

Sino Australia Oil and Gas Limited (Provisional Liquidator Appointed)

ACN 159 714 397 (the Company)

Report to Creditors and Investors

11 September 2015

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1 Introduction

I refer to my circular to creditors dated 1 June 2015 and my circular to investors dated 3 June 2015. As you are aware, I was appointed Provisional Liquidator of the Company on 21 May 2015 pursuant to an Order of the Federal Court of Australia (**Order**).

My appointment followed the appointment of Mr Matthew Jess and Mr Christopher Darin of Worrells Solvency and Forensic Accountants as Voluntary Administrators of the Company on 4 May 2015.

The Court ordered that I file a report in the provisional liquidation of the Company which must include, inter alia:

- Verification of each of the client service contracts described on pages 71 and 72 of the Replacement Prospectus of the Company dated 26 April 2013 (**Replacement Prospectus**);
- The identification of assets and liabilities of the Company;
- An opinion as to whether the Company has proper financial records;
- An opinion as to the solvency of the Company;
- Any other information necessary to enable the financial position of the Company to be assessed;
- Any recommendation as to further steps necessary to complete the winding up of the Company; and
- Any suspected contraventions of the Corporations Act 2001 (the **Act**) by any directors and/or officers of the Company.

Further, in accordance with the Order I am required to report to creditors and investors on my actions taken during the provisional liquidation.

I submitted my report to the Court on 4 September 2015.

Following investigations into the Company's affairs, it was my recommendation to the Court that the Company be wound up on just and equitable grounds to enable an orderly distribution of the available assets to its stakeholders. My investigations revealed that there should be sufficient funds to pay a full dividend to each class of creditor with the balances of funds to be distributed to the shareholders of the Company.

The future of the Company will be determined by the Court at the next hearing scheduled for 16 October 2015. In the meantime, I remain the provisional liquidator of the Company and will keep creditors and investors informed of all material developments.

2 Current position

2.1 Matters addressed during the liquidation

2.1.1 Attendances

Australia

The Company does not have operations or an office in Australia. It uses the offices of NKH Pty Ltd, an accounting firm in Western Australia as its registered office. NKH Pty Ltd does not and has never provided any services for the Company and is the former employer of the Company Secretary, Ms Eryn Kestel.

The officers and advisors of the Company (past and present) are located in a number of states in Australia and overseas. Therefore, the majority of correspondence with the current and former directors of the Company and its former advisors has been conducted via telephone and email.

In this regard, I have:

- Conducted telephone interviews with Mr Darin of Worrells, one of the former Voluntary Administrators of the Company, regarding information uncovered during the voluntary administration period;
- Conducted telephone interviews with Mr Simon Morris of Piper Alderman, regarding the events leading to the ASX listing of the Company and location of the Company's books and records;
- Conducted telephone interviews with Mr Simon Gray of Grant Thornton, regarding the financial accounts of the Company and requested access to Grant Thornton's files;
- Conducted telephone interviews with Mr Yee Shyang Wong, the former accountant for the Company, regarding access to the Company's books and records, including the financial accounts of the Company;
- Conducted telephone interviews with Mr Wrixon Gasteen, a current non-executive director of the Company, regarding his role in both the operations of the Company and the ASX listing;
- Attended meetings and conducted telephone interviews with representatives of ASIC regarding ASIC's knowledge of the Company's operations, the lead up to the ASX listing and location of the books and records of the Company;
- Conducted a telephone interview with Mr Wayne Johnson, a former director of the Company, regarding his role in the operations of the Company, the ASX listing and the location of the books and records of the Company;
- Conducted telephone interviews with Mr Andrew Faulkner, a former director of the Company, regarding his role in the operations of the Company, the ASX listing and the location of the books and records of the Company;
- Attended the offices of Fox Tucker in Adelaide and conducted a review of its records relating to the Company and its subsidiaries;
- Attended the offices of Piper Alderman in Sydney and conducted a review of its records relating to the Company and its subsidiaries;
- Conducted a telephone interview with Mr Brendan Connell, formerly of Fox Tucker, regarding his role in the IPO and his knowledge of the Company's operations around the time of the listing;
- Conducted a telephone interview with Mr Jeremy Rees, formerly of Fox Tucker regarding his role in the IPO; and
- Conducted a telephone interview with Mr Simon Shen, a former employee of Fox Tucker's Shanghai affiliate, regarding the location of the customer contracts of the Company and his involvement in the IPO process.

Other matters that have been attended to during my appointment include:

- Obtaining control of funds held in the Company's frozen HSBC accounts;
- Engaging legal advisors to assist with legal matters relating to the provisional liquidation;
- Effecting appropriate insurance coverage and liaising with my insurance broker regarding the Company's pre-appointment insurance policies;
- Attendance to statutory requirements;
- Communications with creditors and investors;
- Application to ASIC for financial reporting and AGM relief; and
- Website maintenance.

China

According to the Replacement Prospectus and discussions with various parties, the Company maintained a premises in China from which it's trading subsidiary, Zhaodong Huaying Oil Drilling Service Co Ltd (**Huaying**), and founder and former managing director Mr Tiangpeng Shao, operated.

I was advised that Mr Shao did not speak English, accordingly, I arranged for Ms Lauren Lau of KLC Kennic Lui & Co (**KLC**), an affiliate of Ferrier Hodgson located in Hong Kong, to attend the Company's Chinese offices and interview Mr Shao.

