



ECO - Energy China Inc
中能再生能源有限公司

December 1, 2010

To ECO-Energy China Shareholders,

Commercial production of bio-diesel in China is still in its infancy, but it is expected to experience rapid growth over the next 10 years, driven by several key factors including: increase in the number of diesel vehicles, environmental concerns (reduction of greenhouse gases), concerns over domestic energy supply, and, government mandates and incentives. The recent country-wide shortages of petro-diesel in China have renewed interest in the development of bio-diesel supply.

EEC's objective is to become an integral part of the emerging bio-diesel industry in China and specifically to establish itself as a profitable producer through the use of an integrated approach of owning both feedstock (Jatropha) and refinery capability.

In pursuing this objective, we are in the pre-revenue phase of our build but have established significant operational capability and an installed base of assets (Jatropha plantations plus bio-diesel refinery). Plans are in place to move from pre-revenue to a revenue generating phase over the next few quarters with the primary determinant of this being our ability to generate targeted yield levels from our Jatropha plantations.

Given this context, the Board of Directors is pleased to provide an update on the following items:

- Jatropha Plantations,
- Government Plantation Subsidies,
- Poyry Valuation - September 17, 2010,
- Financial Audit - June 30, 2010,
- Refinery Operating Plan, and,
- Capital Plans.

1) Jatropha Plantations

Since our last update in September, we have been notified by our field staff in Guizhou that the drought in south west China, which commenced in September 2009 and lasted until May 2010 and which has been classified as the worst drought in 100 years, has had more of a pronounced effect on our Jatropha fruit and seed production than first expected. As we last reported, most of the Jatropha trees in our plantations survived the drought, however, the fruit production maturing before September was too low to produce an adequate supply of seeds to collect economically. Typically the first round of fruit collection occurs before September and accounts for 60-70% of the entire yearly yield, with the second round in October accounting for only one third.

It is now evident from reports from the field, that despite the trees growing vigorously over the past few months after the drought, the amount of fruit that has been produced is very low. Our foresters attribute this to three factors: the drought, the maturity of the *Jatropha* trees (many still below 4 years of age), and the lack of fertilizer and tending. With regard to the latter, it would have been a waste of money to have fertilized during the drought.

The Board of Directors has decided to embark on a major program of fertilizing and tending on our 9,750 hectares of *Jatropha* plantations in southern Guizhou province commencing in the near term. This action is expected to bring the fruit and seed yield back to where it should have been prior to the drought. The cost of this program is estimated at \$220 per hectare or \$2 million.

2) Government Plantation Subsidies

Our government planting subsidy application was approved by the Department of Finance and the Department of Forestry of Guizhou Province and the formal application to the Ministry of Finance (Beijing) was submitted on September 7, 2010. The approved application which was submitted was for RMB 120 million (\$18.5 million) with a first instalment of RMB 20 million (\$3 million).

On October 18, we were notified in writing by the Ministry of Finance that our application had been accepted and the Ministry has instructed the Guizhou Department of Finance to allocate RMB 20.6 million (\$3.2 million) to our plantation subsidiary Guizhou Zhongshui Green Energy Technology. We expect to receive the funds by the end of January. *(A copy of the Ministry of Finance Direction is attached to this letter).*

3) Poyry Valuation – November 17, 2010

As we reported in September, **Poyry (Beijing) Consulting Company** completed its second independent valuation of EEC's existing *Jatropha* plantations in Guizhou province. The field work was completed in July. The updated market value for the Guizhou plantations is **US\$21,215,987 or US\$2,173 per hectare**, representing an **increase of 35%** over last year's assessment. *(A full copy of the Final Poyry Assessment can be made available to shareholders upon request).*

4) Financial Audit – June 30, 2010

The Company's auditors, Collins Barrow, are currently finishing the audited financial statements for the Company for the period ended June 30, 2010, which is the Company's new fiscal year-end. *(A copy of the statements will be sent to all shareholders shortly).*

5) Refinery Operating Plan

Over the next year, EEC is targeting a moderate level of bio-diesel production (5,500 tonnes) using Waste Cooking Oil (WCO) as the primary feedstock, while we wait to harvest our Jatropha plantations later in 2011. We recognize that WCO supplies are limited within Guizhou allowing only moderate bio-diesel production. WCO prices tend to follow global oil price trends so managing our WCO purchasing is also important. In addition, we are purchasing Jatropha seed when available (including from Yunnan Province) to allow small batches of bio-diesel from Jatropha oil to be produced.

6) Capital Plans

Plans to take EEC public have been delayed until key deliverables are met. Most importantly is our ability to harvest a substantial Jatropha crop and process significant bio-diesel from the resulting Jatropha oil. The primary use of funds from the planned IPO was to purchase additional Jatropha plantations in Yunnan Province, bridge the period until EEC became cash flow positive, and to provide sufficient working capital to carry out productive business initiatives.

The forecast capital needs of the Company in 2011 (ex Yunnan) are:

- Guizhou plantation fertilizing and tending	-	\$2.0 million
- Guiyang refinery working capital		\$0.3 million
- General and Administration		\$1.5 million
- Other (including R&D)		<u>\$0.6 million</u>
- Total		\$4.4 million

The Board has decided to pursue a private capital raise to generate funds to manage business activities, specifically to bridge the period until government subsidies are received and we can harvest a Jatropha crop. In addition, we have been negotiating the purchase of additional Jatropha plantations in Yunnan (approximately 19,000 ha of planted Jatropha and where a valuation by Poyry has just been completed, and where we have made a \$500,000 deposit towards the purchase of these assets). The Company has recently submitted an Analysis Report on the development of a Jatropha plantation base in Yunnan to the State Forest Administration in Beijing.

The Board plans to raise a minimum of \$3 million to meet ongoing needs of the business. Raising \$5 million would allow us to continue negotiations regarding the Yunnan plantation acquisition.

The Details of the planned capital raise will be issued shortly.

Yours truly,

The Board of Directors