

CHINA YILI PETROLEUM CO
Form 10-K
April 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2010

or

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

For the transition period from _____ to _____

Commission File No. 0-51554

CHINA YILI PETROLEUM COMPANY
(Exact name of registrant as specified in its charter)

Nevada
(State or other Jurisdiction of
incorporation or organization)

20-2934409
(I.R.S. Employer I.D. No.)

TONGLIAO ECONOMIC DEVELOPMENT DISTRICT TONGLIAO F4,
P.R.China 638229
(Address of Principal Executive Offices) (Zip Code)

Issuer's Telephone Number, including Area Code: 973-506-9295
Securities Registered Pursuant to Section 12(b) of the Act: None
Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, \$.001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 406 of the Securities Act. Yes ___ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ___ No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

Indicate by check mark disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

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. (Check One)

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

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

As of June 30, 2009 (the last business day of the most recently completed second fiscal quarter) the aggregate market value of the common stock held by non-affiliates was approximately \$23,083,982

As of April 14, 2011 the number of shares outstanding of the Registrant's common stock was 29,748,348 shares, \$.001 par value.

FORWARD-LOOKING STATEMENTS: NO ASSURANCES INTENDED

This Report contains certain forward-looking statements regarding China Yili Petroleum Company, its business and financial prospects. These statements represent Management's best estimate of what will happen. Nevertheless, there are numerous risks and uncertainties that could cause our actual results to differ dramatically from the results suggested in this Report. Among the more significant risks are:

- We have not yet commenced our petroleum production operations. So problems may occur with production or marketing that we have not anticipated.
- We will not be able to fully implement our business plan unless we obtain several million dollars in additional capital.

- Our business will not be profitable unless we are able to obtain a sufficient supply of heavy oil at prices low enough to permit us to sell our petroleum products at competitive prices.
- Changes in Chinese government regulation, particularly regulation aimed at reducing the environmental hazards attendant to the petroleum refining industry, could significantly increase our operating costs.

Because these and other risks may cause the Company's actual results to differ from those anticipated by Management, the reader should not place undue reliance on any forward-looking statements that appear in this Report.

PART 1

Item 1. Business

China Yili Petroleum Company (the “Company”) was incorporated in December 2004 under the laws of the State of Nevada. On August 13, 2007 the Company acquired all of the registered capital of Tongliao Yili Asphalt Co. (“Yili Asphalt”), a corporation organized under the laws of People’s Republic of China. Yili Asphalt is engaged in the business of refining heavy oil into asphalt, fuel oil and lubricants.

Tongliao Yili Asphalt Co.

Yili Asphalt was organized in 2005 as a limited company under the laws of People’s Republic of China. Its offices and manufacturing facilities which are located 10km away from the City of Tongliao, which is a prefecture level city in the Inner Mongolia Autonomous Region in northern China. This location provides the company with ready access to customers in the industrial sector of northeast China.

Since 2005 we have been engaged in developing a state-of-the-art facility for refining petroleum to produce three categories of end products: asphalt, diesel fuel and lubricants. The facility that we have developed has the capacity to produce, each day, 1300 tons of diesel fuel (current market value - \$3680 per ton), 780 tons of asphalt (current market value - \$300 per ton), and 520 tons of lubricants (current market value - \$600 per ton). When we launch our operations, we will immediately be the largest asphalt producer in Inner Mongolia.

Our facility is now completed. And we have finally secured all of the government licenses that we require in order to operate a refinery. Our plan is to initiate production as soon as we are successful in securing working capital.

Suppliers

The success of our operations will depend in large part on our success in obtaining a steady flow of raw petroleum at favorable price. At the present time, we anticipate sourcing petroleum from several channels:

·Liaohe Oil Field. Our facility is located near the Liaohe Oil Field, the third largest oil field in China. Government seismic studies have indicated that the Liaohe Oil Field has reserves of ultra heavy oil in excess of 100 million tons. Because of the close relationship with the government of our management, in particular our Chairman, who served in the government of Jilin Province for ten years, we expect to obtain a high degree of cooperation from the producers in the Liaohe Oil Field.

·China National Offshore Oil Corporation. We have a written commitment from CNOOC to supply us with 200,000 tons of petroleum at market price.

·Ministry of Transportation. China is experiencing a shortage of asphalt, which is severely hampering its efforts to develop its roadway system. For this reason, the Ministry of Transportation has indicated a willingness to assist us in obtaining petroleum supplies as needed. This relationship may prove particularly useful to us, if demand for oil in China continues to push local prices upwards. The Ministry of Transportation is capable of sourcing mineral waste oil from Russia, which tends to be priced substantially below the Chinese market price for heavy petroleum.

Facilities

Our offices and refinery are located on a parcel of industrial land measuring 126,540 m², which was leased from the local government for fifty years. The central portion of our refinery is a 300,000 ton atmospheric and vacuum distillation unit that was designed for us by China Petroleum Engineering Design Co., Ltd. Our storage facilities consist of:

- Six tanks for storage of raw petroleum. These tanks have a capacity of 30,000 m³, which is sufficient petroleum to assure full capacity operations for 30 days.
- Six asphalt storage tanks. These tanks have a capacity of 12,000 m³, which is adequate to permit us to store twenty days worth of production at 600 tons per day, with the asphalt segregated into four grades.
- Ten tanks for storage of petroleum distillate. These tanks have an aggregate capacity of 14,000 m³, which is adequate to permit us to store 35 days of production.

At present we receive our raw materials by truck, from which it is piped into our storage tanks to be dehydrated. After refining, the end products are removed from our facilities by truck. In the future, however, we expect a rail line to be constructed directly to our plant, funded primarily by the Autonomous Region. The construction has been delayed, in part by our lack of progress in initiating business operations. When completed, however, that improvement should substantially reduce our transportation costs and reduce delays in both inbound and outbound shipments.

Products

The refining of petroleum to produce asphalt produces two other categories of products as residue: diesel fuel and lubricating oil. So our business plan contemplates that we will launch in all three markets at once. Within those markets, the varieties of end user are numerous.

Asphalt. Petroleum asphalt is, in the first instance, moved in one of three directions. It can be burnt to produce coke, which is the main fuel source for steelmaking. In the alternative, it can be blended with anthracite and liquid asphalt, then used as blast furnace refractory material or as the primary component of electrolyte aluminum anodes, electric steelmaking electrodes, heat exchangers, and for other high temperature resistant uses. Finally, asphalt can be used undiluted for paving roads and roofs.