Upon my instructions, Ms Lau:

- Attended the Company's Chinese office located at 5 Jiangtai Road, Chaoyang District, Beijing, China and spoke with an employee of Huaying who advised that she was the only employee located in the Beijing office of Huaying. The premises appeared to be a business centre;
- Scheduled and attended a meeting with Mr Shao and his team at 4 Tuan Jie Da Jie Saertu, Daqing City, Heilongjiang Province, China (the proposed new administration office) and Level 13, Incubator Building, Science and Technology Park, Daqing City, Heilongjiang Province, China (the current administration office), to discuss the affairs of the Company and its subsidiaries and inspect the books and records of same; and
- Attended a worksite and viewed equipment purported to be owned by Huaying.

2.1.2 Constraints

Access to books and records

Gaining access to the Company's books and records was extremely time consuming and frustrated by a disconnection of management and lack of controls within the Company. This was further exacerbated by the fact that the Company did not have a physical office in Australia.

I received the following responses from officers of the Company in response to my requests for access to the Company's books and records:

- Mr Wrixon Gasteen advised that he did not hold any books and records of the Company and that he had deleted all emails relating to the Company. He further advised that Mr Wong, the Company's former internal accountant, would likely have the books and records of the Company. Upon further review, he was only able to provide copies of management reports for the period January 2014 to August 2014.

- Mr Ruiyu He provided 3,120 emails relating to the Company that he received and sent during his time as a director of the Company, which on review, the majority were superfluous to my investigations.
- Ms Eryn Kestel advised that she did not hold any books and records of the Company as she only provided secretarial services on a contract basis.
- Mr Wayne Johnson advised that he had no records in his possession and that Mr Faulkner would have all of the records as he was responsible for the preparation of the consolidated accounts.
- Mr Andrew Faulkner advised that he sent all of the books and records in his possession to Grant Thornton approximately a year ago. He further advised that ASIC had conducted a number of interviews with him and that I should refer to his statements to ASIC for further information about his involvement with the Company.
- Mr Yu Lu and Mr Zhanhua Yuan did not respond to my request for delivery of the books and records.
- Representatives of KLC travelled from Hong Kong to China to interview Mr Tiangpeng Shao, who granted access to minimal books and records for Huaying, available on site.

I received the following responses from the Company's advisors in response to my request for access to the books and records:

- Mr Simon Gray of Grant Thornton advised that Grant Thornton did not hold any books and records of the Company, only its audit working papers. Mr Gray further advised that all of the Company's books and records in his possession were sent to Mr Yee Shyang Wong and provided an email indicating that the books and records had been forwarded to Mr Wong on 21 August 2014.
- Mr Wong advised that:
 - He was employed by the Company after the Replacement Prospectus was lodged on a contract basis and ceased to be engaged by the Company in or around February 2015. He did not have a formal office and was not in possession of any physical records of the Company. Further, that he used his personal computer for maintaining the Company's accounts and his personal email address (gmail) for all written correspondence in relation to the Company;
 - He did not have any electronic files relating to the books and records of the Company and was not sure if he had any emails regarding same;
 - There was no central storage system for the Company's books and records (electronic or paper) in Australia;
 - The subsidiary in China did all of the Company's accounting, which was then filtered to him via Grant Thornton;
 - The Company did not maintain its accounts on a computerised account software package and recorded its financial information manually using Microsoft Excel; and
 - There were no paper records maintained by the Company.
- Mr Simon Morris advised that his legal file comprised 50-80 folders relating to the Company, however, Fox Tucker held the majority of the files. My staff travelled to Piper Alderman's Sydney offices to review the books and records held by Piper Alderman.

These contained mainly legal correspondence in relation to the proceedings issued by ASIC.

- Ms Janet Miller of Fox Tucker initially advised that Fox Tucker held three boxes of records relating to the Company. After further probing she identified a further four boxes relating to Huaying. Whilst I was originally denied access to the records of Huaying on the basis that I was not appointed provisional liquidator of that entity, after further correspondence I was granted access to the books and records held by Fox Tucker relating to both the Company and Huaying. My staff travelled to Adelaide to inspect the books and records held by Fox Tucker. These records comprised mainly unsorted and uncatalogued copies of emails between Fox Tucker employees and the Company.

Communication barriers

Huaying is located in a remote area of China in the Heilongjiang Province near the Mongolian border. A number of the current and former directors of the Company do not speak English, therefore written and verbal communication with these directors was problematic. Further, most of the documents provided in relation to Huaying were written in Mandarin.

During the course of my investigations I was reliant on pre-existing translation of documents, and I have also relied on members of my staff who are fluent in Mandarin and representatives of KLC to translate additional documents written in Mandarin and liaise with non-English speaking parties.

Government constraints (China)

Based on discussions with both the directors of the Company and Ms Lau, it appears that when contracting with Chinese government owned entities, the ultimate customer of the Company may not be the same as the contracting party (i.e. could be a subsidiary or related party of the contracting entity). Accordingly, any enquiries with respect to the contract, using the name of the contracting party may return a negative result (i.e. that the contract does not exist).

In this regard, KLC were unable to make independent enquiries into the existence of the contracts listed in the Replacement Prospectus without knowing if the contracts related to the listed party on the contract or a subsidiary entity.

Further, in China enquiries of government bodies regarding corporate entities, both private and public, must be made in person at the local government office in the province in which the specific entity was incorporated. Further, meetings with representatives of government bodies are by appointment only and require significant notice.

Given the time constraints in conducting investigations and reporting to the Court and the difficulty in identifying the correct debtor entity of Huaying, I was not able to make independent enquiries of third parties in China to confirm the existence of the contracts listed in the Replacement Prospectus.

2.1.3 Independence

There has been no change to my independence since my last correspondence to creditors dated 3 June 2015.

