Andatee China Marine Fuel Services Corp
Form 10-Q
November 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2014

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 number 001-34608

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**80-0445030**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer) Identification No.)

Unit C, No.68 of West Binhai Road, Xigang District

Dalian, P.R. of China

011 (86411) 8240 8939

(Address of Principal Executive Offices)(Zip Code)

(Registrant’s Telephone Number, Including Area Code)

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 x 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 x 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 x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS

As of November 7, 2014, the Company had 10,255,813 shares of common stock outstanding.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

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PART I

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ANDATEE CHINA MARINE FUEL SERVICES CORPORATION. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 203,019	$ 22,638,820
Restricted cash	45,561,801	99,659,597
Accounts receivable, net	19,936,801	45,818,721
Inventories, net	40,498,615	3,893,530
Advances to suppliers, net	1,339,646	25,930,533
Deposits for land use rights	715,053	720,084
Deferred financing costs, net	1,006,589	4,373,603
Equity investment	-	1,351,428
Other current assets	5,201,833	517,320
Total current assets	114,463,357	204,903,636
Property, plant and equipment, net	53,137,119	54,292,903
Construction in progress	71,442,451	17,781,162
Intangible assets, net	15,810,678	16,289,315
Total assets	$ 254,853,605	$ 293,267,016
LIABILITIES AND EQUITY		
Current liabilities		
Short-term bank borrowings	$ 24,051,744	$ 27,821,419
Bank note payable	133,261,286	191,257,528
Accounts payable and accrued liabilities	31,705,917	3,156,079
Advances from customers	248,821	1,693,875
Loan from third parties	-	98,193
Related party loans payable	876,831	1,595,594
Taxes payable	5,020,720	6,254,057
Other liabilities	1,817,308	1,149,298
Total current liabilities	196,982,627	233,026,043
Warrant liability	579,831	290,687
Total liabilities	197,562,458	233,316,730
Commitments and contingencies		
Equity		
Common stock, $0.001 par value; 50,000,000 shares authorized; 10,255,813 shares issued; 10,164,621 shares outstanding	10,256	10,256

Treasury stock, at cost; 91,192 shares	(497,693)	(497,693)
Additional paid-in capital	31,612,913	29,998,994
Accumulated other comprehensive income	3,930,402	6,206,460
Retained earnings	17,606,567	17,990,881
Statutory reserve	3,932,585	3,932,585
Total stockholders' equity of the Company	56,595,030	57,641,483
Noncontrolling interest	696,117	2,308,803
Total equity	57,291,147	59,950,286
Total liabilities and equity	$ 254,853,605	$ 293,267,016

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues	$146,303,487	$61,564,873	$363,789,322	$190,962,563
Cost of revenues	139,184,245	56,652,979	344,657,658	178,635,410
Gross profit	7,119,242	4,911,894	19,131,664	12,327,153
Operating expenses				
Selling expenses	405,810	367,616	876,962	1,184,647
General and administrative expenses	2,576,353	3,547,780	7,254,659	7,684,547
Total operating expenses	2,982,163	3,915,396	8,131,621	8,869,194
Income from operations	4,137,079	996,498	11,000,043	3,457,959
Other income (expense)				
Interest income	229,186	58,744	1,364,216	283,792
Interest expense	(2,341,001)	(737,667)	(10,731,892)	(2,818,881)
Income from equity investment	-	12,418	-	28,768
Loss from disposal of equity method investee	(53,339)	-	(41,942)	-
Change in fair value of warrants	(307,746)	(270,539)	(289,144)	(260,389)
Other expense	(20,134)	(193,101)	(42,229)	(193,270)
Total other expense, net	(2,493,034)	(1,130,145)	(9,740,991)	(2,959,980)
Income (loss) before income tax provision	1,644,045	(133,647)	1,259,052	497,979
Provision for income taxes	1,523,361	408,053	1,666,920	877,307
Net income (loss)	120,684	(541,700)	(407,868)	(379,328)
Less: net loss attributable to noncontrolling interest	(4,598)	1,159	(23,554)	(92,025)
Net income (loss) attributable to Andatee China Marine Fuel Services Corporation	$125,282	$(542,859)	$(384,314)	$(287,303)
Comprehensive income (loss)				
Net income (loss)	$120,684	$(541,700)	$(407,868)	$(379,328)
Foreign currency translation adjustment	17,332	(115,317)	(415,652)	1,499,734
Comprehensive income (loss)	138,016	(657,017)	(823,520)	1,120,406
Less: comprehensive income (loss) attributable to noncontrolling interest	3,115	(24,556)	1,612,686	(316,411)
Comprehensive income attributable to Andatee China Marine Fuel Services Corporation	$141,131	$(632,461)	$789,166	$1,436,817

Weighted average number of shares:				
Basic	10,255,813	9,860,159	10,255,813	9,715,858
Diluted	10,419,727	9,860,159	10,255,813	9,715,858
Earnings (losses) per share:				
Basic	$0.01	$(0.06)	$(0.04)	$(0.01)
Diluted	$0.01	$(0.06)	$(0.04)	$(0.01)

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2014	2013
Cash flows from operating activities		
Net loss	$(407,868)	$(379,328)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,582,533	1,813,675
Amortization	338,944	393,147
Provision for doubtful accounts	457,730	2,915,205
Change in inventory reserve	185,152	139,549
Deferred tax provision	-	187,901
Amortization of deferred financing costs	7,424,622	-
Stock-based compensation to consulting firm	-	356,667
Stock-based compensation to directors	102,375	136,500
Income from equity investment	-	(28,768)
Loss from disposal of equity method investee	41,942	-
Change in fair value of warrants	289,144	260,389
Changes in operating assets and liabilities:		
Accounts receivable	24,605,678	(23,769,140)
Inventories	(36,863,343)	(27,909,845)
Advances to suppliers	24,968,839	(819,909)
Other current assets	(4,627,890)	(3,409,281)
Accounts payable and accrued liabilities	28,942,295	16,851,041
Advances from customers	(1,435,013)	(5,048,428)
Taxes payable	(1,191,124)	3,802,579
Other liabilities	310,211	1,151,546
Net cash provided by (used in) operating activities	45,724,227	(33,320,502)
Cash flows from investing activities		
Proceeds from disposal (acquisition) of equity method investee	1,301,723	(1,287,581)
Additions to property and equipment	(1,805,175)	(88,554)
Additions to construction in progress	(53,852,932)	-
Addition to intangible assets	(37,753)	(4,452,134)
Cash paid for acquiring noncontrolling interest	(1,903,770)	(1,722,140)
Net cash used in investing activities	(56,297,907)	(7,550,410)
Cash flows from financing activities		
Proceeds from short-term loans	27,254,829	33,718,535
Repayments of short-term loans	(30,834,567)	(15,803,451)
Proceeds from bank notes	141,564,020	128,011,331
Repayments of bank notes	(198,294,743)	(31,545,741)

Restricted cash, net	53,468,281	(59,167,769)
Deferred financing costs	(4,083,991)	-
Repayment of loan from unrelated parties	(97,629)	(7,210,455)
Proceeds (repayment) of loans from related parties	(708,126)	2,354,493
Net cash (used in) provided by financing activities	(11,731,926)	50,356,942
Effect of exchange rate changes on cash and cash equivalents	(130,195)	162,267
Net (decrease) increase in cash and cash equivalents	(22,435,801)	9,648,297
Cash and cash equivalents, beginning of period	$22,638,820	$1,625,705
Cash and cash equivalents, end of period	$203,019	$11,274,002
Supplemental cash flow information		
Interest paid	$7,648,577	$2,593,721
Income taxes paid	$1,285,953	$316,835
Transfer from construction in progress to property, plant and equipment	$694,799	$-
Transfer from advances to suppliers to construction in progress	$53,307,190	$-

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

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ANDATEE CHINA MARINE FUEL SERVICES CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

Andatee China Marine Fuel Services Corporation (the "Company"), its subsidiaries, its variable interest entities ("VIE") and its VIE's subsidiaries (collectively the "Group") are principally engaged in the production, storage, distribution and trading of blended marine fuel oil for cargo and fishing vessels in the PRC.

The accompanying unaudited condensed consolidated financial statements have been prepared by management in accordance with both accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to make the financial statements not misleading have been included. Operating results for the interim periods ended September 30, 2014 are not necessarily indicative of the results than may be expected for the fiscal year ending December 31, 2014. The information included in the Form 10-Q should be read in conjunction with the Management's Discussion and Analysis, and the financial statements and notes thereto included in the Company's Form 10-K for the fiscal year ended December 31, 2013, filed with the Securities and Exchange Commission on March 31, 2014.

NOTE 2 - LIQUIDITY

As reflected in the Company's unaudited condensed consolidated financial statements, the Company had a net loss for the nine months ended September 30, 2014. The Company also has a working capital deficit at September 30, 2014. The Company relies upon cash from its financing activities to fund its ongoing operations as it has not been able to generate sufficient cash from operating activities and there is no assurance that it will be able to do so in the future.

In assessing its liquidity, management monitors and analyzes the Company's cash on-hand, its ability to renew bank facilities, and its operating and capital expenditure commitments. Its principal liquidity needs are to meet its working capital requirements, operating expenses and capital expenditure obligations. The Company plans to fund continuing operations through additional bank borrowings, financial support by a shareholder and cutting costs to improve profitability and replenish working capital.

Management believes that the foregoing measures collectively will provide sufficient liquidity for the Company to meet its future liquidity and capital obligations.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The accompanying unaudited condensed consolidated financial statements of Andatee reflect the principal activities of the following entities. The noncontrolling interests represent the minority stockholders' interest in the Group's majority owned subsidiaries, VIE and affiliates. All material intercompany transactions have been eliminated.

Name of the entity	Place of Incorporation	Ownership Percentage	
Andatee China Marine Fuel Services Corp.	Delaware	Parent	
Goodwill Rich International Corp., (“Goodwill Rich”)	Hong Kong	100	%
Dalian Fusheng Petrochemical Company ("Fusheng") (“WOFE”)	Dalian, China	WOFE,100	%
Dalian Xingyuan Marine Bunker Co., Ltd (“Xingyuan”) (“VIE”)	Dalian, China	VIE	
Dalian Xifa Petrochemical Company, Ltd.(“Dalian Xifa”),	Dalian, China	100	%
Shandong Xifa Prochemical Company, Ltd. (“Shandong Xifa”)	Shandong, China	100	%
Shenzhen Shengfu Petrochemical Company, Ltd.(“Shenzhen Shengfu”)	Shenzhen, China	100	%
Donggang Xingyuan Marine Fuel Company (“Donggang Xingyuan”)	Donggang, China	100	%
Rongcheng Zhuoda Trading Co (“Zhuoda”)	Shandong, China	100	%
Wujiang Xinlang Petrochemical Company ("Xinglang")	Wujiang, China	90	%
Xiangshan Yongshi Nanlian Petroleum Company (“Nanlian”)	Zhejiang, China	100	%
Rongcheng Xinfa Petroleum Company (“Xinfa”)	Shandong, China	90	%
Suzhou Fusheng Petrochemical Company ("Suzhou Fusheng") (A)	Suzhou, China	100	%
Hailong Petrochemical Company (“Hailong”)	Tianjin, China	52	%
Rongcheng Mashan Xingyuan (“Mashan Xingyuan”)	Shandong, China	52	%
Shanghai Fusheng Petrochemical Company, Ltd.(“Shanghai Fusheng”)	Shanghai, China	100	%
Lianyungang Fusheng Petrochemical Co., Ltd. (“Lianyungang Fusheng”)	Lianyungang, China	100	%
Lianyungang Xingyuan Marine Bunker Co., Ltd. (“Lianyungang Xingyuan”)	Lianyungang, China	100	%
Xinniu Development Co., Ltd.	Dalian, China	100	%
Qingdao Grand New Energy Co., Ltd. (“Qingdao Energy”) (B)	Qingdao, China	100	%

Note A: On May 22, 2014, Dalian Fusheng acquired the remaining 39% of capital shares from Suzhou Fusheng’s minority shareholders Mr. Zhongbin and Wujiang Coal and Petroleum Co., Ltd. for cash consideration of RMB 11.7 million (US $1.9 million) . Suzhou Fusheng completed the registration change with the local State Administration of Industry and Commerce (the “SAIC”) on May 23, 2014 to reflect the share structure change. After the acquisition, Suzhou Fusheng became a wholly controlled subsidiary of the Company. The ownership change in Suzhou Fusheng was accounted for as an equity transaction and no gain or loss was recognized in the consolidated statements of net income (loss) and comprehensive income (loss).

Note B: On May 19, 2014, the Company, through a related party share transfer, acquired 100% ownership interest in Qingdao Grand New Energy Co., Ltd. (See Note 14 below).