In China, the recent rapid industrial expansion has produced an urgent need for improved roadways, which in turn has driven the demand for asphalt beyond the nation's production capacity. China now imports a substantial portion of its asphalt requirements, which significantly increases the cost of construction.

Diesel Fuel. Diesel fuel, generally, falls into two categories: light diesel fuel and heavy diesel fuel. Light diesel fuel is the diesel oil used by trucks, tractors and diesel automobiles. Heavy diesel fuel is used in low speed (up to 1,000 RPM) engines.

The growth in demand for diesel fuel in China has been a function of increased industrial production, with concomitant transportation activity. Our management believes that demand will continue to grow, fuelled by China's growing interest in reducing petroleum dependence. We anticipate a growing trend toward more fuel efficient diesel automobiles, which can help the nation to reach its goals of energy independence and an improved environmental.

Lubricating Oil. Although a can of common lubricating oil is present in every home where there is a motor, the lubricating oil that Yili Asphalt will produce will be specially refined to meet specific machine requirements. For example, the bearing case in a grinding machine requires a lubricant of a specific viscosity. Similarly, metal cutting machinery and the hydraulic systems in industrial equipment each require a lubricant with specific characteristics. Our plan is to produce the base material for sale to other refiners, who will then perform the finishing processes to produce lubricants to suit those specific industrial needs.

Employees

As of April 15, 2011, we have 10 full-time staff and employees.

Item 1A. Risk Factors

You should carefully consider the risks described below before buying our common stock. If any of the risks described below actually occurs, that event could cause the trading price of our common stock to decline, and you could lose all or part of your investment.

Because we have not yet commenced our production operations, unexpected factors may hamper our efforts to implement our business plan.

We will not record our first sale until we secure working capital. Our business plan contemplates that we will engage in a three-pronged marketing operation, involving production and sales of diesel fuel, asphalt as well as lubricants. Implementation of that business plan will also entail complex production operations and an active sales force. Because these are areas in which we have limited experience, problems may occur with production or marketing that we have not anticipated, which would interfere with our business, and prevent us from achieving profitability.

Our profits will be limited unless we are able to secure a sufficient supply of heavy oil.

We manufacture our products by refining petroleum. The price of petroleum on both the Chinese market and the international market is much higher today than it was five years ago, and our expectation is that the price will remain high for the foreseeable future. Particularly in China, which has experienced unprecedented industrial growth in the past twenty years, the demand for petroleum exceeds the supply. Therefore, in order to achieve efficient operations, it will be necessary for us to develop redundant sources of heavy oil, as we cannot rely on one or two relationships to provide the steady flow of oil that we will need. If we are unable to achieve that redundancy and have interruptions in our petroleum supplies, our profitability will be limited.

Fluctuations in oil prices could impede our efforts to achieve profitability.

The market price of crude oil fluctuates dramatically, driven by economic, political and geological factors that are completely outside our control. We do not intend to engage in hedging against changes in crude oil prices. As a result, a sudden increase in the cost of our raw material – i.e. oil – could reduce or eliminate our profit margin. Although we could respond to the increase by a proportionate increase in our price list, competitive forces might prevent us from doing so – in particular competition from asphalt and diesel fuel producers that are themselves oil producers and are thus shielded from the full effect of increased oil prices.

The capital investments that we plan for the next two years may result in dilution of the equity of our present shareholders.

Our business plan contemplates that we will invest at least 30 million RMB (\$3.8 million) in working capital and acquisitions during the next twelve months, and an undetermined amount in the development of a rail line to our refinery. We intend to raise a portion of the necessary funds by selling equity in our company. At present we have no commitment from any source for those funds. We cannot determine, therefore, the terms on which we will be able to raise the necessary funds. It is possible that we will be required to dilute the value of our current shareholders' equity in order to obtain the funds. If, however, we are unable to raise the necessary funds, our growth will be limited, as will our ability to compete effectively.

A recession in China could significantly hinder our growth.

The growing demand for petroleum products in China has been swelled, in large part, by the recent dramatic increases in industrial production in China. The continued growth of our market will depend on continuation of recent improvements in the Chinese economy. If the Chinese economy were to contract and investment capital became limited, construction projects would be delayed or abandoned, and the demand for our asphalt would be reduced. Many financial commentators expect a recession to occur in China in the near future. The occurrence of a recession could significantly hinder our efforts to implement our business plan.

Increased environmental regulation could diminish our profits.

The refining of petroleum involves the production of pollutants. In addition, the transportation of petroleum products entails a risk of spills that may result in long-term damage to the environment. At the present time we estimate that our compliance with applicable government regulations designed to protect the environment will cost us 1 million RMB (approximately \$125,000) per year. There is increasing concern in China, however, over the degradation of the environment that has accompanied its recent industrial growth. It is likely that additional government regulation will be introduced in order to protect the environment. Compliance with such new regulations could impose on us substantial costs, which would reduce our profits.

Our business and growth will suffer if we are unable to hire and retain key personnel that are in high demand.

Our future success depends on our ability to attract and retain highly skilled petroleum engineers, production supervisors, transportation specialists and marketing personnel. In general, qualified individuals are in high demand in China, and there are insufficient experienced personnel to fill the demand. In a specialized scientific field, such as ours, the demand for qualified individuals is even greater. If we are unable to successfully attract or retain the personnel we need to succeed, we will be unable to implement our business plan.

We may have difficulty establishing adequate management and financial controls in China.

The People's Republic of China has only recently begun to adopt the management and financial reporting concepts and practices that investors in the United States are familiar with. We may have difficulty in hiring and retaining employees in China who have the experience necessary to implement the kind of management and financial controls that are expected of a United States public company. If we cannot establish such controls, we may experience difficulty in collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet U.S. standards.

Government regulation may hinder our ability to function efficiently.

The national, provincial and local governments in the People's Republic of China are highly bureaucratized. The day-to-day operations of our business require frequent interaction with representatives of the Chinese government institutions. The effort to obtain the registrations, licenses and permits necessary to carry out our business activities can be daunting. Significant delays can result from the need to obtain governmental approval of our activities. These delays can have an adverse effect on the profitability of our operations. In addition, compliance with regulatory requirements applicable to petroleum refining may increase the cost of our operations, which would adversely affect our profitability.

Capital outflow policies in China may hamper our ability to pay dividends to shareholders in the United States.