2.2 Liquidators' realisations to date

2.2.1 Summary of receipts and payments

A summary of the receipts and payments in the liquidation to date is provided below:

	Total (Incl. GST) \$
Receipts	
Cash at bank	5,492,244
Interest income	19,577
Total receipts	5,511,821
Payments	
Website maintenance	(1,986)
Advertising	(711)
ASX Listing fees	(27,500)
Legal fees	(46,284)
Document production	(1,460)
Company secretarial fees	(2,200)
Total payments	(80,141)
Cash at bank at 27 August 2015	5,431,680

2.2.2 Asset realisations

I have set out below a summary of the RATA for the Company as submitted to me by the Director showing the ERV of assets, together with realisations to date applicable to those assets:

	RATA ERV \$	Realisations to date \$
Cash at bank	5,400,000	5,492,244
Sundry debtors	Nil	Nil
Stock on hand	Nil	Nil
Work in progress	Nil	Nil
Plant and equipment	Nil	Nil
Shareholdings in subsidiaries	Nil	Nil
Total assets	5,400,000	5,492,244

I make the following comments in relation to asset realisations:

2.2.2.1 *Cash at bank*

The Company held three bank accounts with HSBC which had the following balances as at the date of my appointment:

Account number	Balance on appointment \$
011-475068-002	180
011-475-068-001	424,288
011-475068-051	5,067,767
Total	5,492,244

Following my appointment, I made contact with HSBC and arranged for the funds to be transferred into a liquidation account. The bulk of the funds have subsequently been deposited into a term deposit.

2.2.2.2 *Other assets*

The RATA did not disclose any other assets held by the Company

2.2.2.3 *Other asset enquiries*

A search of the databases maintained by VIC Roads, the Roads & Maritime Service and the Land & Property Information Service has not identified any vehicles or real property registered in the name of the Company.

2.2.2.4 *Shareholdings*

Lishida

The Company's only other asset is its 100% shareholding in Lishida Development (HK) Ltd (**Lishida**). Lishida was incorporated on 2 August 2011 in Hong Kong. On 2 August 2012 the Company became the sole director and shareholder of Lishida following a transfer of shares.

Mr Shao advised that Lishida was acquired at a time when he was considering listing the business on the Hong Kong stock exchange. Notwithstanding the decision was subsequently made to list the business in Australia, it was decided that Lishida should remain in the corporate structure of the Group.

Lishida undertakes no business other than to hold shares in Daqing Huao Shengfeng Oil Field Technology Co Ltd (**Daqing**).

Daqing

Daqing was incorporated on 17 April 2012 in China. I understand that Daqing was incorporated to act as the holding company of HuaYing to overcome the Chinese foreign investment regime. On 10 August 2012 Daqing acquired 100% of the shares of HuaYing from its shareholders Mr Hongfang Guan and Mr Tianxiang Shao, the brother of Mr Shao.

Daqing does not undertake any business other than to hold shares in Huaying.

Huaying

Huaying was incorporated on 24 December 2009 in China and is the only operating entity within the Group. It operates a technical services business, providing radial oil well drilling services to various Chinese government owned enterprises, primarily operating in the Daqing Oilfield in North East China.

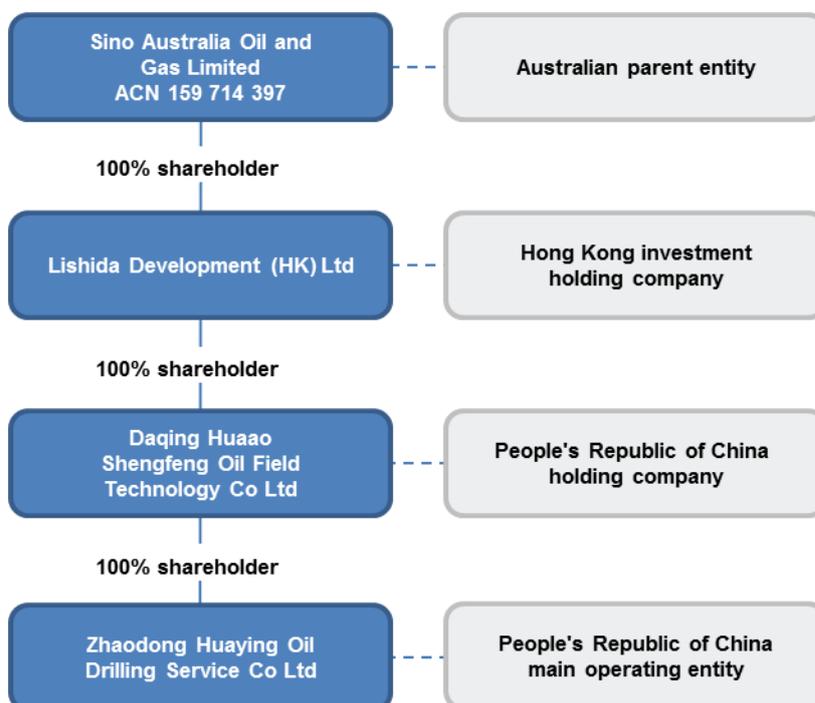
The technology developed by Huaying is said to improve the recovery efficiency of the oil or gas asset and lengthen its production life. I understand that since the significant drop in oil prices during 2015 the demand for Huaying's services has deteriorated.

Further, a large component of Huaying's current assets relate to trade debtors. I understand the majority of these debtors are Chinese government owned entities that are notoriously slow payers and, at present, are currently prevented from paying their suppliers due to an anticorruption investigation. As a result, Huaying has become reliant on the Company to pay its trading liabilities as and when they fall due.

Based on the above, if demand for Huaying's services remains low and the Chinese government does not lift the restriction on its subsidiaries paying their suppliers, it is likely that without a significant cash injection, Huaying is likely to become insolvent in the near future, if it is not insolvent already.

Accordingly, I consider that the value of the Company's interests in its subsidiaries is likely to be immaterial, if anything at all.