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information as of the date of the financial statements.

Significant estimates required to be made by management include, but are not limited to, useful lives of property, buildings and equipment, intangible assets, the recoverability of long-lived assets, the valuation of accounts receivable, inventories, deposits, advances to suppliers and the fair value of warrants liability. Actual results could differ from those estimates.

Foreign Currency Translation

The functional currency of the Company's subsidiary in Hong Kong is the US dollar while the local currency of the Company's subsidiaries, VIE and its subsidiary in China is the Renminbi ("RMB"). Accordingly, assets and liabilities of the China entities are translated into US dollars at the spot rates in effect as of the balance sheet date. Revenues, costs and expenses are translated using monthly average exchange rates during the reporting period. The equity denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. Due to the fact that cash flows are translated based on the average translation rate, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. Gains and losses resulting from foreign currency translation to reporting currency are recorded in accumulated other comprehensive income in equity for the periods presented.

Foreign currency transactions are translated at the spot rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of exchange in effect at that date. Gains and losses resulting from foreign currency transactions are included in the unaudited condensed consolidated statements of operations and other comprehensive income (loss).

Translation of amounts from RMB into the US dollar has been made at the following exchange rates for the respective period:

	September 30, 2014	December 31, 2013	September 30, 2013
Period end RMB : USD exchange rate	6.1534	6.1104	6.1364
Average RMB : USD exchange rate	6.1457	6.1905	6.2132

Financial Instruments

ASC 820, "Fair Value Measurements" and ASC 825, Financial Instruments, requires an entity to use observable inputs and minimize the use of unobservable inputs when measuring fair value. It establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. It prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data. The Company's level 2 financial instruments consist of the warrants liability, which is measured at fair value on a recurring basis using a model based valuation technique. The warrants do not meet the conditions for equity classification pursuant to ASC 815, "Derivatives and Hedging". Therefore, these warrants are classified as a liability. The fair value of the warrants is calculated using the Black-Scholes options pricing model (See Note 16 for valuation of warrant liability).

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Unless otherwise disclosed, the fair value of the Company's financial instruments substantially included cash and cash equivalents, restricted cash, accounts receivable, advances to suppliers, accounts payable, short term loans, bank notes payable and accrued liabilities.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash on deposit, certificates of deposit and all highly liquid debt instruments with maturities of three months or less when acquired.

Restricted Cash

Restricted cash consists of cash equivalents used as collateral to secure short-term bank notes payable. The Company is required to maintain escrow deposit amounts ranging between 30% and 50% of the total bank acceptance note amounts as a guarantee. Upon the maturity of the bank acceptance notes, the Company is required to deposit the remainder to the escrow account to settle the bank notes payable.

Accounts Receivable

Accounts receivable are recognized and carried at original invoiced amount less an allowance for uncollectible accounts, as estimated needed. The Company grants credit to customers with good credit standing with a maximum of 180 days and determines the adequacy of reserves for doubtful accounts based on individual account analysis and historical collection trends. The Company establishes a provision for doubtful receivables when there is objective evidence that the Company may not be able to collect all amounts due to it. The allowance is based on management's best estimates of specific losses on individual exposures, as well as a provision on historical trends of collections. The provision is recorded against trade and other receivables balances, with a corresponding charge recorded in the consolidated statements of operations and comprehensive income (loss). Actual amounts received may differ from management's estimate credit worthiness and the economic environment. In the event the accounts become overdue, the Company would continue its best efforts to collect from customers until events or circumstances indicate that the amounts might not be collectible, then, a reserve against specific uncollectible amounts will be recorded.

Advances to suppliers

Advances to suppliers represent the payments made and recorded in advance for the purchase of certain materials and fuels to be received. Advances to suppliers are short-term in nature and are reviewed periodically to determine whether their carrying value has become impaired. The Company considers the assets to be impaired if the collectability of the advance become doubtful. The Company uses the aging method to estimate the allowance for uncollectible balances.

Historically, if the Company cannot receive goods within 180 days, and if the possibility of the suppliers repaying the advance becomes doubtful, the Company's policy is to provide an allowance.

Inventories

Inventories are stated at the lower of cost or current market value. Costs include the cost of raw materials, freight, direct labor and related production overhead. The cost of inventories is calculated using the weighted average method. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories.

Net realizable value is the estimated selling price in the normal course of business less the estimated expenses and related taxes related to the sale.

Raw materials include low-value consumables and other materials, which can be in use for more than one year but do not meet the definition of fixed assets.

Deferred financing cost

Deferred financing costs represent the prepaid interest incurred in connection with the discount of bank acceptance notes. These costs are amortized over the terms of the bank acceptance notes ranging up to six months, using the straight-line method, which approximates the effective interest method. Amortization of these costs is charged to interest expense in the consolidated statements of operations and comprehensive income (loss). As of September 30, 2014 and December 31, 2013, accumulated amortization of deferred financial cost was $3,072,291 and $3,779,111, respectively. As of September 30, 2014, approximately $1.65 million interest has been capitalized (see Note 9).

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs, which are not considered improvements and do not extend the useful life of the asset, are expensed as incurred; additions, renewals and betterments are capitalized. When assets 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 the statement of operations in other income and expenses.

Depreciation is provided to recognize the cost of the asset in the results of operations. The Company calculates depreciation using the straight-line method with estimated useful life as follows:

Items	**Useful Life**
Property and buildings	40 years
Marine bunkers	15 years
Equipment	3-12 years
Transportation vehicles	8 years

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Construction-in-Progress

Construction-in-progress represents property and buildings under construction and consists of construction expenditures, equipment procurement, and other direct costs attributable to the construction. Construction-in-progress is not depreciated. Upon completion and ready for intended use, construction-in-progress is reclassified to the appropriate category within property, plant and equipment.

Intangible Assets other than Goodwill

Intangible assets consist primarily of land use rights, leasehold right and licenses and permits. Intangible assets are amortized using the straight-line method with the following estimated useful lives:

Items	Useful Life
Land use rights	50 years
Leasehold right	20 years
Licenses and permits	Contract Terms
Software	5 years

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in business acquisitions.

Impairment of Long-Lived Assets

Certain assets such as property, plant, and equipment, and purchased intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets are tested for impairment annually. Recoverability of assets that are held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no events or changes in circumstances that necessitated a review of impairment of long lived assets as of September 30, 2014.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, when the selling price is fixed or determinable, when delivery occurs and when collection is probable.

Delivery is typically conveyed via pipeline or tanker and sales revenues are recognized when customers take possession of goods in accordance with the terms of purchase order agreements that evidence agreed upon pricing and when collectability is reasonably assured.

As an industry wide practice, the Company requires advances from customers for substantially all sales. Such advances are not recognized as revenues when received as they represent down payments from customers for the marine fuel products and the delivery is not yet completed.

In the PRC, value added tax (VAT) of 17% of the invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Company; instead, the amount is recorded as a liability on the balance sheet until such VAT is paid to the authorities. The VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing or acquiring its finished products. The Company recorded a VAT payable net of payments in the accompanying financial statements.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC 740-10, "Accounting for Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year; and, (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date.

In the normal course of business, the Company may be subject to challenges from taxing authorities regarding the amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions. Management determines whether the benefits of its tax positions are more-likely-than-not of being sustained upon audit based on the technical merits of the tax position. The Company records a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated. As of September 30, 2014, the Company has no liabilities for uncertain tax positions. The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Earnings (loss) per Share

The Company computes net earnings (loss) per share in accordance with ASC Topic 260 Earnings Per Share, which requires presentation of both basic and diluted earnings (loss) per share (EPS) on the face of the income statement.

Basic net income (loss) per share is computed by dividing net income by the weighted average number of common shares outstanding for that period.

Diluted net income (loss) per share is computed giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential shares consist of incremental common shares issuable upon exercise of stock options, vesting of restricted stock units and conversion of preferred stock (none outstanding) for all periods, except in situations where inclusion is anti-dilutive.

Stock-Based compensation

The fair value of common stock issued is used to record stock-based compensation. Fair value is estimated based on the closing price of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. Stock-based compensation is expensed over the requisite performance period.

Accounting for changes in ownership

In accordance with ASC 810 "Consolidation", changes in a parent's ownership while the parent retains its controlling financial interest in its subsidiary should be accounted for as an equity transaction. Therefore, no gain or loss is recognized in consolidated net income (loss) or comprehensive income (loss) as a result of the acquisitions of noncontrolling interest disclosed in Note 3. The carrying amount of the controlling and noncontrolling interest is adjusted to reflect the change in ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is recognized in equity attributable to the parent. If a change in a parent's ownership interest occurs in a subsidiary that has accumulated other comprehensive income, the carrying amount of accumulated other comprehensive income is adjusted to reflect the change in the ownership interest in the subsidiary through a corresponding charge or credit to equity attributable to the parent.

Equity Method Investment

The Company accounted for its investment in unconsolidated entities by the equity method. The Company's share of earnings (loss) in the unconsolidated entity is included in other income (loss) on the consolidated statements of operations and comprehensive income (loss) (after elimination intra-company profit and losses). The Company records its shares of losses in the unconsolidated entities only to the extent of the Company's investment.

We evaluate our equity method investment for impairment when there are indicators of impairment. If indicators suggest impairment, we will perform an impairment test to assess whether an adjustment is necessary. The impairment test considers whether the fair value of our equity method investment has declined and if such decline is other than temporary. If a decline in fair value is determined to be other than temporary, the investment’s carrying value if written down to fair value.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) has issued Accounting Standards Update (ASU) No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective in the first quarter of 2015 for public organizations with calendar year ends. Early adoption is permitted. The Company does not expect the adoption of this guidance will have a significant impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. This Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance in this Update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to illustrate the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a reporting organization’s contracts with customers. This ASU is effective retrospectively for the Company for fiscal years, and interim periods within those years beginning after December 15, 2016. Management is evaluating the effect, if any, on the Company’s financial position and results of operations.

In June 2014, the FASB issued ASU No. 2014-12, Compensation-Stock Compensation: Topic 718. This amendment requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Company does not expect the adoption of this guidance will have a significant impact on the Company’s consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”), which requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity’s ability to continue as a going concern. ASU 2014-15 applies to all entities and is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. The Company does not expect that the adoption of this standard will have a material effect on the Company’s consolidated financial statements.

In November 2014, FASB issued Accounting Standards Update No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force).The amendments permit the use of the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate, or OIS) as a benchmark interest rate for hedge accounting purposes. Public business entities are required to implement the new requirements in fiscal years (and interim periods within those fiscal years) beginning after December 15, 2015. All other types of entities are required to implement the new requirements in fiscal years beginning after December 15, 2015, and interim periods beginning after December 15, 2016. The Company does not expect the adoption of ASU 2014-16 to have material impact on the Company's consolidated financial statement.

NOTE 4 - ACCOUNTS RECEIVABLE, NET

The Company's accounts receivable is as follows:

	September 30, 2014	December 31, 2013
Trade accounts receivable	$ 21,703,631	$ 46,604,189
Less: allowances for doubtful accounts	(1,766,830)	(785,468)
Accounts receivables, net	$ 19,936,801	$ 45,818,721

NOTE 5 - INVENTORIES, NET

The Company's inventory consists of the following:

	September 30, 2014	December 31, 2013
Marine Fuel	$ 40,473,802	$ 3,911,101
Other raw materials	227,182	-
Less: inventory reserve	(202,369)	(17,571)
Total Inventory, net	$ 40,498,615	$ 3,893,530

NOTE 6 - ADVANCES TO SUPPLIERS, NET

Advances to suppliers represent the payments made to suppliers in advance for the purchase of certain materials and fuels. Advances to suppliers consisted of the following:

	September 30, 2014	December 31, 2013
Advances to suppliers	$ 1,339,646	$ 26,462,158
Less: allowance for doubtful accounts	-	(531,625)
Advances to suppliers, net	$ 1,339,646	$ 25,930,533

NOTE 7 – OTHER CURRENT ASSETS

The Company's other current assets consist of the following:

	September 30, 2014	December 31, 2013
VAT recoverable	$ 5,066,726	$ -
Notes and other receivables	119,465	429,102
Prepaid insurance	15,642	88,218
Total other current assets	$ 5,201,833	$ 517,320

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT, NET

The Company's property, plant and equipment consists of the following:

	September 30, 2014	December 31, 2013
Property and buildings	$ 49,061,851	$ 48,643,214
Machinery, boiler and marine bunker equipment	11,654,598	10,714,150
Transportation vehicles	1,535,851	1,537,092
Office equipment	73,047	53,883
Leasehold improvement	68,528	69,011
Total	62,393,875	61,017,350
Less: Accumulated depreciation	(9,256,756)	(6,724,447)
Property, Plant and Equipment, net	$ 53,137,119	$ 54,292,903

Depreciation expense was $984,065 and $734,064 for the three months ended September 30, 2014 and 2013, respectively. Depreciation expense was $2,582,533 and $1,813,675 for the nine months ended September 30, 2014 and 2013, respectively.

