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Independent Director's Report – Visit to Sino Australia Oil & Gas Operations in China

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SUMMARY

I have returned from visiting Sino Australia Oil & Gas Ltd (**Sino**) operations in China.

The purpose of the visit was to meet Sino Management, visit Operations, meet Customers, view Sino's Enhanced Oil Recovery (EOR) technology first hand to assess the development opportunities for the Company and report my findings and assessment to all Shareholders.

I travelled extensively from the Oil fields in NE China at DaQing and Jilin to Chengdu and the Sichuan oil and Shale gas fields in SW China.

I visited the Sino Australia Oil & Gas(Sino) HQ in Beijing(See Photo 1 Sino's Beijing Office) set up at the time of the IPO, the company's operating subsidiary in China, Zhaodong Huaying's (Huaying) HQ in DaQing and visited two of Huaying's operations performing Enhanced Oil Recovery services for PetroChina at Jilin Oil Field.

I took plenty of photographs some of which I have included in this report.

This trip was to promote and support good corporate governance practices and communication between Sino operations in China and its new Sino Australia Directors and to provide a first-hand perspective of Mr Shao's achievements.

DIRECTOR'S ASSESSMENT FROM VISIT

My Conclusions from this trip are crystal clear.

1. **Sino is a well-managed, competent, well respected Oil Field Services company in China with good proprietary technology and with expansion opportunities and well developed growth plans in China and internationally;**

2. **The Chinese Government is focused on oil security and to opening up the Oil sector to private companies like Huaying. This is a great opportunity for Sino to significantly increase its services in China;**

3. **ASIC's Federal Court injunction freezing Sino's IPO funds is hurting Sino, its shareholders and staff badly; and**

4. **Sino operations are capacity constrained. They need additional equipment to satisfy their substantial growth in EOR contracts. ASIC's injunction is preventing Sino from using the IPO funds (as per the prospectus) to purchase additional equipment and fund its working capital growth.**

RECOMMENDATION

I encourage those Shareholders who have not yet completed the Shareholder Questionnaire (attached following this Report) to express your views on the injunction. Please email the completed and signed Questionnaire to the company at info@sino.com.au .

The Company will be sharing all shareholder's views with ASIC.

China Oil Industry

The Chinese Oil Industry is dominated by three huge State Owned Enterprises (SOE's) PetroChina(CNPC), SinoPet and Chinese Offshore Oil Corporation(CNOOC). These three vertically integrated groups hold 97% of the Chinese Oil Industry. While China has huge producing oil fields, the strong growth of the Chinese economy has turned China into a major oil and gas importer.

Chinese President Xi Jinping has announced a national focus on growth of Chinese domestic oil production including EOR and energy efficiency.

The major Oilfields of DaQing and Jilin are massive but mature having been in production for over 50 years. DaQing has over 150,000 development oil wells and Jilin has 40 to 50,000 oil wells all in need of different types of EOR. These development wells are everywhere, in fields, in the city, beside highway inter-changes and right beside houses. (See Photos 2 and 3 "Nodding Donkey" oil pumps are everywhere).

Necessity has forced these fields to encourage the development and utilization of Enhanced Oil Recovery (EOR) technology to unlock oil and gas which cannot be produced by primary production means.

Sino's Chinese subsidiary, Huaying has developed some of these valuable and sought after technologies. (See Photos 4 to 8 Huaying's Hydraulic radial jet drilling technology, using Tubing Trucks).

Other EOR processes are widely used in China. The fracking of development wells is common practice in the Jilin Oil field as is fracking of new shale gas wells in Sichuan Oil Fields.

Environmental protections have been well developed allowing fracking operations to be successfully carried out amongst working Corn farms. I witnessed such operations. (See Photos 9 & 10 - Fracking Operations in Cornfield, Jilin Oil Field).

Sino Operations in China

Sino's operating subsidiary in China, Huaying proved its technology and won its early contracts in the mature DaQing Oil field owned by PetroChina in NE China. Huaying then expanded operations into the Jilin Oil Field 200km away, also owned by PetroChina.