The corporate structure of the group is illustrated below:



3 Investigation into the Company's affairs

My report to the Court on the outcome of my investigation into the affairs of the Company was filed on 4 September 2015.

The salient points from my investigation are summarised below.

3.1 Statutory information

The Company was incorporated on 31 July 2012.

The ASIC records reveal the following statutory information in relation to the Company at the date of my appointment:

3.1.1.1 Location

Location	Address
Registered office	Level 2, 100 Railway Road, Subiaco, WA, 6008
Principal place of business	Level 2, 100 Railway Road, Subiaco, WA, 6008

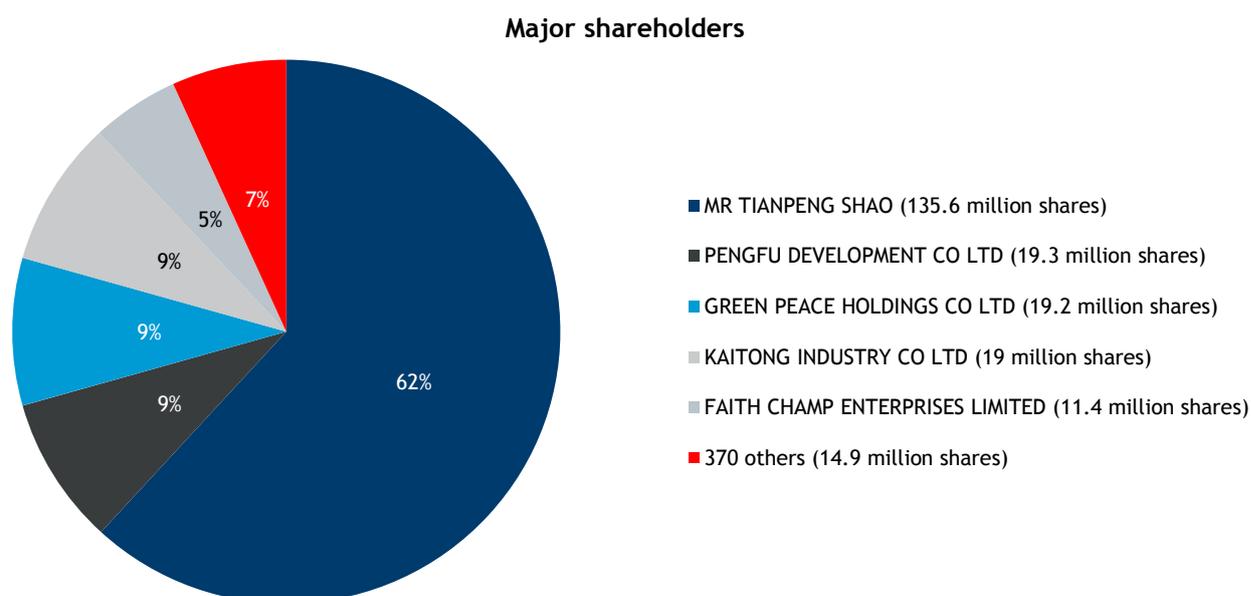
3.1.1.2 Office holders

Office held	Name	Date appointed	Date ceased
Director	George Georgiou	31-Jul-12	19-Sep-12
Director	Gordon Miksza	31-Jul-12	19-Aug-12
Director	Andrew Faulkner	29-Oct-12	28-Mar-14
Director	Wayne Johnson	29-Oct-12	26-Mar-14
Director	Heyan Wang	26-Feb-14	4-Mar-14
Director	David Cornwall	19-Mar-14	22-Oct-14
Director	Tianpeng Shao	31-Jul-12	22-Oct-14
Director	Guangbin Zhong	19-Mar-14	1-May-15
Director	Ruiyu He	26-Feb-14	N/A
Director	Wrixon Gasteen	19-Mar-14	N/A
Director	Tianxiang Shao	22-Oct-14	N/A
Director	Yu Lu	22-Oct-14	N/A
Director	Zhanhua Yuan	22-Oct-14	N/A
Secretary	George Georgiou	31-Jul-12	19-Sep-12

Secretary	Andrew Faulkner	29-Oct-12	28-Feb-14
Secretary	Eryn Kestel	3-Mar-14	N/A

3.1.1.3 Shareholders

A search of the ASIC database confirms that at the date of my appointment, the Company had issued 219,429,028 shares with paid up capital of \$13,129,414. The spread of the current shareholding is summarised as follows:



3.2 History of the Company and reasons for its failure

3.2.1 History of the Company

Huaying is a technical services company providing radial oil well drilling services for oil drilling companies. It primarily operates in the Daqing Oilfield in North East China. The technology developed by Huaying is said to improve the recovery efficiency of the oil or gas asset and lengthen its production life.

The Company was created for the purpose of raising additional capital to fund development for Huaying via an IPO and listing on the ASX.

The Company did not operate a business itself and its primary asset was its investment in Lishida. The Company bore the costs relating to listing on the ASX such as professional services fees and listing fees which were paid for with funds raised from the IPO.

After a number of supplementary and replacement prospectuses were issued, the Company's shares commenced trading on the ASX on 12 December 2013.

A detailed timeline of events leading up to the appointment of the Provisional Liquidator is attached at Annexure 1.

3.2.2 Reasons for failure

On 28 February 2014 Company directors Mr Wayne Johnson and Mr Andrew Faulkner alerted ASIC on the fact that Mr Shao intended to transfer \$7.5 million of funds raised from the IPO to an unknown Chinese bank account.

ASIC applied to the Court and obtained a Court order to freeze the Company's bank accounts on 14 March 2014.

ASIC also commenced an investigation into the affairs of the Company with a particular focus on representations made in the Company's Replacement Prospectus, issued on 26 April 2013.