Property and equipment with a net book value $ 23,357,818 and $44,976,316 has been pledged as collateral for certain bank acceptance notes and bank loans at September 30, 2014 and December 31, 2013, respectively (See Note 12 and Note 13).

NOTE 9 - CONSTRUCTION-IN-PROGRESS

The construction projects in progress represent facilities being built to expand production capacity in Lianyungang, Donggang, Rongcheng and Wujiang areas. Construction costs mainly represent construction expenditures and equipment costs not yet in service. In December 31, 2013, the Company started to construct a new chemical and fuel oil blending project in Lianyungang city after the Company obtained a land use right in October 2013. Total estimated contract price for this new project is approximately $73 million (or RMB 450 million) after the Company signed a supplemental contract with the contractor. The Company advanced $17 million (equivalent to RMB 100 million) to the contractor to start the project in December 2013, paid an additional $16.2 million (equivalent to RMB 100 million) to the contractor in March 2014 and paid an additional $34.8 million (equivalent to RMB 216.9 million) to the contractor in May 2014. As of September 30, 2014, the accumulated advances on this project approximated $69.8 million.

The Company’s construction-in-progress is as follows:

	September 30, 2014	December 31, 2013
Berth and berth improvements	$ -	$ 698,812
Oil blending and chemical project at Lianyungang	69,790,732	16,418,320
Capitalized interest	1,651,719	664,030
Total	$ 71,442,451	$ 17,781,162

NOTE 10 - INTANGIBLE ASSETS, NET

The Company’s intangible assets with finite lives are summarized as follows:

	September 30, 2014	December 31, 2013
Land use rights	$ 13,275,232	$ 13,368,652
Leasehold right	2,738,323	2,757,594
Licenses and permits	1,137,582	1,145,588
Software	76,331	38,897
Total	17,227,468	17,310,731
Less: accumulated amortization	(1,416,790)	(1,021,416)
Intangible assets, net	$ 15,810,678	$ 16,289,315

Land use rights with a net book value of $9,287,217 and $9,352,573 were pledged as collateral for certain loans and bank notes at September 30, 2014 and December 31, 2013, respectively (see Note 12 and Note 13).

Amortization expense for the three months ended September 30, 2014 and 2013 was $134,118 and $139,491, respectively. Amortization expense for the nine months ended September 30, 2014 and 2013 was $338,944 and $393,147, respectively.

The estimated future amortization expense is as follows:

For the twelve months ending September 30,	
2015	$534,051
2016	525,922
2017	525,210
2018	525,210
2019	525,210
Thereafter	13,175,075
Total	$15,810,678

NOTE 11- DISPOSAL OF EQUITY METHOD INVESTMENT

In January 2013, the Company, together with two third-parties, Dalian Lianzon Marine Group (“Lianzon”) and Dalian Lianye Investment Consulting Co., Ltd. (“Lianye”), jointly formed a new entity, Dalian Haode Petroleum and Chemical Co., Ltd. (“Haode”), in which the Company invested RMB 8 million (approximately $1.30 million) for a 20% ownership interest in Haode. Haode engages in chemical product sales, marine fuel material purchases and trading, logistics and other consulting services in the PRC.

On July 15, 2014, the Company transferred its 20% ownership interest in Dalian Haode to a related party, Dalian Dongfangzheng Co., ltd., an entity controlled by Mr. An Fengbin, at RMB 8 million (approximately $1.30 million). The Company recognized $53,339 and $41,942 of loss from disposal of the equity investment for the three and nine months ended September 30, 2014, respectively, which are included in “Loss from disposal of equity method investee” in the unaudited condensed consolidated statements of operations and other comprehensive income (loss).

NOTE 12 – SHORT-TERM BANK BORROWINGS

The following is a summary short-term bank borrowings:

		September 30, 2014	December 31, 2013
Bohai Bank:			
Interest at 6.3%, payable on February 3, 2014	(1)	$ -	$ 4,909,663
Fuxin Bank:			
Interest at 6.5%, payable on March 26, 2014	(1)	-	8,182,770
Interest at 7.2%, payable on June 17, 2015	(2)	1,625,118	-
CITIC Bank:			
Interest at 7.5%, payable on April 18, 2014	(3)	-	6,546,216
Interest at 7.5%, payable on September 24, 2014	(4)	-	8,182,770
Interest at 6.636%, payable on October 26, 2014	(5)	6,500,471	-
Interest at 7.5%, payable on September 25, 2015	(6)	8,125,589	
Guangfa Bank:			
Interest at 7.5%, payable on February 6, 2015	(7)	7,800,566	-
Total		$ 24,051,744	$ 27,821,419

(1) The loans were fully repaid upon maturity in the first quarter of 2014.

(2) On June 17, 2014, the Company’s subsidiary, Dalian Xingyuan entered into a short-term bank loan agreement with Fuxin Bank to borrow RMB 10 million (US $1,625,118) as a working capital for one year. The loans bear variable interest rates of 7.2% plus 20 basis points, adjustable on a quarterly basis. A third-party, Dalian Guotou Investment Guarantee Co., Ltd. signed a maximum guarantee agreement with the bank to guarantee the borrowing. There was no additional collateral requirement for this loan.

(3) The loan was fully repaid upon maturity on April 18, 2014.

(4) The loan was fully repaid upon maturity on September 24, 2014.

(5) On April 25, 2014, the Company’s subsidiary, Dalian Fusheng entered into a short-term bank loan agreement with CITIC bank to borrow RMB 40 million (US$6,500,471) as a working capital loan for six months (from April 25, 2014 to October 25, 2014). The loan bears a variable interest rate plus 18.5 basis points. The Company's subsidiaries Dalian Xingyuan and Xiangshan Nanlian and our major shareholder, Mr. An Fengbin separately signed a maximum guarantee agreement with the bank, to provide a maximum RMB 200 million guarantee for any bank borrowings that Dalian Fusheng borrows from CITIC bank during April 24, 2014 through April 24, 2016. There was no additional collateral requirement for this loan.

(6) On September 25, 2014, the Company's subsidiary, Dalian Xinguan entered into a short term bank loan agreement with CITIC Bank to borrow RMB 50 million (US $8,125,589) as a working capital loan for one year (from September 25, 2014 to September 25, 2015). The loan bears a variable interest rate of 7.5%, plus 25 basis points on a quarterly basis. The Company's related party Mr. An Fengbin and the Company's subsidiary, Dalian Fusheng signed guarantee agreements with the bank to guarantee this loan.

(7) On February 7, 2014, the Company's subsidiary, Dalian Xinguan entered into a short term bank loan agreement with Guangfa Bank to borrow RMB 48 million (US $7,800,566) as a working capital loan for one year (from February 7, 2014 to February 6, 2015). The loan bears a variable interest rate of 7.5%, plus 30 basis points on a quarterly basis. The Company is required to deposit 50% of the proceeds as collateral to secure this bank loan. In addition, the Company's subsidiary, Dalian Fusheng and the Company's major shareholder signed guarantee agreements with the bank to guarantee this loan.

Subsequently, on October 23, 2014, the Company's subsidiary, Dalian Fusheng entered into a short-term bank loan agreement with CITIC bank to borrow RMB 40 million (approximately $6.5 million) as a working capital loan for six months (from October 23, 2014 to April 23, 2015). The loan bears a variable interest rate plus 18.5 basis points on a quarterly basis. The Company's subsidiaries Dalian Xingyuan and Xiangshan Nanlian and a related party, Mr. An Fengbin separately signed a maximum guarantee agreement with the bank, to provide a maximum RMB 200 million guarantee for any bank borrowings that Dalian Fusheng borrows from CITIC bank during April 24, 2014 through April 24, 2016. There was no additional collateral requirement for this loan.

NOTE 13 - BANK NOTE PAYABLE

The Company has various credit facilities with Citic Bank, Fuxin Bank, Guangfa Bank and Xingye Bank that provide for working capital in the form of bank acceptance notes. The terms of the notes are six months or one year, with an interest rate in the range of 3.6% to 8.5%. The Company is required to deposit 30% to 100% of restricted cash to guarantee the bank notes. As of September 30, 2014 and December 31, 2013, $45.6 million and $99.7 million of restricted cash were deposited in banks.

During January 2014 to September 2014, $141.6 million (RMB 870 million) of bank notes were borrowed from the various banks in total, and $198.3 million (RMB 1.22 billion) were repaid upon maturity.

In connection with these borrowings, the Company has pledged the following assets as collateral:

· Fuel oil tanks;

· Land use right of 46,142 square meters, oil storage tank and other fixed assets;

· Land use right of 1,610,671 square meters;

In addition, two related parties, Panjing Fusheng Petrol Co., Ltd. and Donggang Xingyuan Fishery Wharf Gas Station pledged land use rights and property and equipment as additional collateral for these bank notes. The Company's major shareholder and his wife Ms. Wang Jing and wife of the CEO Ms. Zhou Yanping have also pledged their personal assets and credits to guarantee these bank notes. Another related party, Dalian Dingfangzheng Co., Ltd. has also signed a loan guarantee agreement with the banks to guarantee these borrowings. The Company's subsidiaries, Dalian Xingyuan and Xiangshan Nanlian and our major shareholder Mr. An Fengbin also separately signed a maximum guarantee agreement with the bank, to provide maximum RMB 200 million guarantee against these borrowings.

A portion of these bank notes has been used by the Company's subsidiary, Lianyungang Fusheng to make advances to the contractor to construct our new chemical and fuel oil blending project in Lianyungang city, and approximately $1.65 million (RMB 10.2 million) of interest has been capitalized as of September 30, 2014 (See Note 9).

Subsequently, in October 2014, Dalian Fusheng entered into a series of bank notes bill agreements with CITIC bank to borrow total of RMB 120 million (approximately $19.5 million) as working capital for six months (from October 24, 2014 to April 28, 2015). The Company's subsidiaries Dalian Xingyuan and Xiangshan Nanlian and our related party, Mr. An Fengbin separately signed a maximum guarantee agreement with the bank, to provide a maximum RMB 200 million guarantee for any bank borrowings that Dalian Fusheng borrows from CITIC bank during April 24, 2014 through April 24, 2016. The Company is also required to deposit RMB 60 million (approximately $9.8 million) restricted cash to guarantee this bank note.

NOTE 14 – ACQUISITION OF A RELATED PARTY

On May 19, 2014, the Company entered into a Share Transfer Transaction with shareholders of Qingdao Grand New Energy Co., Ltd. (“Qingdao Energy”) to acquire 100% ownership interest in Qingdao Energy for cash consideration of RMB 476,800 (US $77,338).

Qingdao Energy was an entity controlled by the Company’s major shareholder, Mr. An Fengbin, and is engaged in R&D, production, sale and service of air-driven products. Its products use compressed air as a driving force, which can be used in irrigation, petroleum extraction among other areas. Its primary line of business is Energy Performance Contracting.

The Share Transfer Transaction between the Company and Qingdao Energy qualified as a business combination between entities under common control and no gain or loss was recognized in the consolidated statements of net income (loss) and comprehensive income (loss). Qingdao Energy’s assets, liabilities and operating results have been consolidated in the unaudited condensed consolidated financial statements for the nine months ended September 30, 2014, rather than from the beginning of the earliest period presented due to immateriality.

On the acquisition date, Qingdao Energy’s total assets were approximately $1.7 million, accounting for only 0.7% of the Company’s consolidated total assets; and total liabilities were approximately $2.3 million, accounting for 1.2% of the Company’s consolidated total liabilities. The assets acquired consisted of cash and cash equivalents, advance to vendors, inventory, VAT input tax recoverable and property and equipment. The liabilities consisted of accounts payable, other accounts payable, related party loan payable and accrued expenses. There was no revenue reported since its inception and Qingdao Energy reported a net loss of $103,060 and $60,176 for the three months ended September 30, 2014 and 2013, respectively, and a net loss of $315,621 and $194,451 for the nine months ended September 30, 2014 and 2013, respectively.

NOTE 15 - RELATED PARTY TRANSACTIONS

During the normal course of the business, the Company temporarily borrows money from its principal shareholders or officers to finance its working capital as needed. The amounts are usually unsecured, non-interest bearing and due on demand.