The People's Republic of China has adopted currency and capital transfer regulations. These regulations require that we comply with complex regulations for the movement of capital. Although Chinese governmental policies were introduced in 1996 to allow the convertibility of RMB into foreign currency for current account items, conversion of RMB into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange. We may be unable to obtain all of the required conversion approvals for our operations, and Chinese regulatory authorities may impose greater restrictions on the convertibility of the RMB in the future. Because most of our future revenues will be in RMB, any inability to obtain the requisite approvals or any future restrictions on currency exchanges will limit our ability to pay dividends to our shareholders.

Currency fluctuations may adversely affect our operating results.

Yili Asphalt generates revenues and incurs expenses and liabilities in Renminbi, the currency of the People's Republic of China. However, as a subsidiary of the Company, it will report its financial results in the United States in U.S. Dollars. As a result, our financial results will be subject to the effects of exchange rate fluctuations between these currencies. From time to time, the government of China may take action to stimulate the Chinese economy that will have the effect of reducing the value of Renminbi. In addition, international currency markets may cause significant adjustments to occur in the value of the Renminbi. Any such events that result in a devaluation of the Renminbi versus the U.S. Dollar will have an adverse effect on our reported results. We have not entered into agreements or purchased instruments to hedge our exchange rate risks.

We have limited business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products, and do not, to our knowledge, offer business liability insurance. As a result, we do not have any business liability insurance coverage for our operations. Moreover, while business disruption insurance is available, we have determined that the risks of disruption and cost of the insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

The Company is not likely to hold annual shareholder meetings in the next few years.

Management does not expect to hold annual meetings of shareholders in the next few years, due to the expense involved. The current members of the Board of Directors were appointed to that position by the previous directors. If other directors are added to the Board in the future, it is likely that the current directors will appoint them. As a result, the Company's shareholders will have no effective means of exercising control over the Company's operations.

Item 1B Unresolved Staff Comments

Not Applicable.

Item 2. Properties

The executive offices and refinery used by Yili Asphalt are located on a parcel of industrial land measuring 126,540 m², which was leased from the local government for fifty years.

Item 3. Legal Proceedings

None.

Item 4. Reserved

Item 5. Market for Registrant's Common Equity, Related Stockholder Matter and Issuer Purchases of Equity Securities

(a) Market Information

The Company's common stock has been quoted on the OTC Bulletin Board since November 7, 2006. It is currently listed there under the symbol "CYIP." The following table sets forth the range of high and low bid quotations for each quarter within the last two fiscal years, and the subsequent interim period. The reported bid quotations reflect inter-dealer prices without retail markup, markdown or commissions, and may not necessarily represent actual transactions.

Quarter Ending	Bid	
	High	Low
March 31, 2009	\$ 1.00	\$ 0.99
June 30, 2009	\$ 0.99	\$ 0.99
September 30, 2009	\$ 0.99	\$ 0.99
December 31, 2009	\$ 1.01	\$ 0.99
March 31, 2010	\$ 0.15	\$ 0.15
June 30, 2010	\$ 2.99	\$ 0.15
September 30, 2010	\$ 1.08	\$ 0.15
December 31, 2010	\$ 1.07	\$ 0.15

(b) Shareholders

Our shareholders list contains the names of 190 registered stockholders of record of the Company's Common Stock.

(d) Securities Authorized for Issuance under Equity Compensation Plans

The information set forth in the table below regarding equity compensation plans (which include individual compensation arrangements) was determined as of December 31, 2010.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders.....	0	--	0
Equity compensation plans not approved by security holders.....	0	--	0
Total.....	0	--	0

(e) Sale of Unregistered Securities

The Company did not issue any unregistered equity securities during the year ended December 31, 2010.

(f) Repurchase of Equity Securities

The Company did not repurchase any of its equity securities that were registered under Section 12 of the Securities Act during the year ended December 31, 2010.

Item 6 Selected Financial Data

Not Applicable.

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

Economic and Industry Trends

In past years, China has experienced a real estate boom, which also triggered the rapid development of the construction industry, which uses asphalt as a major material. However, in 2007, the Chinese government implemented a series of policies and regulations to curb inflation in the property market. These policies, together with the worldwide financial crisis in late 2008, have resulted in a slowdown of the real estate market in China and our business, in turn, has been affected. Recently, the Chinese government has changed its policy and prioritized boosting of the economy. The Chinese government has adopted new policies to address the slowdown of the real estate market, such as reducing stamp duties and transactions fees, lowering interest rates. The Chinese government has also decided to inject a stimulus package to boost the overall economy. From all of these, we have seen signs of recovery of the market in China.

Results of Operations

During the years ended December 31, 2010, and 2009 the Company did not generate any revenue. As a result, there is also no cost of goods sold incurred during the past years.

Total operating expenses reported by the Company for the year ended December 31, 2010 were mainly attributable to the general and administrative expenses which generally consisted of facilities maintenance, depreciation cost and professional fees. Compared to the operating expenses of \$732,096 incurred during the year ended December 31, 2009, our total operating expenses have decreased to \$303,396 for this year. The Company's operating expenses primarily involved expenses related to its activities in completing its factory, finalizing the development of its products, and securing the government licenses necessary for it to carry out its business plan. In addition, the Company also incurred expenses resulting from its status as a U.S. public company and its efforts to enter into the U.S. capital market.

Net loss was \$303,396 for the year ended December 31, 2010, a decrease of \$428,700 from the year ended December 31, 2009 as a result of the reduction in expenses explained above.

Liquidity and Capital Resources

Management anticipates that Yili Asphalt will commence revenue-producing operations in the near future. In order to do so, however, Yili Asphalt will have to obtain approximately \$500,000 in working capital to fund the initiation of operations. Management plans to approach a Chinese bank in order to borrow those funds on a secured basis, since Yili Asphalt has \$9.0 million in capital assets on its books that are currently free of liens. To date, however, it has not obtained a commitment for the funds. If there is a delay in securing the necessary funds, the date for initiation of revenue-producing operations will be likewise delayed.

Because the Company's refining process yields three different end products (asphalt, diesel fuel, lubricants), the Company's initial operations will entail a sudden increase in working capital demands. Among the more significant funding demands will be:

- Marketing. Yili Asphalt intends to engage in direct marketing of all products lines. Management expects that its direct marketing program will prove to be more efficient over the long term than a distribution network. However, the initial burden on its working capital will be considerable, as Yili Asphalt will have to carry the full cost of a sales staff, the expenses of their marketing activities, such as travel, entertainment, and promotion, and the expenses attendant to sales accounting.