ASIC's investigations included:

- Liaising with the past and present directors of the Company;
- Requesting source documents relating to the statements contained in the Replacement Prospectus;
- Reviewing correspondence received from the directors of the Company;
- Liaising with its counterpart in China regarding the status of the subsidiaries;
- Independent enquiries of parties to the customer contracts identified in the Replacement Prospectus;
- Examinations of a number of past and present directors of the Company pursuant to Section 19 of the Act; and
- Reconciling information received with the statements in the Replacement Prospectus.

ASIC was unable to reconcile the statements made in the Replacement Prospectus with the information received during its investigation.

On 16 April 2015, ASIC issued a letter to the Company's former solicitors, advising that it had spent considerable time attempting to verify the content of the Replacement Prospectus regarding Huaying's operations and requesting that they provide explanation on the discrepancies identified during the course of their investigation.

ASIC concluded that the Replacement Prospectus had vastly overstated Huaying's business, particularly with respect to material customer contracts that it claimed to have secured and statements that Huaying has been granted patents for the development of drilling technology. The ASIC letter remained unanswered.

On 4 May 2015 the Company appointed Voluntary Administrators citing the ASIC investigation and uncertainty of its financial position due to difficulty in dealing with day to day operational matters as the main reasons for the appointment.

Given the serious concerns raised by ASIC following their investigation, on 19 May 2015, ASIC applied to the Court to appoint me as Provisional Liquidator of the Company to conduct further investigations into the Company's affairs.

3.3 IPO Investigations

My investigation into the affairs of the Company included key statements made in its Replacement Prospectus which ASIC was unable to reconcile with information obtained during its investigation. My findings in this regard are summarised below.

3.3.1 Customer contracts

Pages 71 and 72 of the Replacement Prospectus identified 16 contracts between Huaying and various state owned entities in China for the extraction of oil and/or gas from 1,260 wells during the 2012 calendar year.

ASIC was able to confirm the existence of 7 contracts in respect of 15 wells from various sources including, The Chinese Securities Regulatory Commission, the Company and employees of purported customers of the Company

In order to assess the accuracy of the information contained in the Replacement Prospectus I have carried the following tasks:

- Reviewed all documents in my possession;
- Requested copies of customer contracts from ASIC, Piper Alderman, Fox Tucker, Grant Thornton, Brendan Connell, Mr Shao, Mr Gasteen, Mr Johnson, Mr Faulkner and Mr He;
- Reviewed the due diligence reports prepared by Fox Tucker and Grant Thornton and the relevant annexures and working papers;
- Inspected all legal files of the Company held by Fox Tucker and Piper Alderman;
- Reviewed emails attachments provided by Mr He, Fox Tucker and Piper Alderman;
- Reviewed materials provided by ASIC; and
- Attended the Company's premises in China.

My enquiries into the customer contracts listed in the Replacement Prospectus uncovered 10 customer contracts relating to 187 wells.

Therefore, there is a significant discrepancy between the customer contracts listed in the Replacement Prospectus and the customer contracts that I was able to obtain from the limited information available during my investigations into the affairs of the Company.

However, given the contracts identified throughout this report and conflicting advice that I received from various parties in relation to the existence of these contracts, further investigation, including public examinations of current and former directors and advisors, would be required to determine categorically whether or not the information relating to the customer contracts in the Replacement Prospectus was misleading.

3.3.2 Convertible notes

On or around 27 February 2013, the Company issued Convertible Notes to 14 Chinese investors at a value of \$3,205,111.73 (¥20,462,662.48) with the intention that the Convertible Notes would be redeemed for ordinary shares in the Company on listing on the ASX. On conversion one fully paid ordinary share in the Company would be issued for:

- every \$0.50 in value of each Convertible Note held; and
- every \$0.50 of interest accrued but not paid on the Convertible Note.

These shares would rank pari passu with all other ordinary shares of the Company.

My enquiries into the Convertible Notes issue revealed that the Company had provided to ASIC documents which stated that the proceeds from the Convertible Notes were deposited into an offshore bank account with Longjiang Bank, Daqing branch, China in the name of Huaying.

During her attendance at the Chinese offices of the Company, Ms Lau reviewed both the management accounts of Huaying for the years ended 31 December 2010 to 31 December 2014 and the aforementioned bank account statements for the period 1 January 2013 to 9 April 2015. Ms Lau was unable to specifically identify bank deposits in relation to the Convertible Notes proceeds.

Mr Shao advised that only some of the proceeds from the Convertible Notes were deposited into the aforementioned bank account and the balance was paid in cash. Ms Lau was not able to obtain further information regarding the amounts deposited or paid in cash, nor was she able to obtain an explanation as to the ultimate use of the amounts paid in cash.

My review of the Company's Australian bank accounts indicates that the proceeds from the Convertible Notes were never paid into the Company's Australian bank accounts

Given that not all of the proceeds from the Convertible Notes were received by the Company or its subsidiaries, accounting for the proceeds as cash or cash equivalent in the Company's forecast Statement of Financial Position with respect to the pro forma minimum and maximum subscription estimated on page 3 of the Replacement Prospectus may have been misleading.

3.3.3 Patents

The Replacement Prospectus indicates throughout that Huaying held fully registered patents for Radial Hydraulic Jet Drilling Technology and Radial Drilling System Working Status Monitoring Devices (Patents), granted by the Intellectual Property Office of the People's Republic of China.

My investigations into the validity of the Patents included:

- A search of the State Intellectual Property Office of the Peoples Republic of China for the Patents registration information;
- Research into the patent application process in China;
- Review of statements made by the directors and their advisors regarding the status of the Patents; and
- Review of the available books and records for correspondence and documentation surrounding the Patents.