The following summarizes the Company's loans payable to related parties:

	September 30, 2014	December 31, 2013
Shanghai Xifa Petrochemical Co., Ltd. (1)	$ -	$ 396,999
Wujiang Huayuan Petrochemical Co., Ltd. (1)	-	724,829
Donggang Xingyuan Shipyard Co., Ltd. (1)	-	369,329
Dallian Dongfangzheng (2)	338,918	-
Boxing County Yuanquan New Energy Co., Ltd. (2)	112,189	-
Chen Weiwen, legal representative of Xiangshan Nanlian	81,256	81,828
Zhou Yanping, wife of the CEO (3)	159,505	-
An Fengkui, brother of Mr. An Fengbin (4)	162,512	-
An Fengbin, legal representative of the Company's several subsidiaries	22,451	22,609
Total	$ 876,831	$ 1,595,594

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(1) Shanghai Xifa Petrochemical Co., Ltd., Wujiang Huayuan Petrochemical Co., Ltd. and Donggang Xingyuan Shipyard Co., Ltd. are entities controlled by the Company's major shareholder. Loans from these related parties have been fully repaid during the second quarter of 2014.

(2) Dalian Dongfangzheng and Boxing County Yuanquan New Energy Co., Ltd. are entities controlled by the Company's related party, Mr. An Fengbin.

(3) Ms. Zhou Yanping, wife of the CEO, Mr. Wang Hao, has provided personal funds to the Company as working capital. In addition, she deposited personal cash of $4.9 million (equivalent to RMB 30 million) with Xingye Bank as restricted cash to guarantee certain bank notes that the Company borrowed from Xingye Bank.

(4) Mr. An Fengkui, brother of Mr. An Fengbin, provided personal funds to the Company as working capital.

In connection with the Company's bank loans and bank notes borrowed from PRC Banks, the Company's major shareholder, his wife and several other related parties controlled by the major shareholder provided loan guarantees for the Company's bank borrowings. (See Note 12 and Note 13)

On May 14, 2014, a Share Transfer Agreement has been signed between Oriental Excel Enterprises Limited, a British Virgin Island company controlled by the Company's major shareholder, Mr. An Fengbin and his wife Ms. Wang Jing, and Hao De International Limited, a Seychelles International Business Company controlled by the CEO, Mr. Wang Hao. Pursuant to the terms and conditions of this Agreement, Oriental Excel Enterprises Limited agreed to sell, assign, transfer and deliver 4,890,451 shares of the Company's common stock it owns (representing 50.2% of the issued and outstanding common shares of the Company) to Hao De International Limited at cash consideration of $9,780,902. The purchase price shall be paid in four installments, of which the first 40% installment payment was to be paid upon the execution of the agreement; the second installment of 20% will be paid on May 5, 2015; the third installment payment of 20% will be paid on November 5, 2015 and the fourth installment payment of 20% will be paid on May 5, 2016. After this share transfer transaction, Mr. Wang Hao will become the largest shareholder of the Company.

Note 16– EQUITY

On June 7, 2013, the Company issued 250,000 shares to a third-party consultant for consulting services. The consulting service period is from June 8, 2013 to June 8, 2014. The fair value of this compensation is based on the closing stock price on the grant date. Amortization of stock-based compensation expense was $-0- and $356,667 for the nine months ended September 30, 2014 and 2013..

On June 7, 2013, the Company also issued warrants to purchase 200,000 shares at an exercise price of $1.50 to this Consultant. These warrants vested on June 30, 2014 and are exercisable three years from date of issuance.

The fair value of the warrants was calculated using the following assumptions: volatility 137%, risk free interest rate at 0.52% and 0.66% on the grant date and June 30, 2013, respectively, and expected term of 3.5 years. The fair value of these warrants was $102,836 at the grant date, $290,687 on December 31, 2013 and $579,831 on September 30, 2014. The Company recognized a loss of $307,746 and $289,144 from the change in fair value of the warrants for the three and nine months ended September 30, 2014, respectively. The Company recognized a loss of $270,539 and $260,389 from the change in fair value of the warrants for the three and nine months ended September 30, 2013, respectively. The related amortization of share-based compensation expense was $-0- and $25,709 for the three months ended September 30, 2014 and 2013, respectively. The related amortization of share-based compensation expense was $42,848 and $34,279 for the nine months ended September 30, 2014 and 2013, respectively.

These warrants are included in diluted weighted average shares calculation for the three months ended September 30, 2014, but the impact of all potential dilutive securities outstanding was anti-dilutive due to the Company's net loss for the nine months ended September 30, 2014.

Pursuant to the terms of the Company's 2009 Equity Incentive Plan (the "2009 Plan"), on September 25, 2013, the Company's Board of Directors approved and adopted the following changes to the executive and independent director compensation: (i) Independent director equity compensation – the Board granted to each independent director shares of the Company's common stock in the amounts equivalent to each independent director's annual commitments, i.e. Wen Jiang and Yudong Hou - $15,000 each, and Zhenyu Wu - $18,000, and (ii) Executive management equity compensation – the Board granted to An Fengbin, the Company's former CEO, and Wang Hao, the Company's former CFO and current CEO, shares of the Company's common stock in the amounts equivalent to their respective annual base salaries, i.e. An Fengbin - $150,000, and Wang Hao - $75,000. The stock price on the grant date was $0.69 per share, which represents the average closing price of the Company's common stock over the 30 day period preceding the grant date. All of these stock grants are to vest as follows: ½ of each such grant vesting on the date of the grant and the remaining ½ - 6 months from the grant date. $34,125 and $102,375 of stock compensation expense was recognized during the three and nine months ended September 30, 2014, respectively. $136,500 of stock compensation expense was recognized for services provided during the three and nine months ended September 30, 2013.

NOTE 17 - RESTRICTED NET ASSETS

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Group's PRC subsidiary only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiary and VIE.

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, a foreign invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A wholly-owned foreign invested enterprise is required to allocate at least 10 % of its annual after-tax profit to the general reserve until such reserve has reached 50 % of its respective registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign invested enterprises. These reserves can only be used for specific purposes and are not distributable as cash dividends. Fusheng were established as a wholly-owned foreign invested enterprise and therefore are subject to the above mandated restrictions on distributable profits.

Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide statutory common reserve at least 10% of its annual after-tax profit until such reserve has reached 50 % of its respective registered capital based on the enterprise's PRC statutory accounts. A domestic enterprise is also required to provide for discretionary surplus reserve, at the discretion of the board of directors, from the profits determined in accordance with the enterprise's PRC statutory accounts. These reserves can only be used for specific purposes and are not distributable as cash dividends. Xingyuan and its subsidiaries were established as domestic invested enterprises and therefore are subject to the mandated restrictions on distributable profits.

As a result of these PRC laws and regulations that require annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends as a general reserve fund, the Company's PRC subsidiary and VIE are restricted in their ability to transfer a portion of their net assets to the Company. The restricted amounts as determined pursuant to PRC statutory laws totaled approximately $3,933,000 as of September 30, 2014 and December 31, 2013.

NOTE 18 - TAXES

(a) Corporate Income Taxes

The Company is subject to income taxes on an entity basis on income arising in or derived from the location in which each entity is domiciled.

Entity	Income Tax Jurisdiction
Andatee Marine Fuel Services Corp.	U.S.A
Goodwill Rich International	Hong Kong, PRC
Fusheng, Xingyuan and their subsidiaries	Mainland, PRC

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United States

The parent Company Andatee China Marine Fuel Services Corp. was incorporated in the United States and has incurred net operating losses for U.S. federal income tax purposes as of September 30, 2014. Andatee had loss carry forwards of approximately $902,000 for U.S. income tax purposes available for offsetting against future taxable U.S. income, expiring in 2034. Management believes that the realization of the benefits from these losses is uncertain due to its history of continuing losses in the United States. Accordingly, a full valuation allowance has been provided against the gross deferred tax asset. The valuation allowance as of September 30, 2014 and December 31, 2013 was approximately $307,000.

Hong Kong, PRC

The Company's wholly owned subsidiary Goodwill Rich was incorporated in Hong Kong and is subject to Hong Kong corporate income tax at a rate of 16.5 % on the estimated assessable profits arising from Hong Kong. Goodwill Rich has not earned any income that was derived in Hong Kong since inception and therefore was not subject to Hong Kong income tax. As of September 30, 2014, the estimated net operating loss carry forwards for Hong Kong income tax purposes amounted to approximately $4,400,000, which may be available to reduce future years' taxable income. Management believes that the realization of the benefits arising from this loss appears to be uncertain due to the Company's limited operating history and continuing losses for Hong Kong income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at September 30, 2014 and December 31, 2013 against the gross deferred tax asset. The valuation allowance as of September 30, 2014 and December 31, 2013 was approximately $730,000 and $632,000, respectively.

Mainland, PRC

The Company's wholly owned subsidiaries in China are governed by the Income Tax Law of the People's Republic of China, which are currently subject to tax at a statutory rate of 25 % on net income reported after appropriated tax adjustments.

The following table reconciles the statutory rates to the Company's effective tax rate for the periods indicated:

	September 30, 2014		September 30, 2013	
U.S. Statutory rates	34.0	%	34.0	%

Foreign income not recognized in the U.S.	(34.0	)	(34.0	)
Hong Kong income tax	-		-	
China Statutory income tax rate	25.0		25.0	
Non-deductible expenses-permanent difference (1)	32.9		176.4	
Changes in valuation allowance	74.5		(25.2	)
Effective tax rate	132.4	%	176.2	%

(1) Non-deductible expenses primarily included legal, accounting and other consulting expenses of Hong Kong and PRC subsidiaries which are not expected to be deductible for income taxes in the future.

The income tax provision (benefit) for the three and nine months ended September 30, 2014 and 2013 is as follows:

	For the Three Months Ended September 30,		For the nine Months Ended September 30,	
	2014	2013	2014	2013
Current	$ 1,523,361	$ 14,503	$ 1,666,920	$ 689,407
Deferred	-	393,550	-	187,900
Total	$ 1,523,361	$ 408,053	$ 1,666,920	$ 877,307

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Deferred income taxes reflect the net effects of temporary difference between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes, and operating loss carry-forward. Some of the Company's subsidiaries have loss carryovers that can only be used to offset their own future taxable income. The loss carry forward for those subsidiaries amounted to approximately $5,766,000 as of September 30, 2014 and expire through 2018. The Company periodically evaluates the likelihood of the realization of deferred tax assets, and reduces the carrying amount of the deferred tax assets by a valuation allowance to the extent it believes a portion will not be realized.

The Company considers many factors when assessing the likelihood of future realization of the deferred tax assets, including its recent cumulative earnings experience, expectation of future income, the carry forward periods available for tax reporting purposes, and other relevant factors.

For the three and nine months ended September 30, 2014, management believes that the realization of the benefit arising from the losses of certain PRC subsidiaries appears to be uncertain and may not be realizable in the near future. Therefore, a full valuation allowance has been provided.

The components of deferred tax assets consist of the following:

	September 30, 2014	December 31, 2013
Net operating loss of subsidiaries	$ 1,439,739	$ 1,467,611
Temporary differences	380,429	(571,972)
Effect of foreign currency exchange rate	2,281	(11,589)
Total	1,882,449	884,050
Less: valuation allowance	(1,882,449)	(884,050)
Deferred tax assets	$ -	$ -

The net change in the valuation allowance was an increase of approximately $692,600 and $938,000 for the three and nine months ended September 30, 2014. As of September 30, 2014, the tax years ended December 31, 2008 through December 31, 2013 for the Company's PRC entities remain open for statutory examination by PRC tax authorities.

(b) Value added tax

The Company is subject to a value added tax ("VAT") for selling merchandise. The applicable VAT rate is 17 % for products sold in the PRC. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of goods sold (output VAT) less VAT paid on purchases made with the relevant supporting invoices (input VAT). Under the commercial practice of the PRC, the Company pays VAT based on tax invoices issued. The tax invoices may be issued subsequent to the date on which revenue is recognized, and there may be a considerable delay between the date on which the revenue is recognized and the date on which the tax invoice is issued.

In the event that the PRC tax authorities dispute the date on which revenue is recognized for tax purposes, the PRC tax office has the right to assess a penalty based on the amount of the taxes which are determined to be late or deficient, and will be expensed in the period if and when a determination is made by the tax authorities.

(c) Taxes Payable

Taxes Payable consisted of the followings:

	September 30, 2014	December 31, 2013
Income Tax Payable	$ 1,230,182	$ 1,024,169
VAT Payable	2,989,611	4,243,761
Other Tax Payable	800,927	986,127
Total	$ 5,020,720	$ 6,254,057

NOTE 19 - COMMITMENT AND CONTINGENCIES

Lease Obligation

The Company has entered into several agreements for the lease of storage facilities, offices premises and berth use rights.

The leases are for a period of one to ten years, and may be extended at management's option. Management believes that they will remain at these facilities for the next ten years and have estimated that the commitments for minimum lease payments under these operating leases are approximately $2.2 million.

