standard requires management to evaluate for each annual and interim reporting period whether it is probable that the reporting entity will not be able to meet its obligations as they become due within one year after the date that the financial statements are issued. If the entity is in such a position, the standard provides for certain disclosures depending on whether or not the entity will be able to successfully mitigate its going concern status. This guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. Early application is permitted. The Company does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

The FASB has issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in FASB ASC 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

The FASB has issued ASU No. 2014-12, Compensation - Stock Compensation (ASC Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810) - Amendments to the Consolidation Analysis", which provides guidance for reporting entities that are required to evaluate whether they should consolidate certain legal entities. In accordance with ASU 2015-02, all legal entities are subject to reevaluation under the revised consolidation model. ASU 2015-02 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The Company does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In July 2015, the FASB issued ASU 2015-11, Inventory, which requires an entity to measure inventory within the scope at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The effective date for the standard is for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments eliminate the requirement to retrospectively account for those adjustments. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, "Balance Sheet Classification of Deferred Taxes". The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. This update is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company does not anticipate the adoption of this ASU will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842). The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, Leases (FAS 13). ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the effect this standard will have on its Consolidated Financial Statements.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

### 3. RESTRICTED CASH

Restricted cash is held by the banks as collateral to issue bank acceptances and bank loans. The Company endorses bank acceptances to vendors as payment of its obligations. Most of the bank acceptances have maturities of less than six (6) months. As of March 31, 2016 and December 31, 2015, the Company had restricted cash of \$0.87 million and \$1.13 million.

### 4. INVESTMENT IN SALES-TYPE LEASES, NET

Under sales-type leases, Xi'an TCH leases the following systems: (i) BMPG systems to Pucheng Phase I and II (15 and 11 year terms, respectively); (ii) BMPG systems to Shenqiu Phase I (11 year term); (iii) Shenqiu Phase II (9.5 year term); and (iv) WGPG systems to Yida (15 year term). In addition, as of March 31, 2016, Erdos TCH leased power and steam generating systems from waste heat from metal refining to Erdos (five systems) for a term of twenty years. The components of the net investment in sales-type leases as of March 31, 2016 and December 31, 2015 are as follows:

	2016	2015
Total future minimum lease payments receivable	\$381,384,263	\$387,612,418
Less: executory cost	(91,850,486 )	(93,054,738 )
Less: unearned interest income	(150,638,976)	(154,799,027)
Investment in sales-type leases, net	138,894,801	139,758,653
Current portion	6,925,405	6,679,019
Noncurrent portion	\$131,969,396	\$133,079,634

As of March 31, 2016, the future minimum rentals to be received on non-cancelable sales-type leases by years are as follows:

2017	\$33,848,202
2018	32,687,426
2019	32,687,426
2020	32,687,426