My investigations into the Patents revealed that while Huaying did lodge applications to register the Patents and the applications received preliminary approval by the relevant authority, the approval process was not finalised within the required timeframe and the preliminary approval for the Patents expired.

Accordingly, at the time of issuing the Replacement Prospectus HuaYing did not hold any registered patents.

3.4 Books and records

Section 286 of the Act requires a company to keep written financial records that correctly record and explain the company's transactions, financial position and performance and would enable true and fair financial statements to be prepared. The financial records must be retained for a period of seven years after the transactions covered by the records are completed.

The failure to maintain books and records in accordance with Section 286 provides a rebuttable presumption of insolvency which might be relied upon by a Liquidator in an application for compensation for insolvent trading.

I was advised by the following officers of the Company that they did not hold any books and records relating to the Company:

- Mr Tianpeng Shao
- Mr Wrixon Gasteen
- Mr Wayne Johnson
- Mr Andrwe Faulkner
- Ms Eryn Kestel

Notwithstanding, I was able to access copies of the Company's financial statements from the ASX website and obtained various other financial information from the Company's advisors and ASIC. However, the books and records available were not sufficient to support the financial statements of the Company or its subsidiaries.

Based on my review of the books and records received, I am of the opinion that the Company's books and records were not maintained in accordance with Section 286 of the Act.

3.5 Surplus / Deficiency statement

A RATA is a statement by a director or officer of a company setting out the assets and liabilities of a company as at a specific date. Pursuant to Section 475(1) of the Act, a director is required to submit a RATA to a liquidator within 14 days of the Order.

In this regard, I wrote to all current directors of the Company on 27 May 2015 notifying them of their responsibilities while the Company is in provisional liquidation and requesting that they submit a RATA for the Company.

Following my initial request, I received RATAs from three of the five current directors. Below is a summary of the RATAs received:

\$	Yu Lu	Ruiyu He (Perry)	Wrixon Gasteen
Circulating assets (net of PMSI claims)			
Cash at Bank	5 + Million	5,400,000	-
Total circulating assets (net of PMSI claims)	5 + Million	5,400,000	-
Less: Priority creditors (employee entitlements)		(39,300)	-
Balance of circulating assets (after priority claims)	5 + Million	5,360,700	-
Non-circulating assets (net of PMSI claims)			
Shares in subsidiaries	-	-	-
Total non-circulating assets (net of PMSI claims)	-	-	-
Less: Secured creditors (All PAAP security interests)	-	-	-
Net assets available for unsecured creditors	5 + Million	5,360,700	-
Less: Unsecured creditors	-	Unknown	-
Less: Contingent liabilities	-	-	-
Total creditors	-	-	-
Estimated surplus/(deficiency)	5 + Million	5,360,700	-

Based on the RATAs received from the Directors and my investigations, the following is an indication of my current assessment as to the ERV of the assets and liabilities of the Company. For the purpose of my analysis I have used the rata of Mr He as it is has the most detail:

\$	RATA ERV	Provisional Liquidator's ERV High	Provisional Liquidator's ERV Low
Assets			
Cash at bank	5,400,000	5,492,244	5,492,244
Interests in subsidiaries	Nil	Nil	Nil
Total assets	5,400,000	5,492,244	5,492,244
Liabilities			
Priority creditors	(39,300)	Nil	(578,980)
Unsecured creditors	Nil	Nil	(336,908)
Total liabilities	(39,300)	(850,562)	(915,888)
Estimated surplus	5,360,700	4,641,682	4,576,356

My comments in relation to the above are as follows:

3.5.1 Assets

Please refer to my comments at section 2.2.2 in relation to asset realisations.

3.5.2 Liabilities

3.5.2.1 *Priority creditors*

My investigations indicated that at the date of my appointment the Company may have employed 15 employees located in Beijing and Heilongjiang, China. Further investigations revealed 14 employee contracts with start dates ranging from 1 June 2014 to 21 October 2014.

Given that the Company does not trade it is unclear whether the Company or Huaying is the employing entity for these employees.

For the purposes of this report I have assumed that in a low ERV scenario the employee contracts are valid and the Company is liable for outstanding employee entitlements.

Based on the information I have reviewed, I estimate claims by employees to be \$582,787 comprised of:

Employee entitlements	Amount \$
Wages	486,885
Annual leave	69,133
PILN	22,962
Total	578,980

A liquidator, if appointed, would conduct further investigations into the validity of the 14 employment contracts and any claims that may be submitted by purported employees of the Company.

3.5.2.2 *Unsecured creditors*

The directors' RATAs did not disclose any amounts outstanding to unsecured creditors of the Company.

I have not called for creditors to formally or informally prove their claims against the Company and as such I have relied on information received to estimate the Company's liability to unsecured creditors.

Based on information available, I estimate the Company's liability to unsecured creditors to be \$336,908 principally comprised of the outstanding services fees and directors fees.

3.6 Solvency

Given that the Company had a positive net asset position and was not experiencing cash flow difficulties, it is my preliminary opinion that the Company was solvent as at the date of my appointment.

However, given the significant deterioration of Huaying's business, had the Company completed the transfer of \$7.5 million on 13 December 2013 it would have had insufficient funds to meet its ongoing obligations and was likely to become insolvent within the next 12 months.

Further, if the content of the Replacement Prospectus was found to be materially misleading and shareholders decided to commence an action against the Company, it is likely that the Company will have insufficient assets to meet a judgement against it.

3.7 Potential breaches of the Act

My investigations have identified the following potential breaches of the Act by the Company's directors:

3.7.1 Section 127

Section 127 of the Act provides that a company may execute a document without using the company seal if the document is signed by two directors of the company or a director and the secretary of the company.