The Company's commitment for minimum lease payments under these operating leases is as follows:

For the twelve months ending September 30,	
2015	$274,175
2016	274,175
2017	274,175
2018	274,175
2019	274,175
Thereafter	822,525
Total	$2,193,400

Supply Agreements

The Company executed a 10-year agreement expiring in August 2020 to supply marine fuel to Haiyu Fishery Limited Corporation ("Haiyu") and Jinghai Group ("Jinghai"). Both Haiyu and Jinghai are located in Rongcheng City, Shandong province.

Under the terms of the agreement with Jinghai, the Company is to supply Jinghai with up to 20,000 tons of marine fuel per year at local market wholesale prices within that particular geographic area. The agreement also provides Jinghai with a rebate equivalent to an annual payment of RMB 0.3 million (approximately USD 0.05 million) for ten years if annual sales of 20,000 tons of fuels are achieved. For the three and nine months ended September 30, 2014 and 2013, Jinhai did not achieve the sales target and accordingly no rebate was provided to Jinhai.

Five-year Strategic Cooperative Framework Agreement

In order to support the Company's new growth initiative into the clean energy segment, on September 3, 2014, the Company's subsidiary Qingdao Grand New Energy Co.,Ltd. signed a 5-year strategic cooperative agreement with Think Way International Financial Leasing Co., Ltd. ("TWF"), in which TWF will provide facilities and equipment leasing, project financing and financial advisory services to the Company in the amount of up to RMB2.5 billion (or approximately USD$400 million), for the next five years (from September 3, 2014 to September 3, 2019). The parties agreed that terms and provisions of each specific project financing will be agreed upon and entered into by the parties in a definitive financing agreement at the time of such project. For the three and nine months ended September 30, 2014, no such services have been provided by TWF to the Company.

NOTE 20 - CONCENTRATION OF RISKS

All of the Group's sales and a majority of its expense transactions are denominated in RMB and a significant portion of the Group's assets and liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China ("PBOC"). Remittances in currencies other than RMB by the Group in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

As of September 30, 2014, all of the Company's cash was on deposit at financial institutions in the PRC where there currently is no rule or regulation requiring such financial institutions to maintain insurance to cover bank deposits in the event of bank failure.

For the three months ended September 30, 2014, five customers accounted for 29.1%, 20.5%, 12.0%, 11.5% and 11.0% of the Company's total revenue, respectively. For the three months ended September 30, 2013, one customer accounted for 43.1% of the Company's total revenue.

For the nine months ended September 30, 2014, three customers accounted for 17.5%, 14.9% and 10.8% of the Company's total revenue, respectively. For the nine months ended September 30, 2013, one customer accounted for 14.5% of the Company's total revenue.

As of September 30, 2014, four customers accounted for 23.5%, 18.0%, 18.0% and 17.4% of the Company's total accounts receivable, respectively. As of September 30, 2013, three customers accounted for 16.5%, 15.1% and 11.3% of the Company's total accounts receivable, respectively.

For the three months ended September 30, 2014, four vendors accounted for 30.2%, 27.1%, 16.3% and 15.1% of the Company's total purchases, respectively. For the three months ended September 30, 2013, one vendor accounted for 14.1% of the Company's total purchase.

For the nine months ended September 30, 2014, four vendors accounted for 17.0%, 14.6%, 13.3% and 12.4% of the Company's total purchases, respectively. For the nine months ended September 30, 2013, two vendors accounted for 12.8% and 12.0% of the Company's total purchases, respectively.

As of September 30, 2014, four vendors accounted for 42.0%, 24.3%, 17.0% and 12.6% of the Company's total advances to suppliers, respectively. As of September 30, 2013, three vendors collectively accounted for 33.7%, 28.3% and 15.3% of the Company's total advances to suppliers, respectively.

NOTE 21 - SUBSEQUENT EVENTS

On October 10, 2014, pursuant to the terms of the Company's 2009 Equity Incentive Plan (the "2009 Plan"), the Company's Board of Directors approved and adopted the following changes to the executive and independent director compensation: (i) Independent director equity compensation – the Board granted to each independent director shares of the Company's common stock in the amounts equivalent to each independent director's annual commitments, i.e. Wen Jiang, Yudong Hou and Shao-Hua Chu - $15,000, respectively, and Zhenyu Wu - $18,000, and (ii) Executive management equity compensation – the Board granted the Company common stock in the amounts equivalent to $50,000 to CEO Mr. Wang Hao and $25,000 to CFO Mr. Zhang Quan. The stock price on the grant date was $2.94 per share, which represents the average closing price of the Company's common stock over the 30 day period preceding the grant date. All of these stock grants are to vest as follows: ½ of each such grant vesting on the date of the grant and the remaining ½ - 6 months from the grant date.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q (including the section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, as well as information relating to Andatee China Marine Fuel Services Corporation that is based on management's exercise of business judgment and assumptions made by and information currently available to management. Although forward-looking statements in this Quarterly Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. When used in this document and other documents, releases and reports released by us, the words "anticipate," "believe," "estimate," "expect," "intend," "the facts suggest" and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as noted below. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. Actual events, transactions and results may materially differ from the anticipated events, transactions or results described in such statements. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. Many factors could cause actual results to differ materially from our forward looking statements. Other unknown, unidentified or unpredictable factors could materially and adversely impact our future results.

Except where the context otherwise requires and for purposes of this Quarterly Report:

• the terms "we," "us," "our company," "our" refer to Andatee China Marine Fuel Services Corporation, a Delaware corporation, its subsidiaries Goodwill Rich International Limited and Dalian Fusheng Consulting Co. Ltd., its subsidiaries, Dalian Xifa Petrochemical Company, Ltd., Qingdao Grand New Energy Co., Ltd., Shandong Xifa Prochemical Company, Ltd., Shanghai Fusheng Petrochemical Company, Donggang Xingyuan Marine Bunker Company Ltd., Rongcheng Xinfa Petroleum Company Ltd., Rongcheng Mashan Xingyuan Marine Bunker Co. Ltd., Rongcheng Zhuoda Trading Co., Ltd., Suzhou Fusheng Petrol Co. Ltd., Wujiang Xinlang Petrol Co., Ltd, Lianyungang Fusheng Petrochemical Company, Ltd., and its previous variable interest entity (VIE), Dalian Xingyuan Marine Bunker Co. Ltd., through which entity we conducted all of our business operations and since we have transferred most of them under the direct control of Dalian Fusheng Petrol Co. Ltd. , and only two subsidiaries of the VIE, which is Xiangshan Yongshi Nanlian Petrol Company Ltd.; and Lianyungang Xingyuan Marine Bunker Co., Ltd.;

• the term "Andatee" refers to Andatee China Marine Fuel Services Corporation, the parent company;

• the term Goodwill'' refers to Goodwill Rich International Limited, a subsidiary of Andatee, which for financial reporting purposes is the predecessor to Andatee; and

• “China” and “PRC” refer to the People’s Republic of China, and for the purpose of this Annual Report only, excluding Taiwan, Hong Kong and Macau.

Business and Operations Overview

Andatee China Marine Fuel Services Corporation is a leading marine fuel supplier along the coast of east China.

Our products include cargo vessel fuel classified as CST180 and CST120, fishing boat fuel classified as #1, #2, #3 and #4, which are close substitutes for diesel used throughout the region’s fishing industry. We produce, store, distribute and trade the blended marine fuel oil for cargo and fishing vessels.

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We carry out all of our business through our Hong Kong subsidiary, Goodwill, its wholly-owned Chinese subsidiary, Fusheng, and Fusheng's variable interest entity (VIE), Xingyuan, and Xingyuan's subsidiaries (Xingyuan and its subsidiaries being collectively referred to as the VIE entities). A VIE is an entity under ASC 810, "Consolidation", where equity investors do not have the characteristics of a controlling financial interest (see Note 3 of Notes to Consolidated Financial Statements). Through Xingyuan, we are a leading marine fuel supplier along the coast of east China. Our products include cargo vessel fuel classified as CST180 and CST120, fishing boat fuel classified as#1, #2, #3 and #4, which are close substitutes for diesel used throughout the region's fishing industry. We produce, store, distribute and trade the blended marine fuel oil for cargo and fishing vessels. Backed by core facilities, including storage tanks, tankers and berths, our sales network covers major depots along the towns of Dandong, Shidao, Shanghai and Shipu, which are famous for their fishing tradition and industry.

Andatee China Marine Fuel Services Corporation was incorporated in July 2009 under the laws of the State of Delaware. We were organized as a holding company to acquire Goodwill Rich, a company incorporated in Hong Kong, and its subsidiary in connection with the initial public offering of the Company on the NASDAQ Capital Market, which was completed in January 2010. Goodwill Rich was incorporated on October 28, 2008.

Andatee became the owner of 100% of the outstanding common stock of Goodwill Rich as the result of a share exchange arrangement entered in August 2009 and completed on October 16, 2009, in which 6,000,000 common share of Andatee were exchanged for all of the outstanding shares of Goodwill Rich. The stockholders of Andatee and the stockholders of Goodwill Rich were the same, and therefore the August 2009 share exchange was accounting for as a recapitalization of Goodwill Rich. As a result, Goodwill is deemed to be the predecessor of Andatee for financial reporting purposes, and the financial statements of Andatee for the periods prior to the share exchange as presented here are the historical financial statements of Goodwill Rich for those periods, after being adjusted to retroactively reflect the effects of the recapitalization to 6,000,000 issued and outstanding shares.

In March 2009, Goodwill Rich established a subsidiary company in Dalian, PRC named Dalian Fusheng Consulting Company ("Fusheng"). Fusheng has several 100% controlled subsidiaries including Dalian Xifa Petrochemical Company, Ltd. ("Dalian Xifa"), Shandong Xifa Prochemical Company, Ltd. ("Shandong Xifa"), Shenzhen Shengfu Petrochemical Company, Ltd. ("Shenzhen Shengfu"). In July 2010, Fusheng acquired a 52% ownership of Hailong Petrochemical Company ("Hailong"). In December 2011, Fusheng acquired a 61% equity interest in Suzhou Fusheng Petrochemical Company ("Suzhou Fusheng") for RMB 12.2 million (approximately $1.93 million). Suzhou Fusheng owns storage tanks and land use rights to develop a riverside fuel oil pump station in Suzhou Wujiang City, Jiangsu Province. In December 2011, Fusheng acquired a 100% equity interest in Rongcheng Zhuoda Trading Co ("Zhuoda") for RMB 13 million (approximately US$ 2 million). Zhuoda owns storage tanks with a capacity of 13,000 cubic meters in Rongcheng City, Shandong Province. In December 2011, Fusheng's subsidiary Dalian Xifa Petrol Company acquired a 90% equity interest in Wujiang Xinlang Petrochemical Company ("Xinglang") for RMB 2.36 million (approximately $383,000). Xinglang owns land use rights to develop a riverside fuel oil pump station in Wujiang City, Jiangsu Province. On April 27, 2013, Dalian Fusheng formed a new subsidiary Lianyungang Fusheng Petrochemical Co., Ltd. ("Lianyungang Fusheng") in the city of Lianyungang under the laws of the PRC with initial registered capital of $4.69 million (RMB 29 million). Based upon the Board Resolutions, Dalian Fusheng increased the registered and paid in capital of Lianyungang Fusheng to RMB 53.68 million on November 1, 2013 and then increased to RMB 153.68 million on December 27, 2013. On January 9, 2014, the Company's new subsidiary, Xinniu Development Co., Ltd. invested additional RMB 100 million (about $16.2 million) to increase the registered and paid in capital of Lianyungang Fusheng to RMB 253.68 million.

Xingyuan was established in September 2001 with an initial registered capital of RMB 30.01 million (approximate to $4.9 million). Its registered capital was increased to RMB 60.05 million (or $9.7 million) in 2008. Xingyuan originally held 100% ownership of Donggang Xingyuan Marine Fuel Company (“Donggang Xingyuan”), a company incorporated in Dalian, PRC, in April, 2008. In addition, in December 2008, Xingyuan acquired 90% ownership of Rongcheng Xinfa Petroleum Company (“Xinfa”) and 63% ownership of Xiangshan Yongshi Nanlian Petroleum Company (“Nanlian”). During 2011, the Company entered into a corporate reorganization, in which Xingyuan transferred its 90% ownership in Xinfa and 52% ownership in Mashan to Dalian Xifa Petrol Company, and transferred its 100% ownership in Donggang Xingyuan to Fusheng. The reorganization was accounted for at book value, as they were transactions between entities under common control. On April 27, 2013, Dalian Xingyuan formed a new subsidiary Lianyungang Xingyuan Marine Bunker Co., Ltd. (“Lianyungang Xingyuan”) in the city of Lianyungang under the laws of the PRC with registered capital of $3.4 million (RMB 21,000,000). During the third quarter of 2013, Dalian Xingyuan acquired 37% capital shares from Xiangshan Nanlian’s minority shareholder, Mr. Chen Wenwei for a cash consideration of RMB 11.2 million. Xiangshan Nanlian completed the registration change with local State Administration of Industry and Commerce (the “SAIC”) on July 29, 2013 to reflect the share structure change. After the acquisition, Xiangshan Nanlian became the 100% controlled subsidiary of Dalian Xingyuan. The acquisition was treated as a related party transaction because former minority shareholder Mr. Chen Weiwen still serves as the legal representative of Xiangshan Nanlian after the acquisition.