Huaying expanded its operations into Central and NW China to the oil fields of Changqing and Xinjiang respectively**. Currently Huaying has contracts for the provision of Enhanced Oil Recovery services for a further 600-700 wells.** The well depth for the oil reservoirs in DaQing and Jilin Oil Fields vary from 900m to 2,500m deep. **However in a major step forward, Huaying has now successfully completed EOR operations in the deeper Xinjiang Oil Field where well depths are 5,000m.**

Additional EOR Equipment to increase capacity

In anticipation of receiving the Funds from the IPO to purchase three additional pieces of EOR equipment, Huaying, in 2013, placed deposits of AUD11.8m (from its own cashflows) representing 60% of the purchase price for each of these three fully equipped EOR Tubing Trucks (see Photos 11 & 12).

When the ASIC Injunction was not discharged as expected in late May, the Company was forced to default of its contractual commitments to pay the balance of 40% (Approx $2.4m) on the first Tubing Truck.

After extensive negotiations with the Supplying company led by Mr Zhong and Mr Shao, agreement was reached to utilize the 60% deposits on the two remaining Tubing Trucks to pay the 40% owing on the First Tubing Truck. Huaying is about to take delivery of this major piece of equipment. Additionally the Supplier has agreed to refund the balance of deposits paid on the two remaining Tubing trucks in two tranches in September and December so allowing the Supplier time to resell these units. While this is positive it means Sino has lost the opportunity to mobilise the two remaining major pieces of equipment and to derive significant revenue and profits from them.

The Growth Opportunities for Sino in China are HUGE!

1. The Maturity of most of the major Chinese oil fields such as DaQing, Jilin, Xinjiang, Changqing and others, together with the Directive from President Xi Jinping has created a huge opportunity for Huaying's EOR services. Wherever I travelled in the NE China Oil Fields I saw "Nodding Donkey" oil pumps which were stationary. I was advised that these wells were all scheduled for EOR and that the average time between EOR treatments for these wells was every 6 to 12 months;

2. Being a private company in China, Sino's EOR crews are much leaner, more efficient and 20 to 30% lower in cost than their SOE Oil Services competitors; and

3. Huaying is evaluating opportunities to provide fracking services to its customers. In Chendu I visited the Sichuan Branch of PetroChina's subsidiary Bao Ji Oil Field Machinery Company. Bao Ji is a manufacturer of specialized Fracking Trucks and associated equipment.

Growth opportunities Internationally

Since listing on the ASX, Sino is receiving enquiries from companies in the Middle East and the USA to conduct EOR services on currently "dead" oil wells where the oil reservoirs still contain plenty of oil but which cannot be extracted by convention techniques. Discussions with one of these companies is well advanced.

Meetings with Customers

In Beijing I met with a senior executive from PetroChina, the biggest customer of Huaying. He spoke of the opportunities for private companies like Huaying to grow in the Oil field Services Industry. He advised that his company preferred to do business with Huaying because of its excellent management, technology, efficiency and lower cost.

I asked him why PetroChina's payments to Huaying had been delayed since April this year. He commented that top executives in PetroChina including the Head of DaQing Oil Field company, had been charged with fraud thought to be over the sale of old oil wells to private individuals without a tender process. The focus on corruption in SOE's by the Government had caused all administrative staff in PetroChina, particularly in DaQing to temporally slow or stop payments so show they were not corrupt. While this had nothing to do with Huaying, payments to all suppliers and Oil field services companies were being effected. He said this would be corrected but would require patience.

Huaying has now focused its operations away from the DaQing Oil field to regions where payments are more prompt.

THE CONSEQUENCES OF THE INJUNCTION

The Injunction freezing the Sino IPO funds is having a very damaging effect on the company's profitability, growth and cashflow.

1. Profitability being damaged

Huaying is currently capacity constrained and thus profit constrained. It has more EOR contracts than it can fulfill with its current equipment and leased equipment. With no funds being released from the IPO, the additional equipment needed could not be purchased. Instead Tubing Trucks have had to be leased at much higher cost than company owned Tubing Trucks. The impact of this is that Sino's profitability is being diminished.