My investigations revealed that the Convertible Notes were not properly executed in accordance with Section 127 of the Act.

3.7.2 Sections 180 & 181

Section 180 of the Act requires that directors and other officers of a corporation must exercise their powers in the discharge of their duties with a degree of care and diligence.

Pursuant to Section 181 of the Act, a director or other officer of a corporation must exercise their powers and discharge their duties in good faith in the best interests of the corporation and for a proper purpose.

My investigations indicate that the directors of the Company may have breached their obligations pursuant to Sections 180 and 181 of the Act in the following circumstances:

- Failure to ensure that the content of the Replacement Prospectus was accurate;
- Failure to ensure that the Company maintained proper books and records pursuant to Section 286 of the Act;
- Failure to execute documents in accordance with Section 127 of the Act;

- Failure to lodge the Company's periodic report for the period ended 31 December 2013 by the due date, resulting in the Company being suspended from the Official Listing;
- Failure to pay the 2014 annual listing fee by the due date resulting in the Company being suspended from the Official Listing; and
- Failure to comply with ASIC's requests for information, causing the Company's Australian bank accounts to be frozen pursuant to an order of the Court and subsequently be placed into provisional liquidation.

3.7.3 Section 286

Section 286 of the Act provides that a company must keep written financial records that:

- Correctly record and explain its transactions and financial position and performance; and
- Would enable true and fair financial statements to be prepared and audited.

Section 288(1) of the Act requires that if the records of a Company are kept electronically then they must be made available, within a reasonable time, to a person who is entitled to inspect the records.

I was advised by the following officers of the Company that they did not hold any books and records relating to the Company:

- Mr Shao
- Mr Gasteen
- Mr Johnson
- Mr Faulkner
- Ms Kestel

Notwithstanding, I was able to access copies of the Company's financial statements from the ASX website and obtained various other financial information from the Company's advisors and ASIC. However, the books and records available were not sufficient to support the financial statements of the Company or its subsidiaries.

3.7.4 Section 674

Pursuant to Section 674 of the Act, the Company has an obligation of continuous disclosure to report to the market any material changes in the status of the Company.

My investigations indicate that the Company failed to disclose to the market the following events:

- A decline in the Company's performance by circa 39% compared to forecast for the period 31 December 2013 in the Replacement Prospectus;
- Identification of a misstatement in the Replacement Prospectus regarding the status of the Patents;
- Huaying's bank loan of circa ¥111.5 million from as early as 2012; and
- Huaying's investment in a Chinese entity on 5 December 2011 (40.05% shareholding) and the subsequent disposal of shares on 25 February 2015.

3.7.5 Section 710

Pursuant to Section 710 of the Act, a prospectus for a body's securities must contain all the information that investors and their professional advisers would reasonably require to make an informed assessment.

As discussed in Section 3.3 of this report, it appears that there may have been material misstatements in the Replacement Prospectus with respect to Huaying's operations and the registration of the Patents.

3.7.6 Section 724 (1)

Pursuant to Section 724(1) of the Act, if a person offers securities under a disclosure document and the person becomes aware that the disclosure document contains a misleading or deceptive statement the person must either:

- a) repay the money received by the person from the applicants; or
- b) give the applicants:
 - i. the documents required by subsection (3); and
 - ii. 1 month to withdraw their application and be repaid; or
- c) issue or transfer the securities to the applicants and give them:
 - i. the documents required by subsection (3); and
 - ii. 1 month to withdraw their application and be repaid.

My investigations revealed a draft corrective advertising notice advising shareholders of the error with respect to the Patents' status in the Replacement Prospectus.

Accordingly, at some point the directors of the Company became aware that there was a misstatement in the Replacement Prospectus relating to the Patents. However, the draft corrective notice was not published.

3.7.7 Section 728

Pursuant to Section 728 of the Act, a person must not offer securities under a disclosure document if there is a misleading or deceptive statement in the document.

As discussed in Section 3.3 of this report, it appears that there may have been material misstatements in the Replacement Prospectus with respect to Huaying's operations and the registrations of the Patents.

3.7.8 Section 1041H

Pursuant to Section 1041H of the Act, a person must not, in this jurisdiction, engage in conduct, in relation to a financial product or a financial service, that is misleading or deceptive or is likely to mislead or deceive.

As discussed in Section 3.3 of this report, there were a number of potential material misstatements in the Replacement Prospectus.

A liquidator, if appointed, would conduct further investigations into the breaches of the Act identified above and lodge a report with ASIC pursuant to Section 533 of the Act.

3.8 Recommendation to the Court

After careful considerations of the options available for the Company, I have recommended that the Court order the Company be wound up on just and equitable grounds pursuant to Section 461(1)(k) of the Act. This would enable the orderly winding up of the Company and enable a formal procedure to distribute the Company assets to the creditors and shareholders of the Company.

4 Return to creditors and investors

Any return to creditors will be dependent on the decision of the Court with regards to the future of the Company.

If the Company is wound up on just and equitable grounds, there will be sufficient funds available to a Liquidator to permit the payment of a dividend of 100 cents in the dollar to all classes of creditors of the Company.

The balance of funds is likely to be distributed to the different classes of shareholders of the Company. Given the findings of my investigations, it may be necessary for a special referee to be appointed to determine the priority of such distributions.

The timing of payment of any class of dividend to unsecured creditors and investors will depend on the decision of the Court and the timing of any winding up order.

A further update will be provided to creditors and investors once the Court decision is known.

In the meantime should you have any questions, please contact Mr Thomas Mariani of this office on 03 9604 5126 or via email to Thomas.Mariani@fh.com.au.