- Potentially Inefficient Use of Facilities. To optimize the utilization of our refinery, we will have to generate sales of our products in the proportions in which the refinery is designed to produce them: roughly 6:3:2 for fuel, asphalt and lubricants respectively. It is unlikely that sales will occur naturally in those proportions. If sales in one or two of the categories lag the other(s), management will face the Hobson's choice of delaying production in the faster selling category, thus losing the benefit of the demand for that category, or tolerating excess inventories of the slower selling categories. This situation would result in additional demands on our working capital.

In addition to our need for working capital to initiate production, our business plan calls for substantial capital investment over the next twelve months. The primary purposes for which we anticipate a need for capital are:

- Additional Working Capital for Growth. We believe there is a high demand for our products in Inner Mongolia and the neighboring provinces. If we are correct, then demand could enable us to quickly expand our operations to full capacity. Growth at that rapid rate would require a commitment of many millions of Dollars for working capital. Our management will have to assess the value of the market opportunities that present themselves, and weight them against the cost of such capital as may be made available to us.
- Construction of Dedicated Rail Line. The government of Inner Mongolia has committed to construct a rail line that will have a siding at our refinery. The benefit to us in terms of reduced transportation costs would be substantial. The government's proposal, however, contemplates that Yili Asphalt will make a substantial capital contribution toward the construction project. The amount of the contribution has not been determined.
- Acquisition of Refinery. Chunshi Li, our Chairman, has committed to purchase Mongolia Kailu Yili Asphalt Co., Ltd., an asphalt company with a production capacity of 100,000 tons. He intends to assign his rights in Mongolia Kailu to Yili Asphalt if we are able to fund the cost. The purchase price will be 20 million RMB (approximately \$2.7 million). In addition, Mongolia Kailu is currently unproductive due to deterioration of its facilities. In order to bring it back online, we will have to fund the construction of a waterproof coiled material production line at its plant, which will entail an investment of several million more Renminbi.

At the present time, we have received no commitments for the funds required for our planned capital investments. Obtaining those funds, if we can do so, will require that we issue substantial amounts of equity securities or incur significant debts. We believe that the expected return on those investments will justify the cost. Without additional funding, the Company will not be able to pursue its business model. If adequate funds are not available or are not available on acceptable terms when required, we would be required to significantly curtail our operations and would not be able to fund the development of the business envisioned by our business model. These circumstances could have a material adverse effect on our business and result in our inability to continue to operate as a going concern.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
China Yili Petroleum Company and Subsidiaries,

We have audited the accompanying consolidated balance sheets of China Yili Petroleum Company and Subsidiaries (A Development Stage Company) as of December 31, 2010 and 2009 and the related consolidated statements of operations and comprehensive losses, changes in stockholders' equity and cash flows for the years ended December 31, 2010 and 2009 and for the period from inception (May 27, 2005) to December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the accompanying financial statements, the Company has sustained losses totaling \$1,932,293 since inception. At December 31, 2010 the Company's current liabilities exceeded its current assets by \$3,169,768 and its cash aggregated \$692. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Yili Petroleum Company and Subsidiaries (A Development Stage Company) as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years ended December 31, 2010 and 2009 and for the period from inception (May 27, 2005) to December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/ Paritz & Company, P.A.

Hackensack, New Jersey
April 14, 2011

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CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash	\$692	\$3,161
Other sundry current assets	547	528
TOTAL CURRENT ASSETS	1,239	3,689
Property and equipment, net of accumulated depreciation	9,176,508	8,904,343
TOTAL ASSETS	\$9,177,747	\$8,908,032
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$2,143,942	\$2,070,124
Due to shareholder	378,700	285,870
Accrued expenses	648,365	474,499
TOTAL CURRENT LIABILITIES	3,171,007	2,830,493
STOCKHOLDERS' EQUITY		
Common stock, \$0.001 par value, 100,000,000 shares authorized, 29,748,348 shares issued and outstanding at December 31, 2010 and 2009	29,748	29,748
Preferred stock, \$0.001 par value, 4,700,000 shares authorized 0 shares issued and outstanding at December 31, 2010 and 2009	-	-
Preferred stock, Series A, \$0.001 par value, 300,000 shares authorized 0 shares issued and outstanding at December 31, 2010 and 2009	-	-
Additional paid-in capital	6,799,332	6,780,719
Deficit accumulated during development stage	(1,932,293)	(1,628,897)

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Accumulated other comprehensive income	1,109,953	895,969
TOTAL STOCKHOLDERS' EQUITY	6,006,740	6,077,539
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$9,177,747	\$8,908,032

The accompanying notes are an integral part of these financial statements

F2

CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES			
(A DEVELOPMENT STAGE COMPANY)			
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSSES			
	For the years ended December 31,		From Inception May 27, 2005) to December 31, 2010
	2010	2009	
Sales	\$-	\$-	\$-
COSTS AND EXPENSES:			
General and administrative expenses	284,783	718,574	1,882,873
Interest expense	18,613	13,522	49,420
Total Cost and expenses	303,396	732,096	1,932,293
NET LOSS FROM CONTINUING OPERATIONS	(303,396)	(732,096)	(1,932,293)
INCOME FROM DISCONTINUED OPERATIONS	-	-	57,430
NET LOSS	(303,396)	(732,096)	(1,874,863)
OTHER COMPREHENSIVE INCOME (LOSS):			
Foreign currency translation adjustments	213,984	(24,758)	1,109,953
TOTAL COMPREHENSIVE (LOSS)	(89,412)	\$(756,854)	\$(764,910)
Basic and diluted loss per common share:			
Continuing operations	\$(0.01)	\$(0.03)	
Weighted average number of shares outstanding:	29,748,348	29,748,348	
The accompanying notes are an integral part of these financial statements			

CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUM. DURING DEVELOPMENT STAGE	OTHER COMPREHENSIVE INCOME	TOTAL
	SERIES A	SHARES AMOUNT	SHARES	AMOUNT	CAPITAL	STAGE	INCOME	TOTAL
BALANCE - May 27, 2005	-	-	-	-	-	-	-	-
Capital Contributions	300,000	300	-	-	185,795	-	-	186,095
BALANCE - DECEMBER 31, 2005	300,000	300	-	-	185,795	-	-	186,095
Additional capital contribution					6,593,866			6,593,866
Foreign currency translation adjustments							(2,438)	(2,438)
Net loss						(115,937)		(115,937)
BALANCE - DECEMBER 31, 2006	300,000	300	-	-	6,779,661	(115,937)	(2,438)	6,661,586
Effect of merger and reverse split			300,051	300	(1,196,392)			(1,196,092)
Foreign currency translation adjustments							458,996	458,996
Net loss						(464,552)		(464,552)
	300,000	300	300,051	300	5,583,269	(580,489)	456,558	5,459,938

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BALANCE -
DECEMBER
31, 2007

Foreign currency translation adjustments						464,180	464,180
Preferred stock converted to common stock	(300,000)	(300)	29,448,297	29,448	(29,148)		-
Dividend declared for spinning off					1,195,792	(57,430)	1,138,362
Imputed interest on shareholder loan					17,285		17,285
Net loss						(258,882)	(258,882)

BALANCE -
DECEMBER
31, 2008

Foreign currency translation adjustment	-	-	29,748,348	29,748	6,767,198	(896,801)	920,738	6,820,883
Imputed interest on shareholder loan					13,521		13,521	
Adjusted RE for interco elimination								-
Net loss						(732,096)		(732,096)

BALANCE -
DECEMBER
31, 2009

Foreign currency	-	-	29,748,348	29,748	6,780,719	(1,628,897)	895,969	6,077,539
							213,984	213,984

translation
adjustment

Imputed
interest on
shareholder
loan

18,613

18,613

Adjusted RE
for interco
elimination

-

Net loss

(303,396)

(303,396)

BALANCE -

DECEMBER

31, 2010

-

-

29,748,348

29,748

6,799,332

(1,932,293)

1,109,953

6,006,740

The accompanying notes are an integral part of these financial statements

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CHINA YILI PETROLEUM COMPANY AND SUBSIDIARIES			
(A DEVELOPMENT STAGE COMPANY)			
STATEMENTS OF CASH FLOWS			
	For the years ended December 31		From Inception May 27, 2005 to December 31, 2010
	2010	2009	
OPERATING ACTIVITIES:			
Net loss:	\$(303,396)	\$(732,096)	\$(1,874,863)
Gain (loss) from discontinued operations	-	-	(57,430)
Net income (loss) from continuing operations	(303,396)	(732,096)	(1,932,293)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	45,354	41,617	196,937
Imputed interest	18,613	13,522	49,419
Changes in operating assets and liabilities:			
Other sundry current assets	2,470	(281)	(547)
Accounts payable	-	(5,741)	2,143,942
Accrued expenses	159,109	376,168	648,365
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(77,850)	(306,811)	1,105,823
INVESTING ACTIVITIES:			
Acquisition of property and equipment	-	(11,258)	(9,373,445)
NET CASH USED IN INVESTING ACTIVITIES	-	(11,258)	(9,373,445)
FINANCING ACTIVITIES:			
Loan received from (payment to) stockholder	84,138	315,173	378,700
Capital contribution	-	-	6,779,661
NET CASH PROVIDED BY FINANCING ACTIVITIES	84,138	315,173	7,158,361
EFFECT OF EXCHANGE RATE ON CASH	(8,757)	-	1,109,953
INCREASE/ DECREASE IN CASH	(2,469)	(2,896)	692
CASH - BEGINNING OF PERIOD	3,161	6,057	-
CASH - END OF PERIOD	\$692	\$3,161	\$692

Supplemental disclosures of cash flow information:

Non-cash financing activities for continued operations

Transfer accounts payable to shareholder loan	\$-	\$394,630
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The accompanying notes are an integral part of these financial statements

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CHINA YILI PETROLUUM COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

1 BUSINESS DESCRIPTION AND HISTORY

China Yili Petroleum Company and subsidiaries ("The Company"), a development stage company, intend to refine heavy oil into asphalt, fuel oil and lubricants through its wholly-owned subsidiary.

Since inception, the Company has been developing its facilities and obtaining the requisite approvals from the Chinese government and has not earned any revenue from operations. Accordingly, the Company's activities have been accounted for as those of a Development Stage Enterprise. The Company's financial statements be identified as those of a development stage company, and that the statements of operations, stockholders' equity and cash flows disclose activity since the date of the Company's inception.

During the year ended December 31, 2007, ASAP Expo, Inc. ("ASAP"), formerly a wholly-owned subsidiary of Yili, organized trade shows and innovative means of financing international trade.

On December 31, 2008, Yili declared a dividend of 100% of the outstanding shares of ASAP. The results of operations of ASAP are included in the accompanying consolidated statements of operations and other comprehensive income (loss) as income (loss) from discontinued operations. The assets and liabilities of ASAP are aggregated and reported as separate lines on the consolidated balance sheet prior to the declaration of the dividend.

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MERGER TRANSACTION AND REVERSE SPLIT

On August 13, 2007 ASAP Show, Inc. (“ASAP Show”) acquired the outstanding capital stock of Sino-American Petroleum Group, Inc., a Delaware Corporation (“Sino-American Petroleum”). Sino-American Petroleum is a holding company that owns all of the registered capital of Tongliao Yili Asphalt Co. (“Yili Asphalt”), a corporation organized under the laws of the People’s Republic of China (“PRC”). Yili Asphalt is engaged in the business of refining heavy oil into asphalt, fuel oil and lubricants. All of Yili Asphalt’s business is currently in China.

In connection with the closing of the acquisition (the “Merger”) on August 13, 2007, the following took place:

- ASAP Show issued to the stockholders of Sino-American Petroleum 200,000 shares of Series A Preferred Stock, which will be convertible into 569,348,000 shares of common stock after the distribution of the ASAP Expo shares discussed below.
- ASAP Show issued 100,000 shares of Series A Preferred Stock for \$600,000. The 100,000 shares will be convertible into 284,674,000 shares of common stock after the distribution of the ASAP Expo shares discussed below. The three purchasers assigned their interest in most of the Series A Preferred shares to other individuals, none of whom, acquired sufficient shares to be a controlling stockholder of ASAP Show.

Prior to the Merger, ASAP Show assigned all of its pre-Merger business and assets to ASAP Expo, Inc., its wholly-owned subsidiary, and ASAP Expo, Inc. assumed responsibility for all of the liabilities of ASAP Show that existed prior to the merger. At the same time, ASAP Show entered into a management agreement with Frank Yuan, its previous CEO, and ASAP Expo, Inc. The management agreement provides that Mr. Yuan will manage ASAP Expo, Inc. within his discretion, provided that his actions or inactions do not threaten material injury to ASAP Show. The management agreement further provides that Mr. Yuan will cause ASAP Expo, Inc. to file a registration statement with the Securities and Exchange Commission, that will, when declared effective, permit ASAP Show to distribute all of the outstanding shares of ASAP Expo, Inc. to the holders of its common stock. After the registration statement is declared effective, the Board of Directors of ASAP Show will fix a record date, and stockholders of record on that date will receive the shares of ASAP Expo, Inc. in proportion to their ownership of ASAP Show common stock. On October 22, 2007 ASAP Show, Inc. changed its corporate name to China Yili Petroleum Company (the “Company”) and announced a 1229 reverse split.

- The above merger was accounted for as a reverse merger, since the former shareholders of Sino-American Petroleum and its wholly-owned subsidiary, Yili Asphalt, effectively control the Company and, accordingly, Sino-American Petroleum is considered to be the surviving entity.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 those estimates. Estimates that are particularly susceptible to change include assumptions used in determining the fair value of securities owned and non-readily marketable securities.

The Company's functional currency is the Chinese Renminbi ("RMB"); however, the accompanying financial statements have been translated and presented in United States Dollars ("USD").

2 GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown on the accompanying financial statements, the Company's current liabilities exceeded its current assets by \$3,169,768 on December 31, 2010. The Company has sustained an accumulative loss of \$ 1,932,293 since its inception to date. The Company has not earned any revenues from continuing operations since inception. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Uses of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles 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 net revenue and expenses during each reporting period. Actual results could differ from those estimates.

Cash

The Company includes in cash and cash equivalents all short-term, highly liquid investments that mature within three months of their acquisition date. Cash equivalents consist principally of investments in interest-bearing demand deposit accounts and liquidity funds with financial institutions and are stated at cost, which approximates fair value.

The Company also maintains cash with financial institutions in the PRC which are not insured or otherwise protected.

Property and equipment

Property and equipment are recorded at cost. Depreciation is provided in amounts sufficient to amortize the cost of the related assets over their useful lives using the straight line method for financial reporting purposes.

The Company's subsidiary leases a parcel of land, on which the office and production facilities of the Company are situated, pursuant to a real estate contract from the local government of the PRC government expiring in 2056.

Maintenance, repairs and minor renewals are charged to expense when incurred. Replacements and major renewals are capitalized.

Construction in Progress

Construction in progress represents direct costs of construction or acquisition and design fees incurred. Capitalization of these costs ceases and the construction in progress is transferred to plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided until it is completed and ready for intended use.

The carrying value of property, plant and equipment is assessed annually and when factors indicating impairment is present, the carrying value of the fixed assets is reduced by the amount of the impairment. The Company determines the existence of such impairment by measuring the expected future cash flows (undiscounted and without interest)

General and administrative Costs

General and administrative costs consist primarily of salaries for administrative staffs, rent expenses, depreciation expense and employee benefits for administrative staffs.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. In the opinion of management, there was no impairment for the year ended December 31, 2010 and 2009.

Deferred income taxes

We use the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "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. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

ASC Topic 740.10.30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

Foreign currency translation

The assets and liabilities of the Company's subsidiary, using the local currency as its functional currency, are translated to U.S. Dollars based on the current exchange rate prevailing at each balance sheet date and any resulting translation adjustments are included in Accumulated Other Comprehensive Income (Loss). The Company's revenues and expenses are translated into U.S. Dollars using the average exchange rates prevailing for each period presented.

Income (loss) per common share

Basic income (loss) per common share amounts are computed by dividing net income by weighted-average common stock outstanding during the period. Diluted income (loss) per common share are calculated using weighted-average shares outstanding, adjusted for the dilutive effect of shares issuable upon the assumed exercise of common stock equivalents. As of December 31, 2010 and 2009, there were no common stock equivalents outstanding.

Comprehensive income

Comprehensive income is defined to include all changes in equity except those resulting from investments by shareholders and distributions to shareholders. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. Comprehensive income includes net income and the foreign currency translation gain, net of tax.

Statement of cash flows

In accordance with Statement of Financial Accounting Standards No. 95, "Statement of cash Flows," cash flows from the Company's operations are calculated based upon the local currencies. As a result, 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.

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Fair value of financial instruments

We have adopted the provisions of ASC Topic 820, “Fair Value Measurements and Disclosures”, which defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value and expands disclosure of fair value measurements.

The estimated fair value of certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are carried at historical cost basis, which approximates fair values because of the short-term maturing of these instruments. The carrying amounts of our short and long term credit obligations approximate fair value because the effective yields on these obligations, which include contractual interest rates which are comparable to rates of returns for instruments of similar credit risk and because of the short term maturity of these instruments.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 – quoted prices in active markets for identical assets or liabilities.

Level 2 – quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 – inputs that are unobservable (for example cash flow modeling inputs based on assumptions)

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Risks of Losses

The Company is potentially exposed to risks of losses that may result from business interruptions, injury to others (including employees) and damage to property. These losses may be uninsured, especially due to the fact that the Company's operations are in China, where business insurance is not readily available. If: (i) information is available before the Company's financial statements are issued or are available to be issued indicates that such loss is probable and (ii) the amount of the loss can be reasonably estimated, an estimated loss will be accrued by a charge to income. If such loss is probable but the amount of loss cannot be reasonably estimated, the loss shall be charged to the income of the period in which the loss can be reasonably estimated and shall not be charged retroactively to an earlier period. As of December 31, 2009 and 2008, the Company has not experienced any uninsured losses from injury to others or other losses.

New Accounting Pronouncements

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has determined the adoption of this ASU does not have a material impact on its financial statements.

In February 2010, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance that amends the disclosure requirements related to Subsequent Events (Topic 855). This guidance includes the definition of a Securities and Exchange Commission filer, removes the definition of a public entity, redefines the reissuance disclosure requirements and allows public companies to omit the disclosure of the date through which subsequent events have been evaluated. This guidance is effective for financial statements issued for interim and annual periods ending after February 2010. This guidance did not materially impact the Company’s results of operations or financial position, but did require changes to the Company’s disclosures in its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company’s consolidated financial statements upon adoption.

4 PROPERTY AND EQUIPMENT

A summary of property and equipment and the estimated lives used in the computation of depreciation and amortization are as follows:

	December 31, 2010	December 31, 2009	Life
Right to use land	\$255,631	\$246,829	50 years
Building and building improvements	3,985,226	3,848,011	39 years
Machinery and equipment	4,904,163	4,735,307	7 years
Office equipment and furniture	59,835	57,776	7 years
Automobiles	168,587	162,781	7 years
	9,373,442	9,050,704	
Accumulated depreciation and amortization	196,934	146,361	
	\$9,176,508	\$8,904,343	

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5 DUE TO STOCKHOLDER

Amounts due certain stockholder of China Yili Petroleum Company, are non-interest bearing and are due on demand. Interest was imputed at 5% per annum for the years ended March 31, 2010 and December 31, 2009..

6 INCOME TAXES

The Company has net operating loss carry-forwards in China and United States of approximately \$2,000,000 which expire between 2012 and 2020.

The Company has a deferred tax asset resulting from the tax loss carry-forwards of approximately \$500,000 for which the Company has provided a 100% valuation allowance.

7 RISK FACTORS

Vulnerability due to Operations in PRC

The Company's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC's political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

Potential Limitations on the Payment of Dividends

The PRC government imposes control over the conversion of Renminbi, or RMB, into foreign currencies. Pursuant to the Foreign Exchange Control Regulations of the PRC issued by the State Council which came into effect on April 1, 1996, and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment of the PRC which came into effect on July 1, 1996, regarding foreign exchange control, conversion of RMB into foreign exchange by Foreign Investment Enterprises, or FIEs, for use on current account items, including the distribution of dividends and profits to foreign investors, is permissible. FIEs are permitted to convert their after-tax dividends and profits to foreign exchange and remit such foreign exchange to their foreign exchange bank accounts in China. On January 14, 1997, the State Council amended the Foreign Exchange Control Regulations and added, among other things, an important provision, which provides that the PRC government shall not impose restrictions on recurring international payments and transfers under current account items. Enterprises in China, including FIEs, which require foreign exchange for transactions relating to current account items, if within a certain limited amount may, without approval of the State Administration of Foreign Exchange, or SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks by providing valid receipts and proofs. Conversions in excess of prescribed limits, however, require the prior approval of SAFE.

Obtaining approval from SAFE for foreign currency conversions can be a time-consuming process. Moreover, the PRC government from time to time modifies its regulations regarding conversion of RMB into foreign currencies, and may in the future impose further restrictions on transactions relating to current accounts. For all these reasons, our ability to pay dividends in the future may be limited by our inability to readily transfer funds from our PRC subsidiary to our U.S. parent corporation.

Environmental concerns

The refining of petroleum involves the production of pollutants. In addition, the transportation of petroleum products entails a risk of spills that may result in long-term damage to the environment. There is increasing concern in China, however, over the degradation of the environment that has accompanied its recent industrial growth. It is likely that additional government regulation will be introduced in order to protect the environment. Compliance with such new regulations could impose substantial additional costs to the Company.

8 SUBSEQUENT EVENTS

We have evaluated events after the date of these financial statements through the date that these financial statements were issued. There were no material subsequent events as of that date

Item Changes in and Disagreements with Accountants on Accounting and Financial

9. Disclosure

Not Applicable

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2010. Pursuant to Rule 13a-15(e) promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, “disclosure controls and procedures” means controls and other procedures that are designed to insure that information required to be disclosed by China Yili Petroleum Company in the reports that it files with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time limits specified in the Commission’s rules. “Disclosure controls and procedures” include, without limitation, controls and procedures designed to insure that information China Yili Petroleum Company is required to disclose in the reports it files with the Commission is accumulated and communicated to our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure. In carrying out the evaluation, our Chief Executive and Chief Financial Officer observed the three material weaknesses that are described below under “Management’s Report on Internal Control over Financial Reporting.” Based on his evaluation, therefore, our Chief Executive Officer and Chief Financial Officer concluded that China Yili Petroleum Company’s system of disclosure controls and procedures was not effective as of December 31, 2010 for the purposes described in this paragraph.

Changes in Internal Controls. There was no change in internal control over financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act or 1934) identified in connection with the evaluation described in the preceding paragraph that occurred during China Yili Petroleum Company’s fourth fiscal quarter that has materially affected or is reasonably likely to materially affect China Yili Petroleum Company’s internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. We have assessed the effectiveness of those internal controls as of December 31, 2010, using the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") Internal Control – Intergrated Framework as a basis for our assessment.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

A material weakness in internal controls is a deficiency in internal control, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements that is more than inconsequential will not be prevented or detected. In the course of making our assessment of the effectiveness of internal controls over financial reporting, we identified three material weaknesses in our internal control over financial reporting. These material weaknesses consisted of:

a. Inadequate staffing and supervision within the accounting operations of our company. The relatively small number of employees who are responsible for accounting functions prevents us from segregating duties within our internal control system. The inadequate segregation of duties is a weakness because it could lead to the untimely identification and resolution of accounting and disclosure matters or could lead to a failure to perform timely and effective reviews.

b. Lack of expertise in U.S accounting principles among the personnel in our Chinese headquarters. Our books are maintained and our financial statements are prepared by the personnel employed at our executive offices in the City of Tongliao. None of our employees has substantial experience or familiarity with U.S accounting principles. The lack of personnel in our Tongliao office who are trained in U.S. accounting principles is a weakness because it could lead to improper classification of items and other failures to make the entries and adjustments necessary to comply with U.S. GAAP.

c. Lack of independent control over related party transactions. Chunshi Li is the sole director and sole officer of China Yili Petroleum Company. From time to time Mr. Li has made loans to finance the operations of Yili Asphalt, has contributed assets to Yili Asphalt, and has arranged transactions between Yili Asphalt and other entities under his control. The absence of other directors or officers to review these transactions is a weakness because it could lead to improper classification of such related party transactions.

Management is currently reviewing its staffing and their training in order to remedy the weaknesses identified in this assessment. To date, we are not aware of significant accounting problems resulting from these weaknesses; so we have to weigh the cost of improvement against the benefit of strengthened controls. However, because of the above conditions, management's assessment is that the Company's internal controls over financial reporting were not effective as of December 31, 2010.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Item 9B Other Information

None.

PART III

Item Directors and Executive Officers of the Registrant
10.

The officers and directors of the Company are:

Name	Age	Position with the Company	Director Since
Chunshi Li	55	Chairman, Chief Executive Officer, Chief Financial Officer	2007

Directors hold office until the annual meeting of the Company's stockholders and the election and qualification of their successors. Officers hold office, subject to removal at any time by the Board, until the meeting of directors immediately following the annual meeting of stockholders and until their successors are appointed and qualified.

Chunshi Li has over thirteen years experience in the petroleum products industry. Since 2005 he has served as Chairman of the Board of Yili Asphalt, a company that he founded. From 1994 to 2005 Mr. Li was employed by other petroleum refiners and distributors. From 1984 to 1994 Mr. Li was employed in the Provincial Government of Jilin Province as a member of the Political Consultative Conference.

Audit, Compensation and Nominating Committee

The Board of Directors has not appointed an Audit Committee, a Compensation Committee or a Nominating Committee, due to the small size of the Board. The functions that would be performed by these committees are performed by the Board of Directors. The Board of Directors does not have an “audit committee financial expert,” because there is only one Board member.

Code of Ethics

The Company has not adopted a formal code of ethics applicable to its executive officers. The Board of Directors has determined that there are not a sufficient number of members of management to warrant adoption of a formal code of ethics.

Section 16(a) Beneficial Ownership Reporting Compliance

None of the officers, directors or beneficial owners of more than 10% of the Company’s common stock failed to file on a timely basis the reports required by Section 16(a) of the Exchange Act during the year ended December 31, 2009, except that Chunshi Li failed to file a Form 3.

Item 10. Executive Compensation

The following table sets forth all compensation awarded to, earned by, or paid by the Company to Chunshi Li, its Chief Executive Officer, for services rendered in all capacities to the Company and its subsidiaries during the years ended December 31, 2010, 2009 and 2008. There were no other executive officers whose total salary and bonus for the fiscal year ended December 31, 2010 exceeded \$100,000.

	Compensation	
	Year	Salary
	2010	\$0
Chunshi Li	2009	\$0
	2008	\$0

Employment Agreements

All of our employment arrangements with our executives are on an at will basis.

Equity Grants

The following tables set forth certain information regarding the stock options acquired by the Company's Chief Executive Officer during the year ended December 31, 2010 and those options held by him on December 31, 2010.

Option Grants in the Last Fiscal Year

Name	Percent of total securities underlying option in fiscal year granted	Number of securities granted to employees	Price (\$/share)	Expiration year	Exercise Date	Potential realizable value at assumed annual rates of appreciation of	
						5%	10%
Chunshi	N.A.	N.A.	N.A.			0	0
Li	0						

Aggregated Fiscal Year-End Option Values

Number of securities underlying unexercised options at fiscal year-end (#) (All exercisable)	Value of unexercised in-the-money options at fiscal year-end (\$) (All exercisable)
Chunshi Li	00

Compensation of Directors

The members of our Board of Directors receive no compensation for their services on the Board.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of the date of this prospectus by the following:

- each shareholder known by us to own beneficially more than 5% of any class of our voting stock;
- Chunshi Li;
- each of our directors; and
- all directors and executive officers as a group.

There are 22,139,994 shares of our common stock outstanding on the date of this report. In addition, there were 77,514½ shares of Series A Preferred Stock outstanding, each of which can be converted into 98.1634 shares of common stock, and each of which entitles the holder to 98.1634 votes at any meeting of shareholders. Except as otherwise indicated, we believe that the beneficial owners of the shares listed below have sole voting power and investment power with respect to their shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission.

In computing the number of shares beneficially owned by a person and the percent ownership of that person, we include shares of common stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days. We do not, however, include these “issuable” shares in the outstanding shares when we compute the percent ownership of any other person.

Name of Beneficial Owner	Class	Amount and Nature of Beneficial Ownership	Percentage of Class	Percentage of Voting Power
Chunshi Li	Common	6,431,194	29.0%	21.6%
All officers and directors as a group (1 person)	Common	6,431,194	29.0%	21.6%

Item 12. Certain Relationships and Related Transactions and Director Independence

Certain Relationships and Related Transactions

Yili Asphalt

During 2006 Chunshi Li invested in Yili Asphalt most of the funds that we used to develop our refinery facility. Yili Asphalt recorded the investment as \$6,796,946 on its balance sheet, and issued to Mr. Li a substantial portion of its registered equity. Mr. Li subsequently transferred that equity to Sino-American Petroleum Group, Inc. in exchange for his interest in that company. In August 2007 the Company acquired Sino-American Petroleum Group, Inc. and issued to Mr. Li the shares of the Company's equity that he now owns.

Item 13. Principal Accountant Fees and Services

Paritz & Company, P.A. ("Paritz") was appointed to serve as the Company's principal accountant on August 13, 2007.

Audit Fees

Paritz billed \$35,000 in connection with the audit of China Yili's financial statements for the year ended December 31, 2009. Also included are services performed in connection with reviews of the financial statements of China Yili and its subsidiaries for the first three quarters of fiscal 2009. Paritz billed \$24,500 in connection with the audit of China Yili's financial statements for the year ended December 31, 2010.

Audit-Related Fees

Paritz billed China Yili \$0 for any Audit-Related fees in 2010 and 2009.

Tax Fees

Paritz billed \$0 to China Yili in 2010 and 2009 for professional services rendered for tax compliance, tax advice and tax planning.

All Other Fees

Paritz billed China Yili \$0 for other services in 2010 and 2009.

It is the policy of the Company that all services, other than audit, review or attest services must be pre-approved by the Board of Directors.

Item 14. Exhibit List

(a) Exhibit List

3-a Articles of Incorporation – filed as an exhibit to the Company’s Registration Statement on Form 10-SB (File No. 000-51554) and incorporated herein by reference.

3-a(1) Certificate of Designation of Series A Preferred Stock – filed as an exhibit to the Company’s Current Report on Form 8-K filed on August 13, 2007 and incorporated herein by reference.

3-b Bylaws - filed as an exhibit to the Company’s Registration Statement on Form 10-SB (File No. 000-51554) and incorporated herein by reference.

31 Rule 13a-14(a) Certification

32 Rule 13a-14(b) Certification

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

China Yili Petroleum Company

By: /s/ Chunshi Li
Chunshi Li, Chief Executive Officer

In accordance with the Exchange Act, this Report has been signed below on April 15, 2011 by the following persons, on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Chunshi Li
Chunshi Li, Director
Chief Executive Officer, Chief
Financial and Accounting Officer