On December 31, 2013, Dalian Fusheng, Dalian Xingyuan and Dalian Xifa jointly formed a new subsidiary Xinniu Development Co., Ltd. ("Xinniu") in the city of Dalian under the laws of the PRC with registered capital of $32.5 million (RMB 200 million), among which $16.4 million has been paid to local State Administration for Industry & Commerce ("SAIC") for registration purposes as of December 31, 2013.

On May 19, 2014, Dalian Xifa completed its acquisition of Qingdao Grand New Energy Co., Ltd. ("Qingdao Energy") through a related party share transfer transaction. Qingdao Energy is engaged in R&D, production, sale and service of the air-driven products. Its products use compressed air as driving force, which can be used in irrigation, petroleum extraction, among other areas. Its primary line of business is energy performance contracting.

During the second quarter ended June 30, 2014, Dalian Fusheng acquired the remaining 39% capital shares from Suzhou Fusheng's minority shareholders, Mr. Zhong bin and Wujiang Coal and Petroleum Co., Ltd. for cash consideration of RMB 11.7 million. Suzhou Fusheng completed the registration change with the local SAIC on May 23, 2014 to reflect the share structure change. After the acquisition, Suzhou Fusheng became a wholly owned subsidiary of the Company.

The Company, its subsidiaries, its VIE and its VIE's subsidiaries (collectively the "Group") are currently principally engaged in the production, storage, distribution and trading of blended marine fuel oil for cargo and fishing vessels in the PRC.

Business Development and Outlook

We have taken several steps to increase investment in facilities and product line expansion in order to provide our customers with easier access to our products and services and to build a delivery network closer to target market. These steps include acquiring additional local companies and facilities, and development of new products, all aimed at meeting customer demands in various markets. Historically, we have funded these activities from our working capital.

We continue to ramp up expansion of our distribution network by expanding organically through the opening of new sales and marketing branches in new port locations, building new facilities improving our existing facilities, and signing sole supply agreements with long-term supply partners.

Furthermore, we are setting up market developing offices in large cities, such as Shanghai, Shenzhen, etc. to recruit capable local hands in a bid to establish effective network of information for providing solid foundations to pursue our acquisition-driven growth strategy in neighboring areas around the cities.

Facility Expansion

In April 2011, we commenced the construction of Tengda wharf and storage tanks located in Rongcheng City, Shandong Province. The Tengda projects will expand the existing wharf and storage tanks. The capital expenditure for expanding the wharf and tank storage was RMB 46 million (US$7.47 million). The construction of Tengda wharf has been completed in 2013 after it passed the inspection conducted by local the government agencies.

In July 2011, we commenced the constructions of new blending facilities in Xinfa in Rongcheng City, Shandong province, which is designed to improve our production capabilities in blending with 20,000 cm tanks on site. The capital expenditure was RMB 25 million (US$ 4.06 million). The construction of the blending facilities in Xinfa has also been completed in 2013 after it passed the inspection conducted by local the government agencies.

In September 2011, our subsidiary Suzhou Fusheng entered into a 10 year oil storage tank lease agreement with third-party Wujiang Coal & Oil Company Limited, to lease the use right for 14 oil tanks with total volume of 16,000 cubic meters, with annual lease price of RMB 1.685 million (or total lease price of RMB 16.85 million for 10 years).

On January 7, 2013, our subsidiary, Lianyungang Fusheng entered into a cooperative agreement with local government Jiangsu Guanyun County Lingang Industrial Park Management Committee, and agreed to invest approximately RMB 2 Billion (about USD $324.6 million) in Lingang Industrial Park to start a chemical material manufacturing project. On October 18, 2013, we obtained a Certificate of Land Use Right for the first batch of land totaling 1.6 million square meters at a cost of RMB 53.3 million. In December 2013, we have advanced approximately RMB 100 million to the contractor to start the chemical and fuel oil blending project, in March 2014, we advanced an additional RMB 100 million and in May 2014, we advanced an additional RMB 216.9 million for the CIP project, which is expected to be completed by the end of 2015 due to delayed land improvement for this project.

Facility and Business Acquisitions

We continue to strategically identify, research, and where appropriate, acquiring entities with desired facilities in various areas that fit into Andatee's strategic growth plans.

In December 2011, we acquired a 90% equity interest in Wujiang Xinlang Petrochemical Company ("Xinglang") for RMB 2.36 million (approximately US$ 370,000). Xinglang owns land use rights to develop a riverside fuel oil pump station in Wujiang City, Jiangsu Province.

In December 2011, we acquired a 61% equity interest in Suzhou Fusheng Petrochemical Company ("Suzhou Fusheng") for RMB 12.2 million (approximately $1.93 million). Suzhou Fusheng owns storage tanks and land use rights to develop a riverside fuel oil pump station in Suzhou Wujiang City, Jiangsu Province. During the quarter ended June 30, 2014, Dalian Fusheng acquired the remaining 39% capital shares from Suzhou Fusheng's minority shareholder, Mr. Zhong bin and Wujiang Coal and Petroleum Co., Ltd. for cash consideration of RMB 11.7 million. After this acquisition, Suzhou Fusheng became our 100% controlled subsidiary.

In December 2011, we acquired a 100% equity interest in Rongcheng Zhuoda Trading Co (“Zhuoda”) for RMB 13 million (approximately US$ 2 million). Zhuoda owns storage tanks with a capacity of 13,000 cubic meters in Rongcheng City, Shandong Province.

Shanghai Fusheng was incorporated by Dalian Xifa on April 6, 2012 with original paid in capital of RMB 1 million(approximately US$ 0.16 million), on July 11, 2012, Dalian Xifa increased the paid in capital in Shanghai Fusheng by RMB 14 million (approximately US$ 2.27 million). As a result, the final paid in capital of Shanghai Fusheng is RMB 15 million (approximately US$ 2.43 million).

On April 27, 2013, Dalian Fusheng formed a new subsidiary Lianyungang Fusheng Petrochemical Co., Ltd. (“Lianyungang Fusheng”) in the city of Lianyungang under the laws of the PRC with initial registered capital of $4.70 million (RMB 29,000,000). Based upon the Board Resolutions, Dalian Fusheng increased the registered and paid in capital of Lianyungang Fusheng to RMB 53.68 million on November 1, 2013 and then increased to RMB 153.68 million on December 27, 2013. On January 9, 2014, the Company’s new subsidiary, Xinniu Development Co., Ltd. invested additional RMB 100 million (about $16.2 million) to increase the registered and paid in capital of Lianyungang Fusheng to RMB 253.68 million.

On April 27, 2013, Dalian Xingyuan formed a new subsidiary Lianyungang Xingyuan Marine Bunker Co., Ltd. (“Lianyungang Xingyuan”) in the city of Lianyungang under the laws of the PRC with registered capital of $3.4 million (RMB 21,000,000). During the third quarter of 2013, Dalian Xingyuan acquired 37% capital shares from Xiangshan Nanlian’s minority shareholder, Mr. Chen Wenwei for cash consideration of RMB 11.2 million. Xiangshan Nanlian completed the registration change with local State Administration of Industry and Commerce (the “SAIC”) on July 29, 2013 to reflect the share structure change. After the acquisition, Xiangshan Nanlian became the 100% controlled subsidiary of Dalian Xingyuan. The acquisition was treated as a related party transaction because a former minority shareholder, Mr. Chen Weiwen still serves as the legal representative of Xiangshan Nanlian after the acquisition.

On December 31, 2013, Dalian Fusheng, Dalian Xingyuan and Dalian Xifa jointly formed a new subsidiary Xinniu Development Co., Ltd. (“Xinniu”) in the city of Dalian under the laws of the PRC with registered capital of $32.5 million (RMB 200 million). On January 22, 2014, Xinniu Development completed its registration and obtained the business license from local SAIC.

On May 19, 2014, Dalian Xifa completed its acquisition of Qingdao Grand New Energy Co., Ltd. (“Qingdao Energy”) through a related party share transfer transaction. Qingdao Energy is engaged in R&D, production, sale and service of the air-driven products. Its products use compressed air as driving force, which can be used in irrigation, petroleum extraction, among other areas. Its primary line of business is Energy Performance Contracting.

The acquisitions are consistent with Andatee's strategy of expanding its geographic base and increasing market share along China's rivers and coastal line.

Supply Agreements

We have established strong ties with our upstream suppliers. Our top 5 raw material suppliers are either state-owned enterprises or supported by state-owned enterprises, from which we received in excess of 39.1% of our total raw supplies purchases in nine months ended September 30, 2013 and in excess of 64.7% of our total raw materials purchased in nine months ended September 30, 2014. We also benefit from these relationships by being able to lease advanced facilities from our suppliers, which reduces our transportation costs and time and expedites deliveries of raw materials and, thus, improves customer service.

In September 2010, the Company executed 10-year agreements to supply marine fuel to Haiyu Fishery Limited Corporation ("Haiyu") and Jinghai Group ("Jinghai"). Both Haiyu and Jinghai are located in Rongcheng City, Shandong province. Under the terms of the agreement with Jinghai, the Company is to supply Jinghai with up to 20,000 tons of marine fuel per year at local market wholesale prices within that particular geographic area. The agreement also provides Jinghai with a rebate equivalent to an annual payment of RMB 0.3 million (approximately USD 0.05 million) for ten years if annual sales of 20,000 tons of fuels are achieved. For the three and nine months ended September 30, 2014 and 2013, Jinhai did not achieve the sales target and accordingly no rebate was provided to Jinhai.

In order to support the Company's new growth initiative into the clean energy segment, on September 3, 2014, the Company's subsidiary Qingdao Grand New Energy Co., Ltd. signed a 5-year strategic cooperative agreement with Think Way International Financial Leasing Co., Ltd. ("TWF"), in which TWF will provide facilities and equipment leasing, project financing and financial advisory services to the Company in the amount of up to RMB2.5 billion (or approximately USD$400 million), for the next five years (from September 3, 2014 to September 3, 2019). The parties agreed that terms and provisions of each specific project financing will be agreed upon and entered into by the parties in a definitive financing agreement at the time of such project. For the three and nine months ended September 30, 2014, no such services have been provided by TWF to the Company.

Operational Initiatives in 2014

During the nine months ended September 30, 2014, we continue to undertake the following steps designed to reduce the overall production and transportation costs:

- built and/or acquired other distributing facilities to increase our profit margin and sales, enhance our brand and minimize the adverse impact of oil price volatility
- established regional purchase center to timely collect all information for sales and purchase analysis, to process order making and logistics planning. This allows us to negotiate favorable pricing and volume discounts and maintain an appropriate sale levels
- worked closely with the managements of the acquired companies to obtain an in-depth knowledge of local markets and developed a list of suppliers to reduce the purchase cost of certain raw materials.
- relocated our production and storage centers closer to our end users who provide us more opportunity to develop an efficient and flexible manufacturing and operational infrastructure and enjoy savings on transportation costs.

In 2014 and beyond, our overall strategy will be to (i) increase our share of retail sales since such sales had shown to be less price-sensitive than our sales to the distributors, (ii) acquire our own retail facilities to reduce the risk of opportunistic negotiations from our retail customers during periods of volatile oil prices, (iii) build retail points in strategic locations (often close to other, recently acquired locations) to capture a majority of active local markets and (iv) add more products to our current product line to further satisfy customers' diversifying demands .

We believe that maintaining our retail sales and distribution channels will lead to stable gross margins which can help offset the pressure imposed on our profit margin by crude oil price downturn. We believe that higher retail sales and closer ties with our customers as well as wider distribution network are at the core of our strength and business viability going forward.

We intend to (i) control more facilities closer to end markets, through business acquisitions, partner cooperation, building local platform for our products and added-value services, which would enhance the brand awareness of the "Xingyuan" brand and (ii) expand our product line and upgrade our production facilities to explore the markets opportunities and increase our share in retail market.

Principal Factors Affecting our Financial Performance

We believe that the following factors will continue to affect our financial performance:

- ***Increasing demand for blended marine fuel*** — The increasing demand for blended marine fuel has a positive impact on our financial position. The strong growth in the blended marine fuel industry has been driven by several factors, including, among others, steady population growth in the PRC, improvements in the living standards, national energy conservation efforts.