Dated this 11th day of September 2015



Peter McCluskey
Provisional Liquidator

Glossary of terms

Abbreviation	Description
\$	Australian dollars
ACN	Australian Company Number
Act	The Corporations Act 2001
ARITA	Australian Restructuring Insolvency & Turnaround Association
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Company	Sino Australia Oil and Gas Limited
Daqing	Daqing Huao Shengfeng Oil Field Technology Co Ltd
ERV	Estimated Realisable Value
GST	Goods and Services Tax
Huaying	Zhaodong Huaying Oil Drilling Service Co Ltd
Incl.	Including
Lishida	Lishida Decelopment (HK) Ltd
IPO	Initial Public Offer
KLC	KLC Kennic Lui & Co
RATA	Report as to Affairs
WA	Western Australia

Timeline

Below is a timeline of the events leading up to the appointment of the Provisional Liquidator.

24-Dec-09	—	Huaying
02-Aug-11	—	Lishida incorporated in Hong Kong
02-Sep-11	—	Patent application 201110259648 filed
08-Oct-11	—	Patent application 201110303222 filed
05-Jan-12	—	DW Fox Tucker introduced
01-Mar-12	—	Huaying business plan completed
23-Mar-12	—	DW Fox Tucker engagement letter executed
02-Apr-12	—	DW Fox Tucker Due Diligence plan circulated
17-Apr-12	—	Daqing incorporated in China
21-May-12	—	Huaying purchased drilling equipment from Guisen Shao, father of Tianpeng Shao for RMB 30,431,450
01-Jun-12	—	Jiahua Law Firm provide legal opinion on the prospectus
04-Jul-12	—	Jiu Hua Law Firm due diligence report received
30-Jul-12	—	MDS Financial Group Limited execute Binding Mandate Agreement
31-Jul-12	—	Sino Australia Oil and Gas Limited incorporated in Australia
31-Jul-12	—	Shao, George Georgiou (Georgiou) and Gordon Miksza (Miksza) become directors of Sino
02-Aug-12	—	Sino acquired 100% of the shares of Lishida
07-Aug-12	—	Due diligence planning memorandum circulated to due diligence committee
07-Aug-12	—	Share transfer agreement caused subsidiaries to become owned by Sino
10-Aug-12	—	1st due diligence committee meeting
10-Aug-12	—	Daqing 100% shares in Huaying
17-Aug-12	—	2nd draft of prospectus circulated
19-Aug-12	—	Death of Miksza
24-Aug-12	—	2nd due diligence committee meeting

12-Sep-12	3rd due diligence committee meeting
13-Sep-12	4th draft of prospectus circulated
19-Sep-12	Georgiou resigned as a director of Sino
29-Oct-12	Andrew Faulkner (Faulkner) and Wayne Johnson (Johnson) become directors of Sino
12-Dec-12	Sino securities admitted for quotation
24-Jan-13	Final draft of due diligence report circulated
15-Feb-13	Grant Thornton IAR report completed
22-Feb-13	Shao approves legal due diligence report
24-Feb-13	Johnson circulates final draft of prospectus
27-Feb-13	Convertible notes issued
28-Feb-13	Johnson acknowledged conflict in sign off on due diligence on behalf of MDS
28-Feb-13	Due diligence report signed off
28-Feb-13	Sino issued a prospectus
04-Mar-13	7th version of prospectus circulated
07-Mar-13	ASIC expresses concern over lack of information relating to contracts
01-Apr-13	Huaying contracted to purchase 2 continuous oil supply machines for \$13.11 m from Zhaodong Dalu Oil Machinery Manufacturing Co Ltd
26-Apr-13	Replacement Prospectus issued
26-Jul-13	Supplementary prospectus issued
01-Aug-13	Huaying contracted to purchase 1 continuous oil supply machine for \$6.56 m from Zhaodong Dalu Oil Machinery Manufacturing Co Ltd
09-Aug-13	2nd supplementary prospectus issued
25-Oct-13	3rd supplementary prospectus issued
11-Dec-13	Sino listed on the ASX
12-Dec-13	Sino IPO closure
13-Dec-13	Shao asked Johnson to co authorise a transfer of \$7.5 million to the ICBC
26-Feb-14	Ruiyu He (He) and Heyan Wang (Wang) appointed as directors of Sino
28-Feb-14	Faulkner resigned as company secretary of Sino

28-Feb-14	Letter of complaint issued to ASIC from Faulkner and Johnson
02-Mar-14	Johnson object to the legitimacy of He and Wang as directors
03-Mar-14	Sino securities suspended from official quotation
09-Mar-14	Directors resolved not to hold a shareholders meeting as requested by a shareholder under section 249D of the Corporations Act 2001
09-Mar-14	Directors resolved to terminate Pitcher Partners as their accountants
09-Mar-14	Directors resolved to appoint Yee Shyang Wong as CFO
09-Mar-14	Directors resolved to terminate Fox Tucker as lawyers
14-Mar-14	Sino's bank accounts frozen pursuant to the Freezing Order
19-Mar-14	David Cornwell (Cornwell), Wrixon Gasteen and Guangbin Zhong (Zhong) appointed as directors of Sino
26-Mar-14	Faulkner resigned as a director of Sino
28-Mar-14	Johnson resigned as a director of Sino
02-Jun-14	Zhong appointed as CEO of Sino
22-Oct-14	Cornwell and Shao resigned as directors of Sino
22-Oct-14	Tianxiang Shao, Yu Lu and Zhanhua Yuan appointed as directors of Sino
04-Mar-15	Wang resigned as a director of Sino
16-Apr-15	ASIC issues a letter to Sino requesting confirmation of information in the prospectus
01-May-15	Zhong resigned as a director of Sino
04-May-15	Sino appoint voluntary administrators
21-May-15	Provisional liquidator appointed to Sino