Additionally the cost of funding the legal expenses to deal with the ASIC Injunction are negatively effecting the profitability of Sino in the current half year despite the Operating Company Huaying continuing to make good profits. However, Huaying's profit growth is being restricted by capacity constraints and being forced to lease major equipment.

2. Sino Beijing Staff Unpaid since IPO , Growth Opportunities are on hold

In anticipation of receiving the IPO funds, Sino established a Head Office in Beijing and employed Mr Guangbin Zhong (now Director and CEO), Mr Guangming He (now Deputy GM Sino) and others to drive the growth of the company both in China and internationally.

There has been no shortage of growth opportunities to pursue and some have been brought close to fruition. However, during my visit I discovered that this talented group had not been paid their salaries since they were employed as no funds have been transferred to China to pay them.
This is an untenable situation!

3. Cash flow for working capital VERY restricted

With absolutely no funds from the Sino IPO having been transferred to China to fulfil the purposes of the IPO Prospectus, working capital has been restricted.

In addition to not receiving the IPO funds, in recent months the poor payment record of PetroChina to PetroChina suppliers (including Huaying), will mean that Huaying who currently has no Bank debt will need to explore taking out a short term loan until funds are received from the IPO of from its debtors.

The cost of short term funding is likely to be high.

CONCLUSION

Sino is a well-managed, competent, well respected Oil Field Services Company in China with good proprietary technology and with well-developed expansion opportunities and plans in China and internationally

The company is being materially damaged by being prevented from using the funds provided to it by its Shareholders in the IPO.

Wrixon Gasteen
Independent Non-Executive Director
Sino Australia Oil & Gas

NB Shareholders who have not already completed the following Shareholder Questionnaire, please share your views on the Injunction by copying this Questionnaire, completing, signing and emailing it back to the company. Your views will be shared with ASIC. Sino needs your help to have the injunction lifted and enable the company to grow profits for your benefit.

The Photos from the visit can be seen attached after the Shareholder Questionnaire.

SHAREHOLDER QUESTIONNAIRE

SINO AUSTRALIA OIL AND GAS LIMITED (ACN 159 714 397)

Please complete this form and return it to Sino Australia Oil and Gas Limited ACN 159 714 397 (the **Company**) by email – info@sinoaustoil.com

Shareholder Details

Shareholder name:

Questions for Shareholder

Please answer the following questions by ticking the box for “YES” or “NO”:

Do you want the Company to have full access to the money in its Australian bank accounts before ASIC completes its investigation?

☐ YES

☐ NO

If you answered “YES” to question 1, do you want the Company to use the money in its Australian bank accounts to fund its business operations in China?

☐ YES

☐ NO

Signature of Shareholder

Signature: Date:

PHOTOS FROM THE VISIT TO CHINA

Photo 1 Sino Beijing Head Office, set up after IPO.
L to R Mr Guangming He (Dep. GM), Mr Wrix Gasteen (Director) and Mr Guangbin Zhong (CEO and Director)

Photo 2 ‘Nodding Donkey’ Oil Pumps are everywhere in DaQing City and surrounding region

Photo 3 A stationary Oil Pump means the well is in need of Enhanced Oil Recovery (EOR)

Photo 4 Huaying EOR Supervisor explains Sino’s Hydraulic Radial Jet Drilling Technology

Photo 5 Huaying getting ready to perform EOR process on a "Dead Well" at Jilin Oil Field

Photo 6 One of Huaying’s EOR teams at Jilin Oil field in front of a Tubing Truck

Photo 7 EOR operation in progress with Tubing Truck in following photo

Photo 8 Tubing Truck preforming the EOR operation at Jilin Oil Field

Photo 9 A multi stage Fracking operation in progress in a working Corn farm see next photo

Photo 10 Along side a working Corn farm, Trucks transporting fracking fluid (97% ordinary water and sand and small % Guar Gum etc) to fracking site

Photo 11 Watching the EOR operation performed by a Huaying Tubing Truck

Photo 12 Huaying EOR operator inside the Tubing Truck computerised control room, controls the whole operation over the length of the oil bearing strata deep in the well