- ***Expansion of our sources of supply, production capacity and sales network*** — To meet the increasing demand for our products, we need to expand our sources of supply and production capacity. We plan to make capital improvements in our existing production facilities, which would improve both their efficiency and capacity. In the short-run, we intend to increase our investment in our reliable supply network, personnel training, information technology applications and logistic system upgrades.

- ***Fluctuations in Crude Oil Price*** — We use oil refinery by-products as raw materials for our production. The recent increase in oil prices had a direct impact on the price we pay for these products. However, we mitigated this in the short-term by increasing the price of our products and passing the entirety of the increase to our customers.

Results of operations- Comparison of the three and nine months ended September 30, 2014 and 2013

Revenue

For three months ended September 30, 2014, our revenue increased by $84.7 million, or 137.6%, from $61.6 million in three months ended September 30, 2013 to $146.3 million in 2014.

For the nine months ended September 30, 2014, our revenue increased by $172.8 million or 90.5%, from $190.9 million in nine months ended September 30, 2013 to $363.8 million in 2014.

The increase in our revenues was mainly due to increased sales volume. Our overall sales volume increased by 65,209 tons, or 53.6%, from 121,573 tons for the third quarter ended September 30, 2013 to 186,782 tons for the third quarter ended September 30, 2014. For the nine months ended September 30, 2014, our overall sales volume increased by 195,002 tons, or 70%, from 278,480 tons for the nine months ended September 30, 2013 to 473,482 tons for the nine months ended September 30, 2014.

The increase in revenue was affected by the following factors:

- The increase in our sales volume was primarily driven by increased market demand for our #1, #4 and 120CST blended fuel oil which has a relatively competitive market price targeting a broad range of fishing boats and cargo vessel customers. Among our total sales volume in the third quarter of 2014, approximately 24.1% was from sales of our #1 fuel oil, 34.5% was from sales of our #4 fuel oil and 34.8% was from sales of our 120CST fuel oil. Among our total sales volume for the nine months ended September 30, 2014, 23.7% was from sales of our #1 fuel oil, approximately 49.5% was from sales of our #4 fuel oil and 16% was from sales of our 120CST fuel oil. The increase in sales volume was largely affected by our focus on large sales of fuel oils to several large wholesalers with competitive price offerings as discussed below.

- The increase in our revenue was affected by changes in our selling price on certain key products. When comparing the third quarter ended September 30, 2014 to the same period of 2013, the average selling price of our best-seller, #4 fuel oil increased about 6.6%, and the average selling price for our #1 fuel oil increased about 131.6%. When comparing the nine months ended September 30, 2014 to the same period of 2013, the average selling price of our best-seller, #4 fuel oil decreased about 4.3%, the average selling price for #1 fuel oil increased about 72.6% and the average selling price for 120CST fuel oil increased about 18.9%. The changes in selling prices for these products positively stimulated customer's purchase demand and led to the increase in our sales volume.

- Also, we shifted our strategy from retail sales of fuel oil to wholesale sales of fuel oil to large wholesalers located at extended geographic markets, such as in Shanghai, Zhejiang and Shandong Province. Our wholesale business also helped to increase the sales volume.

For the three months ended September 30, 2014, #1 marine fuel represented 24.1% of our sales, #2 marine fuel represented 3.3% of our sales, #3 marine fuel represented 3.2% of our sales, #4 marine fuel represented 34.5% of our sales, 180CST represented 0.2% of our sales and 120CST represented 34.8% of our sales.

For the three months ended September 30, 2013, #1 marine fuel represented 28.5% of our sales, #2 marine fuel represented 20.1% of our sales, #3 marine fuel represented 15.6% of our sales, #4 marine fuel represented 10.3% of our sales, 180CST represented 25.5% of our sales and no sales reported on 120CST.

For the nine months ended September 30, 2014, #1 marine fuel represented 23.7% of our sales, #2 marine fuel represented 2.4% of our sales, #3 marine fuel represented 6.8% of our sales, #4 marine fuel represented 49.5% of our sales, 180CST represented 1.6% of our sales and 120CST represented 16% of our sales.

For nine months ended September 30, 2013, #1 marine fuel represented 15.1% of our sales, #2 marine fuel represented 12.4% of our sales, #3 marine fuel represented 10.2% of our sales, #4 marine fuel represented 45.6% of our sales, 180CST represented 16.1% of our sales and 120CST represented 0.6% of our sales.

The revenues we report are net of value-added taxes, or VAT, levied on our products. Currently, our products, all of which were sold in China, are subject to a VAT at a rate of 17% of the gross sales price or at a rate approved by the Chinese government. Pursuant to the Provisional Regulation of China on Value Added Tax and its implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of processing, repairs and replacement services and the importation of goods in China are generally required to pay the VAT.

Cost of Revenue

Our cost of revenue consists primarily of direct costs to purchase and produce our products, including raw material costs, salaries and related manufacturing personnel expenses, transportation costs, and repair and maintenance costs.

Our cost of revenues increased by $82.5 million, or 145.7%, from $56.6 million for the third quarter ended September 30, 2013 to $139.2 million for the third quarter ended September 30, 2014, primarily due to increased sales volume from 121,573 tons sold for the third quarter ended September 30, 2013 to 186,782 tons sold for the third quarter ended September 30, 2014.

For the nine months period, our cost of revenues increased by $166 million, or 92.9%, from $178.6 million for the nine months ended September 30, 2013 to $344.6 million for the nine months ended September 30, 2013 due to increased sales volume from 278,480 tons sold for the nine months ended September 30, 2013 to 473,482 tons sold for the nine months ended September 30, 2014.

The increase in our cost of revenue was primarily due to the following reasons:

- Cost of revenue increased due to increased sales volume as discussed above. As more quantity was sold, more costs have been allocated to the volume of products sold.

- The Company's weighted inventory costs was largely affected by global oil price fluctuations (the global crude oil trading prices increased from $98 per barrel in August 2013 to about $102 in late December 2013 and then slightly dropped to $99 per barrel in March 2014 and then slightly increased to $104 per barrel in June 2014, and then dropped to $96 per barrel in September 2014. The Company purchases crude oil and fuel from upstream suppliers for blend and resale. Due to the fluctuation of crude oil price, cost of revenue was largely influenced by the purchase cost incurred, which is further allocated to the products sold.

- The average cost per unit increased from $466 per ton in the third quarter ended September 30, 2013 to $745 per ton in the third quarter ended September 30, 2014. For the nine months ended September 30, 2014, our average unit cost per ton was $728 as compared to $642 for the same period of 2013. The increase in our average unit cost was largely affected by the international crude oil price fluctuations. On the other hand, we put our efforts to import fuel oils from overseas markets since the second half of 2013, which enabled the Company to avoid incurring higher purchase costs from domestic suppliers only. The overall increase in cost of revenue was primarily affected by the increased sales volume as discussed above.

Gross Margins

Our gross profit increased by $2.2 million, or 44.9%, to $7.1 million for the quarter ended September 30, 2014 as compared to $4.9 million in the quarter ended September 30, 2013. As a percentage of revenues, our gross profit margin was 4.9% and 8.0% for the third quarter of 2014 and 2013, respectively.

Our gross profit increased by $6.8 million, or 55.2%, to $19.1 million for the nine months ended September 30, 2014 as compared to $12.3 million for the nine months ended September 30, 2013. As a percentage of revenues, our gross profit margin was 5.3% and 6.5% for the nine months ended September 30, 2014 and 2013, respectively.

The gross profit and gross profit margin was also affected by the following factors, including:

- The gross profit margin of our six major products is different. Fuel #3 and fuel #4 has a higher gross profit margin than other products, and fuel 120CST and fuel 180CST has the lowest margin. Therefore, the sales of the different product mix in different reporting periods impacted our gross profit.

- We retail our products to end users and also wholesale to distributors as well. Gross profit from our retail side is normally higher than the wholesale side because we can set the selling price higher and can control the operating costs more easily. Accordingly, an increase or decrease in the retail sales will impact our gross profit to a certain extent.

- The increase and decrease in the average selling price and average unit cost will also impact our gross margin.

For the three and nine months ended September 30, 2014, the increase in our gross margin was largely attributable to increased sales volume as compared to the same period of 2013, as discussed above. However, the decrease in our GP% was due to increased unit costs affected by higher purchase costs resulting from international crude oil price fluctuations, plus the shifting of our sales mix from the retail side to the wholesale side.

With the completion of the Company’s distribution network setup in Shandong, Jiangsu and Zhejiang, we intend to increase our sales in these regions in the near future and also improve our gross profit margins. We expect to have a margin recovery as the new market gains sales momentum and recovery of macroeconomic conditions in the energy industry. Moreover, we are working on research and development of better formulas for blended fuel products to decrease our costs to increase our gross profit margins.

Selling Expenses

Our selling expenses consist primarily of employee compensation and benefits for our sales and marketing staff, promotional and advertising activities and for leasing the oil storage tanks.

Selling expenses increased by $38,194, or 10.4%, from $367,616 for the three months ended September 30, 2013 to $405,810 for the three months ended September 30, 2014. This increase is mainly due to increased transportation costs incurred to deliver the fuel oil to wholesalers when sales volume increased during the third quarter of 2014. As a percentage of revenues, selling expenses decreased from 0.6% for the three months ended September 30, 2013 to 0.3% for the three months ended September 30, 2014.

Selling expenses decreased by $307,685, or 26%, from $1,184,647 for the nine months ended September 30, 2013 to $876,962 for the nine months ended September 30, 2014. This decrease is mainly due to reduced sales promotion expenses and lease expenses. As a percentage of revenues, selling expenses decreased from 0.6% for the nine months ended September 30, 2013 to 0.2% for the nine months ended September 30, 2014.

In the near term, we expect that certain components of our selling expenses will increase as we step up efforts to expand our presence in new markets in China. Specifically, we expect that product promoting expenses will increase as we improve the awareness among customers in Shanghai City, Jiangsu and Zhejiang Province. In addition, we also expect salary expenses to increase as we continue to hire additional sales representatives to help broaden our end-user customer base. This anticipated increase in selling expenses is a part of our plan to grow and support our extensive distribution network.

General and Administrative Expenses

Our general and administrative expenses consist primarily of employee compensation and benefits for our general management, finance and administrative staff, depreciation and amortization with respect to equipment used for general corporate purposes, professional, legal and consultancy fees, and other expenses incurred for general corporate purposes.

General and administrative expenses decreased $971,427, or 27.4%, from $3.5 million for the three months ended September 30, 2013 to $2.6 million for the three months ended September 30, 2014. The decrease was because of decreases in bad debt expense due to our efforts to collect the outstanding accounts receivable and realization of the advances to suppliers. As a percentage of revenues, general and administrative expenses decreased from 5.8% for the three months ended September 30, 2013 to 1.8% for the three months ended September 30, 2014.

General and administrative expenses decreased by $429,888, or 5.6%, from $7.7 million for the nine months ended September 30, 2013 to $7.3 million for the nine months ended September 30, 2014. The decrease was because of decreases in bad debt expense due to our efforts to collect the outstanding accounts receivable and realization of the advances to suppliers. As a percentage of revenues, general and administrative expenses decreased from 4.0% for the nine months ended September 30, 2013 to 2.0% for the nine months ended September 30, 2014.

We expected that our overall general and administrative expenses would increase in connection with our re-organizing our corporate structure, and hire more experienced management personnel in the near future.

Interest Expense

Interest expense increased by $1.6 million, from $0.74 million for the three months ended September 30, 2013 to $2.34 million for the three months ended September 30, 2014.

Interest expense increased by $7.9 million, from $2.82 million for the nine months ended September 30, 2013 to $10.73 million for the nine months ended September 30, 2014.

The increase in interest expense was due to increased amortization of prepaid interest incurred on our bank acceptance bills and short-term bank loans for the three and nine months ended September 30, 2014.

The increase in interest was due to our increased borrowing of short-term loans and bank notes bills for working capital and capital expenditures.

Provision for Income Taxes

For the three months ended September 30, 2014, we reported income tax expense of $1,523,361. For the three months ended September 30, 2013, we reported income tax expense of $408,053. Income tax expense increased by $1.1 million or 273.3%.

For the nine months ended September 30, 2014, we reported income tax expense of $1,666,920. For the nine months ended September 30, 2013, we reported income tax expense of $877,307. Income tax expense increased by $789,613 or 90%.

The increase in income tax expense for the three and nine months ended September 30, 2014 was due to increased taxable income for several of the Company’s subsidiaries such as Dalian Fusheng, Dalian Xingyuan and Dalian Xifa, which were affected by increased sales volume and selling price as discussed above.

Net Income (loss) Attributable to the Company

Net income attributable to the Company increased by $668,141, from a net loss of $542,859 for the three months ended September 30, 2013 to net income of $125,282 for the three months ended September 30, 2014. The increase in our net income was mainly the result of our increase in revenues, decrease in general and administrative expenses, and offset by an increase in interest expense as discussed above.

Net loss attributable to the Company increased by $97,011, from a net loss of $287,303 for the nine months ended September 30, 2013 to net loss of $384,314 for the nine months ended September 30, 2014. The increase in net loss was mainly the result of an increase in interest expense for the periods indicated.

Liquidity and Capital Resources

As of September 30, 2014, we had cash and cash equivalents of approximately $0.2 million in our bank accounts, and additionally, we have set aside $45.6 million of restricted cash on our bankers' acceptance notes. We have received a credit rating of AA- from our banks. Therefore, we believe that we will be able to renew our current short-term bank loans upon maturity and obtain additional new bank loans, if necessary, during 2014 and 2015. Subsequently in October 2014, we obtained an additional short-term loan of RMB 40 million (approximately $6.5 million) and bank note bills of RMB 120 million (approximately $19.5 million) from CITIC Bank as working capital to support our facility expansion and inventory purchases. We are expecting to generate additional cash flows in the coming period of time from our new sales regions and increase our revenue during the sales season. We believe our existing cash and cash equivalents, our cash generates from our operations, and our bank financing will be sufficient to maintain our operations at present level for at least the next 12 months.

As of September 30, 2014, our balance sheet reported a working capital deficit of $82.5 million, primarily because we raised short-term bank loans and bank note borrowings during the nine months ended September 30, 2014 and continued to borrow additional bank note bills as needed. As of September 30 2014, about $68 million in bank borrowings have been used for construction in process and purchasing property, equipment and intangible assets. In addition, during first and second quarters of 2014, we started to stockpile inventory in order to prepare for the upcoming sales season, which led to an increase in accounts payable as of September 30, 2014.

On an on-going basis, we will take steps to identify and plan our needs for liquidity and capital resources, to fund our planned ongoing construction and day-to-day business operations. In addition to providing working capital to support our routine activities, we also need funds for the construction and upgrade of our strategic facilities, acquisition of assets and/or equity acquisition, and repayment of our debts.

Our future capital expenditures will include building new fueling facilities, increasing our blending and storage capacity, berth improvements, expanding our product lines, research and development capabilities, and making acquisitions when deemed appropriate.

Our operating and capital requirements in connection with supporting our expanding operations and introducing our products to the expanded areas have been and will continue to be significant to us. Our growth strategy, which is initially focused on accretive acquisitions and organically expanding our products into expanded areas will require substantial capital which we may not be able to satisfy solely through cash flows from our operations.

The petrochemical business is a capital intensive business. Our ability to maintain and increase our revenues, net income and cash flows depends upon continued capital spending.

In September 2010, the Company executed a 10-year agreements to supply marine fuel to Haiyu Fishery Limited Corporation (“Haiyu”) and Jinghai Group (“Jinghai”). Both Haiyu and Jinghai are located in Rongcheng City, Shandong province. Under the terms of the agreement with Jinghai, the Company is to supply Jinghai with up to 20,000 tons of marine fuel per year at local market wholesale prices within that particular geographic area. The agreement also provides Jinghai with a rebate equivalent to an annual payment of RMB 0.3 million (approximately USD 0.05 million) for ten years if annual sales of 20,000 tons of fuels are achieved. For three and nine months ended September 30, 2014 and 2013, Jinhai did not achieve the sales target and accordingly no rebate was provided to Jinhai.

In order to support the Company’s new growth initiative into the clean energy segment, on September 3, 2014, the Company’s subsidiary Qingdao Grand New Energy Co.,Ltd. signed a 5-year strategic cooperative agreement with Think Way International Financial Leasing Co., Ltd. (“TWF”), in which TWF will provide facilities and equipment leasing, project financing and financial advisory services to the Company in the amount of up to RMB2.5 billion (or approximately USD$400 million), for the next five years (from September 3, 2014 to September 3, 2019). The parties agreed that terms and provisions of each specific project financing will be agreed upon and entered into by the parties in a definitive financing agreement at the time of such project. For the three and nine months ended September 30, 2014, no such services have been provided by TWF to the Company.

If and to the extent we require additional capital, we would likely have to raise such additional capital through the issuance of our equity or equity-linked securities, which may result in significant additional dilution to our current investors. Our ability to raise additional capital is dependent on, among other things, the state of the financial markets at the time of any proposed offering. There is no assurance that additional funding will be available on acceptable terms, or at all. If adequate capital cannot be obtained on a timely basis and on satisfactory terms, our operations could be materially negatively impacted.

The following table sets forth a summary of our cash flows for the periods indicated:

	For nine months ended September 30,	
	2014	2013
Cash flow data:		
Net cash provided by (used in) operating activities	$45,724,227	$(33,320,502)
Net cash used in investing activities	(56,297,907)	(7,550,410)
Net cash (used in) provided by financing activities	(11,731,926)	50,356,942
Effect of exchange rate on cash	(130,195)	162,267
Net changes in cash	(22,435,801)	9,648,297
Cash at beginning of period	22,638,820	1,625,705
Cash at end of period	$203,019	$11,274,002

Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2014 was approximately $45.7 million, which was primarily as a result of the following factors:

- Decrease in accounts receivable of $24.6 million because we expedited the cash collections after credit sales.

- Increase in inventory purchases of $36.9 million in order to stockpile inventory when crude oil price were relatively low and to prepare for satisfying expected increased customer demand.

- Decrease in advances to suppliers of $24.9 million because certain prior year advance payments to suppliers for inventory purchases have been realized during 2014.

- Increase in other current assets of $4.6 million because about RMB 31 million VAT Input tax has been recorded due to timing difference.

- Increase in accounts payable of $28.9 million because of our purchase of inventory on credit from several suppliers for inventory stockpile purposes.

- Decrease in taxes payable of $1.2 million because we delayed the payment of prior year VAT tax and income tax until January 2014 due to timing difference between bookkeeping and filing the tax returns.

Net cash used in operating activities for the nine months ended September 30, 2013 was approximately $33.3 million, which was primarily a result of the following factors:

- Net loss of $379,328;
- An increase in accounts receivable of $23.8 million as a result of our increased credit sales;
- Purchase of inventories of $27.9 million as a result of anticipating increased sales volume in the expanded distribution network and upcoming fishing season;
- An increase in advances to suppliers of $0.8 million because more advance payments have been paid to suppliers for the inventory purchase;
- A decrease in advances from customers of $5 million because the same amount has been recognized as revenue when products have been delivered to customers and when revenue recognition criteria have been met;
- An increase in accounts payable of $16.8 million due to increased purchase of materials in anticipation of future purchase price increases and in order to prepare for next sales peak season.
- An increase in prepaid expense and other current assets by $3.4 million because of increased prepaid interest expense on our outstanding notes bills and increased employee advance for business development purpose.

Investing Activities

Cash used in investing activities was $56.3 million for the nine months ended September 30, 2014, which was primarily attributable to:

- Our expenditures on our construction in progress of $53.9 million, because our subsidiary, Lianyungang Fusheng paid an additional RMB 316.9 million to contractor for the construction of our new chemical and fuel oil blending project in Lianyungang City.

- Cash paid for acquiring a noncontrolling interest of $1.9 million because the Company acquired the 39% noncontrolling interest in Suzhou Fusheng.

- Our expenditures of $1.8 million to purchase machinery and equipment for our newly acquired subsidiary, Qingdao Grand New Energy.

- $1.3 million cash collected back from disposal of our equity investment in Dalian Haode through transfer of our equity ownership in Haode to a related party, Dalian Dongfangzheng.

Cash used in investing activities was $7.55 million for the nine months ended September 30, 2013, which was attributable to:

- An equity investment of $1.28 million to an unconsolidated entity Dalian Haode, in which we have a 20% equity interest
- Expenditures on acquisition of property of $88,554
- Prepayment for land use right of $4.45 million because the Company's newly formed subsidiary Lianyungang Fusheng expects to obtain a land use right from the local government to build a new manufacturing plant on this land.
- Cash paid for acquiring noncontrolling interest of $1.72 million because the Company's subsidiary Dalian Xingyuan acquired the 37% noncontrolling interest from the minority shareholder Mr. Chen Weiwen during third quarter of 2013 through a related party transaction.

Financing Activities

Cash used in financing activities was $11.7 million for the nine months ended September 30, 2014. It consists of net proceeds from short-term bank loans of $27.3 million, repayments of short-term bank loans of $30.8 million, proceeds from bank notes of $141.6 million while repaying bank notes of $198.3 million, restricted cash collected of $53.5 million due to the decrease in our bank notes payable, repayment of $0.7 million of loans to related parties, and payments for deferred financing costs of $4.1 million.

Cash provided by financing activities was $50.3 million for the nine months ended September 30, 2013. It consists of net bank proceeds of $33.7 million, less repayment of bank loans of $15.8 million, proceeds of bank notes of $128 million, less repayment of bank notes of $31.5 million, proceeds from related party loans of $2.35 million and an increase in restricted cash of $59.2 in connection with the increased bank notes. From related party loans of $3.7 million and an increase in restricted cash of $37.1 in connection with the increased bank notes.

Seasonality

We are also subject to the reduced commercial activity during the Chinese New Year, the most important of the traditional Chinese holidays. During this time, both cargo and fishing traffic decrease and we expect the demand for our products to decrease accordingly. During the slow season of marine fuel products, we adjust our marketing strategy by increasing the trading of our products.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Inflation

The amounts presented in the financial statements do not provide for the effect of inflation on our operations or financial position. The net operating losses shown would be greater than reported if the effects of inflation were reflected either by charging operations with amounts that represent replacement costs or by using other inflation adjustments.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Report, our management conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer (the “Evaluating Officers”), of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the

Exchange Act). Based on that evaluation, the Evaluating Officers concluded that our disclosure controls and procedures were not effective as of the period covered by this report. The foregoing conclusion was due to the continued presence of material weaknesses in internal control over financial reporting, as discussed under "Management's Report on Internal Control Over Financial Reporting" in the Company's previously filed Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the "Annual Report"). Management anticipates that such disclosure controls and procedures will not be effective until the material weaknesses described below are remediated.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected and corrected on a timely basis. As reported in the Annual Report, our management was aware of several material weaknesses in the Company's internal control over financial reporting, including weaknesses related to (i) control environment, (ii) control activities, (iii) information and communications, and (iv) internal control monitoring. Our current accounting staff remains relatively inexperienced in U.S. GAAP-based reporting and requires additional training so as to meet with the higher demands necessary to fulfill the requirements of U.S. GAAP-based reporting and SEC rules and regulations. Our Evaluating Officers concluded that those issues persisted at the time of their most recent evaluation, which considered the factors, including:

- the number of adjustments proposed by our independent auditors during our quarterly review and annual audit processes;

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- the significance of the audit adjustments' impact on the overall financial statements;
- how adequately we complied with U.S. GAAP on transactions; and
- how accurately we prepared supporting information to provide to our independent auditors on a quarterly and annual basis.

We are in the process of reviewing and, where necessary, modifying controls and procedures throughout the Company. Our management intends to focus its remediation efforts in the near term on installing a new financial system and documenting formal policies and procedures surrounding transaction processing, period-end account analyses and providing for additional review and monitoring procedures and periodically assess the need for additional accounting resources as the business develops and resources permit. Management is also committed to taking further action and implementing enhancements or improvements as resources permit. The implementation of additional measures, however, may take considerable time.

Changes in Internal Controls over Financial Reporting

Except as described above, there was no change in our internal control over financial reporting during our third quarter of 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is involved in legal matters arising in the ordinary course of business. Management currently is not aware of any legal matters or pending litigation that would have a significant effect on the Company's financial statements as of September 30, 2014.

Item 1A. Risk Factors

Except as set forth below, there were no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company did not engage in any unregistered sales of equity securities during the fiscal quarter ended September 30, 2014. The Company did not repurchase any of its equity securities during the same fiscal period.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are furnished as part of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Andatee China Marine Fuel Services Corporation

Date: November 14, 2014 By: */s/ Wang Hao*
Wang Hao
President, Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2014 By: */s/ Quan Zhang*
Quan Zhang
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Number	Exhibit Table
3.1(i)	Certificate of Incorporation (1).
3.1.1(i)	Amendment to the Certificate of Incorporation (1).
3.1(ii)	By-Laws. (1)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the SOX of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the SOX of 2002.
32.1	Certificate of Chief Executive Officer pursuant to 18 U.S.C.ss.1350.
32.2	Certificate of Chief Financial Officer pursuant to 18 U.S.C.ss.1350.

(1) Incorporated by reference to the exhibit with the same number to the Company's Registration Statement on Form S-1 (SEC File No. 333-161577) effective as of January 25, 2010.

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase