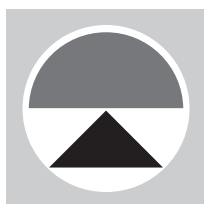


THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect about this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **MIE HOLDINGS CORPORATION**, you should at once hand this circular to the purchaser or transferee, or to the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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MIE HOLDINGS CORPORATION

MI能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1555)

**CONTINUING CONNECTED TRANSACTIONS —
RENEWED OILFIELD SERVICES AGREEMENT**

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



A letter from the Board is set out on pages 4 to 9 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 10 of this circular. A letter from China Galaxy International (as defined in this circular), the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 24 of this circular.

A notice convening the AGM to approve, among other things, the Continuing Connected Transactions and the relevant annual caps, together with the proxy form for such purpose will be dispatched separately to the Shareholders in or around April 2013.

21 January 2013

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the meanings respectively set opposite to them:

“AGM”	the annual general meeting of the shareholders of the Company, which is expected to be convened in or around May 2013, to approve, among other things, the Continuing Connected Transactions and the relevant annual caps
“Announcement”	the announcement of the Company dated 31 December 2012 in relation to, <i>inter alia</i> , the Continuing Connected Transactions
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Company”	MIE Holdings Corporation (stock code: 1555), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the Renewed Oilfield Services Agreement and the transactions contemplated thereunder
“controlling shareholder”	has the meaning ascribed to in under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“Guotai Technology”	Songyuan Guotai Petroleum Technology Service Company (松原市國泰石油科技服務有限公司), a company incorporated in the PRC and a wholly owned subsidiary of Jilin Guotai
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFA” or “China Galaxy International”	China Galaxy International Securities (Hong Kong) Co., Limited, a corporation licensed to carry out business in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions and the relevant annual caps

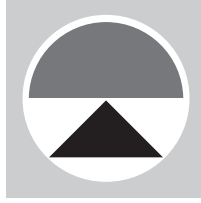
DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, to consider the terms of Continuing Connected Transactions and the relevant annual caps
“Independent Shareholders”	Shareholders other than Mr. Zhang, Mr. Zhao and their respective associates
“Jilin Guotai”	Jilin Guotai Petroleum Development Company (吉林省國泰石油開發有限公司), a company incorporated in the PRC and held as to 70% by Mrs. Zhang and 30% by Mr. Zhao
“Jilin Guotai Group”	Jilin Guotai, Guotai Technology and their respective subsidiaries from time to time
“Latest Practicable Date”	14 January 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Oilfield Services Agreement”	the framework agreement dated 23 November 2010 entered into between Jilin Guotai and the Company under which Jilin Guotai agreed to provide to the Company from time to time various oilfield services including well maintenance services, well logging services, fracturing services, oil tanker transportation services, oilfield construction related works and other oil operations related services
“PCR”	Pan-China Resources Ltd., a corporation formed under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
“PetroChina”	PetroChina Company Limited, an independent third party
“PRC”	the People’s Republic of China and for the purpose of this circular excluding Taiwan, Hong Kong and the Macau Special Administrative Region
“Prospectus”	the prospectus issued by the Company dated 1 December 2010 in relation to the initial public offering of the Company on the Main Board of the Stock Exchange

DEFINITIONS

“Renewed Oilfield Services Agreement”	the framework agreement entered into on 31 December 2012 between Jilin Guotai, Guotai Technology and the Company, pursuant to which Jilin Guotai and Guotai Technology agreed to provide, and procure that their respective subsidiaries provide, to the Group from time to time the Oilfield Services
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Sino Gas”	Sino Gas & Energy Limited (ACN 115 316 599), a public limited liability company incorporated under the laws of Perth, Australia
“Shareholder(s)”	registered holder(s) of share(s) in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the Listing Rules

LETTER FROM THE BOARD



MIE HOLDINGS CORPORATION

MI能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1555)

Non-executive Directors

Mr. Wang Sing
(Mr. Tsang Chi Kin is alternate to Mr. Wang Sing)

Executive Directors

Mr. Zhang Ruilin
Mr. Zhao Jiangwei
Mr. Forrest Lee Dietrich
Mr. Allen Mak

Independent Non-executive Directors

Mr. Mei Jianping
Mr. Jeffrey W. Miller
Mr. Cai Rucheng

Registered Office

Maples Corporate Services Limited
P.O. Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

*Principal Place of Business
in Hong Kong*

Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

21 January 2013

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS —
RENEWED OILFIELD SERVICES AGREEMENT**

INTRODUCTION

Reference is made to the Announcement in respect of, *inter alia*, the entering into of the Renewed Oilfield Services Agreement with Jilin Guotai and Guotai Technology, which constituted non-exempt continuing connected transactions of the Company under the Listing Rules.

The purpose of this circular is to provide you with (i) further information on the details of the Renewed Oilfield Services Agreement and the transactions contemplated thereunder; (ii) the letter from the Independent Board Committee; (iii) the letter of advice from China Galaxy International to the Independent Board Committee and the Independent Shareholders; and (iv) other information as required under the Listing Rules.

LETTER FROM THE BOARD

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Mei Jianping, Mr. Jeffrey W. Miller and Mr. Cai Rucheng has been established to advise the Independent Shareholders as to whether the entering into the Renewed Oilfield Services Agreement is in the ordinary and usual course of business of the Company and on normal commercial terms; and whether the terms of the Renewed Oilfield Services Agreement and the annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. China Galaxy International has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

CONTINUING CONNECTED TRANSACTIONS UNDER THE RENEWED OILFIELD SERVICES AGREEMENT

Reference is made to the section headed “Relationship with Controlling Shareholders and Connected Transactions” in the Prospectus, where it was disclosed, inter alia, that Jilin Guotai and the Company entered into the Oilfield Services Agreement for a term of three years ended 31 December 2012, which constituted continuing connected transactions of the Company under the Listing Rules. As the Group will continue such transactions following the expiry of the current term ended 31 December 2012, the Company has entered into the Renewed Oilfield Services Agreement, details of which are described below.

The Renewed Oilfield Services Agreement

Date:	31 December 2012
Parties:	Jilin Guotai (on behalf of itself and its subsidiaries); Guotai Technology (on behalf of itself and its subsidiaries); and the Company (on behalf of itself and its subsidiaries).

Nature of transaction

Under the Renewed Oilfield Services Agreement, Jilin Guotai and Guotai Technology agreed to provide, and procure that their respective subsidiaries provide, and the Group agreed to utilise, from time to time various oilfield services including well maintenance services, well logging services, fracturing services, oil tanker transportation services, oilfield construction related works and other oil operations related services (the “Oilfield Services”), subject to the entering into of individual contracts as agreed between members of Jilin Guotai Group and members of the Group from time to time. In addition, the terms of the individual contracts between members of the Group and the members of Jilin Guotai Group are subject to review and approval of the joint management committee formed for the purpose of supervising the Group’s petroleum operations and chaired by a chief representative designated by PetroChina pursuant to each production sharing contract. Furthermore, representatives from PetroChina for the Daan, Moliqing and Miao 3 production sharing contracts must approve work orders for any procurement of oilfield services (including oilfield services to be procured from the Jilin Guotai Group). PetroChina is an independent third party of the Group.

LETTER FROM THE BOARD

Effective period

The term of the Renewed Oilfield Services Agreement shall be from 1 January 2013 through 31 December 2015.

Pricing and payment

The service fees for the provision of the Oilfield Services will be based on normal commercial terms and negotiated on arm's length basis between the parties with reference to prevailing market rates, and shall be no less favourable than those offered by independent third parties to the Group.

Proposed annual caps

As disclosed in the Prospectus, the annual caps in respect of transactions under the Oilfield Services Agreement for the three years ended 31 December 2012 were RMB130.0 million, RMB169.0 million and RMB202.8 million, respectively. The transaction amounts in respect of the services provided under the Oilfield Services Agreement for the two years ended 31 December 2011 and the eleven months ended 30 November 2012 were approximately RMB108.6 million, RMB163.3 million and RMB169.2 million, respectively.

The proposed annual caps for the transactions under the Renewed Oilfield Services Agreement are RMB250.0 million, RMB280.0 million and RMB330.0 million for the three years ending 31 December 2015, respectively. Such annual caps are determined by reference to the historical values of the transactions between the Group and members of Jilin Guotai Group for Daan, Moliqing and Miao 3 production sharing contracts and the anticipated demand for such services by the Group taking into account the requirements of Daan, Moliqing and Miao 3 production sharing contracts and the recent acquisitions of PCR and Sino Gas, which are primarily involved in oil and gas development and production and the exploration of unconventional gas assets in the PRC, respectively, and the business growth prospects of the Group.

The Group has rapidly expanded its scale and capacity in 2011 and 2012, through a combination of developing its existing oilfields and making acquisitions. During 2011, the Group successfully acquired oil and gas assets in Kazakhstan and in the USA, becoming a growing international upstream company and the Group drilled a gross total of 467 wells in China, whilst starting a development well and an exploration well in late 2011 in Kazakhstan. For the six months ended 30 June 2012, the Group has drilled a gross total of 254 wells, including 248 wells in China. In 2012, the Group also made three acquisitions, namely the acquisition of White Hawk Petroleum, LLC in May 2012 as disclosed in the interim report of the Company for the six months ended 30 June 2012 and the acquisitions of Sino Gas and PCR, both in the PRC, in 2012.

The Renewed Oilfield Services Agreement is on a non-exclusive basis, under which the Group agreed to procure various oilfield services from Jilin Guotai Group from time to time, provided that the terms offered by Jilin Guotai Group are no less favourable than the terms offered by independent third parties, which, as advised by the Company, is due to the factors set out in the section headed "Reasons for the Transactions" in the letter from the Board as

LETTER FROM THE BOARD

well as the good long term relationship between the Group and Jilin Guotai Group. The Group is however not obliged to engage Jilin Guotai Group to provide oilfield services should the Group be able to find other service provider(s) that can provide the same services at more favourable terms than those offered by Jilin Guotai Group.

REASONS FOR THE TRANSACTIONS

The Group is principally engaged in oil and gas exploration, development and production, and the Oilfield Services currently provided and to be provided under the Renewed Oilfield Services Agreement are therefore necessary and conducive to the operations of the Group. Jilin Guotai Group, is one of the largest non-state owned oilfield service companies providing the oilfield services in Jilin Province and has been providing various oilfield services to the Group for over five years. The Company considers that Jilin Guotai Group to be a reliable and comprehensive provider of services related to the oil and gas operations of the Group. In addition to the oil well repair and maintenance and oil tanker transportation services that the Group has mainly procured from Jilin Guotai Group historically, Jilin Guotai Group also has the capability to provide fracturing services which the Group can leverage on to develop its multi-stage fracturing technology for horizontal well drilling as it continues to develop its oil and gas operations. The Company believes that the rates offered by state-owned oilfield service companies in general are more expensive, and in peak periods state-owned oilfield service companies normally give priority to state-owned oil companies. In the past, members of the Group (in particular, Sino Gas) had experienced difficulties in getting state-owned oilfield service companies to provide oilfield services during winter months, and sometimes even had to pay a premium to get these state-owned oilfield service companies to provide the necessary service. On the other hand, Jilin Guotai Group has been reliable, providing high quality service to the Group in a timely manner upon the Group's request, even during peak periods, and at rates lower than those offered by state-owned oilfield service companies. Furthermore, Jilin Guotai Group possesses licence, qualification certificates and patent certificates which are necessary to provide oilfield services to PetroChina as an authorized service provider.

The Directors (including the independent non-executive Directors) therefore are of the view that it is beneficial for the Group to continue cooperating with Jilin Guotai Group by securing its provision of the Oilfield Services via entering into the Renewed Oilfield Services Agreement. The Directors (including the independent non-executive Directors) consider that the transactions between Jilin Guotai, Guotai Technology and their respective subsidiaries and the Group were entered into in the ordinary and usual course of business and after arm's length negotiations and are on normal commercial terms and that the terms of such transactions and the proposed annual caps described above are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

Mrs. Zhang is the spouse of Mr. Zhang, an executive Director, chairman and chief executive officer of the Company. Jilin Guotai is owned as to 70% by Mrs. Zhang and as to 30% by Mr. Zhao, an executive Director, vice chairman and senior vice president of the Company. Guotai Technology is a wholly owned subsidiary of Jilin Guotai as at the Latest

LETTER FROM THE BOARD

Practicable Date. As such, Mrs. Zhang, Jilin Guotai, Guotai Technology and their respective subsidiaries are connected persons of the Company under the Listing Rules by virtue of being associates of Mr. Zhang and/or Mr. Zhao.

Accordingly, the continuing transactions between the Group and Jilin Guotai, Guotai Technology and their respective subsidiaries constitute continuing connected transactions for the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the continuing connected transactions under the Renewed Oilfield Services Agreement are, on an annual basis, more than 5%, the Renewed Oilfield Services Agreement and the transactions contemplated thereunder constitute non-exempt continuing connected transactions and are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under the Listing Rules.

INFORMATION OF THE GROUP, JILIN GUOTAI AND GUOTAI TECHNOLOGY

The Company is a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange. As at the date of this circular, the Group is principally engaged in oil and gas exploration, development and production in the PRC, Kazakhstan and the United States of America.

Jilin Guotai is a company incorporated in the PRC. As at the date of this circular, Jilin Guotai is one of the largest oilfield service providers in Songyuan, Jilin Province and is principally engaged in well maintenance, well logging, well cementing, fracturing, downhole operation, and processing and sale of drilling and extraction accessories. Guotai Technology is a company incorporated in the PRC and a wholly owned subsidiary of Jilin Guotai as at the Latest Practicable Date. It is primarily engaged in providing oilfield services focusing on chemical enhanced oil recovery and plans to expand its scope of services to include well maintenance, well logging, well cementing, fracturing, downhole operation and processing and sale of drilling and extraction accessories.

ANNUAL GENERAL MEETING

A notice convening the AGM to approve, among other things, the Continuing Connected Transactions and the relevant annual caps will be dispatched separately.

The approval of the Independent Shareholders in respect of the Continuing Connected Transactions and the relevant annual caps will be sought at the AGM, which is expected to be held in May 2013, by way of poll. Mr. Zhang and Mr. Zhao and their respective associates will abstain from voting in respect of the Continuing Connected Transactions and the relevant annual caps at the AGM. As at the Latest Practicable Date, Far East Energy Limited, the controlling shareholder of the Company which holds 1,414,600,000 shares representing approximately 53.42% interest in the Company, is held as to 9.99% by Mr. Zhang and 90% by Mr. Zhao.

LETTER FROM THE BOARD

Prior to obtaining approval from the Independent Shareholders at the AGM, the Company will closely monitor the aggregate value of the transactions under the Renewed Oilfield Services Agreement to ensure that the applicable percentage ratios in respect of such transactions fall within 5%. Various control mechanisms have been adopted by the Company to ensure that the applicable percentage ratios in respect of such transactions fall within 5%. Such mechanisms include generating monthly forecasts and monthly reports to monitor the aggregate value of such transactions, imposing a lower percentage threshold as an internal cap whereby a warning signal will be issued and preventive measures will be taken immediately if the internal cap will be reached. In the event that the Independent Shareholders do not approve the Continuing Connected Transactions and the relevant annual caps at the AGM, the Company will ensure that the annual transaction amounts of such transactions fall within the 5% threshold and will make announcement to inform the Shareholders and the investor public as and when necessary.

MATERIAL INTEREST OF DIRECTORS IN THE CONTINUING CONNECTED TRANSACTIONS

As Mr. Zhang and Mr. Zhao, both of whom were considered as having a material interest in the Renewed Oilfield Services Agreement and the transactions contemplated thereunder, they have abstained from voting at the relevant board meeting in respect of the resolutions to approve the transactions.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the entering into the Renewed Oilfield Services Agreement is in the ordinary and usual course of business of the Company and on normal commercial terms; and that the terms of the Renewed Oilfield Services Agreement and the annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution for approving the entering into of the Renewed Oilfield Services Agreement (including the relevant annual caps relating thereto, respectively) to be proposed at the AGM.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 10 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the entering into of the Continuing Connected Transactions (including the relevant annual caps relating thereto); and (ii) the letter from China Galaxy International set out on pages 11 to 24 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons taken into account as regards to the entering into of the Continuing Connected Transactions (including the relevant annual caps relating thereto).

Yours faithfully,
For and on behalf of the Board of
MIE Holdings Corporation
Zhang Ruilin
Chairman



MIE HOLDINGS CORPORATION

MI能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1555)

21 January 2013

To: the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 21 January 2013 (Circular) to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context otherwise requires.

In compliance with the Listing Rules, we have been appointed to advise the Independent Shareholders in relation to the entering into of the Renewed Oilfield Services Agreement and the relevant annual caps relating thereto, which constitute continuing connected transactions for the Company under the Listing Rules. In this connection, China Galaxy International has been appointed as an independent financial adviser to advise on whether the terms and conditions of the Renewed Oilfield Services Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Details of, and the reasons for, the entering into of the Renewed Oilfield Services Agreement and basis for the relevant annual caps are contained in the letter from the Board set out on pages 4 to 9 of the Circular.

Having considered the terms of the Renewed Oilfield Services Agreement, and the advice of China Galaxy International, the independent financial adviser to us and the Independent Shareholders, we consider that the entering into the Renewed Oilfield Services Agreement is in the ordinary and usual course of business of the Company and on normal commercial terms; and that the terms of the Renewed Oilfield Services Agreement and the annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution for approving the entering into of the Renewed Oilfield Services Agreement (including the relevant annual caps relating thereto) to be proposed at the AGM.

Yours faithfully,
the Independent Board Committee of
MIE Holdings Corporation
Mei Jianping
Jeffrey W. Miller
Cai Rucheng
Independent Non-executive Directors

LETTER FROM CHINA GALAXY INTERNATIONAL

The following is the text from China Galaxy International Securities (Hong Kong) Co., Limited to the Independent Board Committee and the Independent Shareholders, prepare for the purpose of inclusion in this circular.

Room 3501–3507,
35/F Cosco Tower
183 Queen’s Road Central
Hong Kong

21 January 2013

*To: The Independent Board Committee and the Independent Shareholders
of MIE Holdings Corporation*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS — RENEWED OILFIELD SERVICES AGREEMENT

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to, among other things, the terms of the transactions as contemplated under the Renewed Oilfield Services Agreement which constituted continuing connected transactions (“the Transactions”) and the relevant cap amounts under the Renewed Oilfield Services Agreement (the “Annual Caps”), details of which are contained in the circular of the Company (the “Circular”) to the Shareholders dated 21 January 2013, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

The Transactions

References are made to the section headed “Relationship with Controlling Shareholders and Connected Transactions” in the prospectus of the Company dated 1 December 2010 (the “Prospectus”) and the announcement of the Company dated 31 December 2012 in relation to the Transactions (the “Announcement”).

As stated in the Announcement, as the Oilfield Services Agreement would expire on 31 December 2012, on the same date, Jilin Guotai, Guotai Technology and the Company entered into the Renewed Oilfield Services Agreement for a term of three years ending 31 December 2015. Jilin Guotai, Guotai Technology and their respective subsidiaries (together the “Jilin Guotai Group”) agreed to provide to the Company from time to time various oilfield services including well maintenance services, well logging services, fracturing services, oil tanker transportation services, oilfield construction related works and other oil operations related services (the “Oilfield Services”), subject to the entering into of individual contracts as agreed between members of Jilin Guotai Group and members of the Company from time to time, pursuant to the Renewed Oilfield Services Agreement.

LETTER FROM CHINA GALAXY INTERNATIONAL

Listing Rules Implication

Jilin Guotai is owned as to 70% by Mrs. Zhang, the spouse of Mr. Zhang Ruilin, an executive Director, chairman and chief executive officer (“Mr. Zhang”) and as to 30% by Mr. Zhao Jiangwei, an executive Director, vice chairman and senior vice president of the Company (“Mr. Zhao”). Guotai Technology is a wholly owned subsidiary of Jilin Guotai. As such, Jilin Guotai Group are connected persons of the Company under the Listing Rules, by virtue of being an associate of Mr. Zhang and Mr. Zhao. Accordingly, the transactions as contemplated under the Renewed Oilfield Services Agreement constitute continuing connected transactions for the Company under the Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the continuing connected transactions under the Renewed Oilfield Services Agreement are more than 5% on an annual basis, the Renewed Oilfield Services Agreement and the Transactions contemplated thereunder constitute non-exempt continuing connected transactions and are subject to reporting, announcement and independent shareholders’ approval requirements under the Listing Rules.

The approval of the Independent Shareholders in respect of the Renewed Oilfield Services Agreement and the transactions contemplated thereunder will be sought at the AGM, which is expected to be held in May 2013, by way of poll. Mr. Zhang and Mr. Zhao and their respective associates will abstain from voting in respect of the Renewed Oilfield Services Agreement and the transactions contemplated thereunder at the AGM. As at the Latest Practicable Date, Far East Energy Limited, the controlling shareholder of the Company which holds 1,414,600,000 shares representing approximately 53.42% interest in the Company, is held as to 9.99% by Mr. Zhang and 90% by Mr. Zhao.

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. Mei Jianping, Mr. Jeffrey W. Miller and Mr. Cai Rucheng has been established to consider and give an opinion to the Independent Shareholders on whether the entering into the Renewed Oilfield Services Agreement is in the ordinary and usual course of business of the Company and on normal commercial terms; and that the terms of the Renewed Oilfield Services Agreement and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We, China Galaxy International Securities (Hong Kong) Co., Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION AND RECOMMENDATION

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company are true and accurate at the time they were made and will continue to be true and accurate as at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company.

LETTER FROM CHINA GALAXY INTERNATIONAL

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement contained in the Circular misleading.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs or the prospects of the Company, the Group or any of their respective associates.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources which are the latest information publicly available to the best of our knowledge, the sole responsibility of China Galaxy International Securities (Hong Kong) Co., Limited is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

I. Background of and Reasons for the Transaction

Information on the Group

The Company is a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange. As at the Latest Practicable Date, the Group is principally engaged in oil and gas exploration, development and production in the PRC, Kazakhstan and the United States of America.

Since its incorporation, the Group has been principally focusing on the production and sale of crude oil, where it operates the Daan, Moliqing and Miao 3 oilfields situated in the Songliao Basin in Jilin province, China's most prolific oil-producing basin, under three separate production sharing contracts (the "PSC(s)") with PetroChina, the largest on-shore oil company in China. In addition to its existing oilfields in Jilin province, the Group has also recently secured another oilfield PSC in Hebei province through the acquisition of Pan-China Resources Ltd ("PCR") as announced by the Company on 21 November 2012. The Group has also begun to diversify into the exploration and development of unconventional gas. On 27 June 2012, the Company announced that they agreed to acquire 51% interest in

LETTER FROM CHINA GALAXY INTERNATIONAL

Sino Gas & Energy Limited (“Sino Gas”). Sino Gas’s principal business activity is the exploration and development of unconventional gas in China on the eastern flank of the Ordos Basin in Inner Mongolia province under two PSCs. According to the Company, the Sino Gas acquisition will provide a clear way for the Company to begin participation in China unconventional gas, aligning the Group for more effective future participation in the rapidly expanding exploration and development of Chinese unconventional gas resources.

According to the Prospectus and confirmed by the Directors, as the Group is principally engaged in oil and gas exploration, development and production, it typically outsources a variety of oil and gas services related operation work, including oil rig supply, well drilling services, fracturing and perforating services, well maintenance services, well logging services, oil tanker transportation services and reservoir studies to outside parties. According to information provided by the Company, the Group has over 300 oilfield service providers, including Jilin Guotai Group as at 31 December 2012.

Information on Jilin Guotai Group

Jilin Guotai Petroleum Development Company (吉林省國泰石油開發有限公司) (“Jilin Guotai”), is a company incorporated in the PRC on 14 June 2004 and held as to 70% by Zhao Jiangbo, the wife of Mr. Zhang, and as 30% by Mr. Zhao. Jilin Guotai is principally engaged in well maintenance, well logging, well cementing, fracturing, downhole operation, and processing and sale of drilling and extraction accessories.

Guotai Technology is a company incorporated in the PRC and a wholly owned subsidiary of Jilin Guotai. It is primarily engaged in providing oilfield services focusing on chemical enhanced oil recovery and plans to expand its scope of services to include well maintenance, well logging, well cementing, fracturing, downhole operation and processing and sale of drilling and extraction accessories.

According to information provided by the Company, Jilin Guotai Group has been providing oilfield services to oilfield operators in the PRC since 2004.

Background on the provision of Oilfield Services by Jilin Guotai Group to the Group

As stated above, the Company is engaged in the oil industry as an oilfield operator whilst Jilin Guotai Group provides oilfield services that are ancillary to the operation of oilfields. Jilin Guotai Group has been providing various oilfield services, including well maintenance services, well logging services, oil tanker transportation services, oilfield construction related works and other oil operations related services, to the Group for over five years.

As disclosed in the Prospectus, on 23 November 2010, the Company entered into an oilfield service agreement with Jilin Guotai (the “Oilfield Services Agreement”), pursuant to which Jilin Guotai agreed to provide to the Group from time to time various oilfield services including well maintenance services, well

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logging services, oil tanker transportation services, oilfield construction related works and other oil operations related services, subject to the entering into of individual contracts as agreed between Jilin Guotai and the Group pursuant to the Oilfield Services Agreement. The Oilfield Services Agreement has a term commencing from the date of listing on 14 December 2010 and valid until 31 December 2012.

Due to the expiry of the Oilfield Services Agreement on 31 December 2012, Jilin Guotai, Guotai Technology and the Company entered into the Renewed Oilfield Services Agreement. The term of the Renewed Oilfield Services Agreement shall be from 1 January 2013 through 31 December 2015. The service fees for the provision of the oilfield services will be based on normal commercial terms and negotiated on arm's length basis between the parties with reference to prevailing market rates, and shall be no less favourable than those offered by independent third parties to the Company. In addition, the terms of the individual contracts between members of the Group and the members of Jilin Guotai Group are subject to review and approval of the joint management committee formed for the purpose of supervising the Group's petroleum operations and chaired by a chief representative designated by PetroChina pursuant to each production sharing contract. Furthermore, representatives from PetroChina for the Daan, Moliqing and Miao 3 production sharing contracts must approve work orders for any procurement of oilfield services (including oilfield services to be procured from the Jilin Guotai Group).

The proposed annual caps for the transactions under the Renewed Oilfield Services Agreement are RMB250.0 million, RMB280.0 million and RMB330.0 million for the three years ending 31 December 2015, respectively. Such Annual Caps are determined by reference to the historical values of the transactions between the Company and members of Jilin Guotai Group for Daan, Moliqing and Miao 3 production sharing contracts and the anticipated demand for such services by the Company taking into account the requirements of Daan, Moliqing and Miao 3 production sharing contracts and the recent acquisitions of PCR and Sino Gas, which are primarily involved in oil and gas development and production and the exploration of unconventional gas assets in the PRC, respectively, and the business growth prospects of the Company.

Reasons for and benefits of entering into the Renewed Oilfield Services Agreement

As disclosed in the Letter from the Board, the Directors consider that the entering into of the Renewed Oilfield Services Agreement are in the ordinary and usual course of business of the Group and is in the interests of the Group and the Shareholders as a whole due to:

- the Group is principally engaged in oil and gas exploration, development and production, and the Oilfield Services currently provided and to be provided under the Renewed Oilfield Services Agreement are therefore necessary and conducive to the operations of the Group;

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- Jilin Guotai Group is one of the largest non-state owned oilfield service companies providing oilfield services in Jilin Province and the Directors consider Jilin Guotai Group to be a reliable and comprehensive provider of services related to the oil and gas operations of the Group. In particular, in addition to the oil well repair and maintenance and oil tanker transportation services that the Group has mainly procured from Jilin Guotai Group historically, Jilin Guotai Group also has the capability to provide fracturing services which the Group can leverage on. As disclosed in the annual report of the Company for the year ended 31 December 2011, it is one of the focus of the Group to develop its multi-stage fracturing technology for horizontal well drilling as it continues to develop its oil and gas operations;
- The Company believes that the rates offered by state-owned oilfield service companies in general are more expensive, and in peak periods state-owned oilfield service companies normally give priority to state-owned oil companies; and
- In the past, members of the Group (in particular Sino Gas) had experienced difficulties in getting state-owned oilfield service companies to provide oilfield services during winter months, and sometimes even had to pay a premium to get these state-owned oilfield service companies to provide the necessary services. On the other hand, Jilin Guotai Group has been reliable, providing high quality services to the Group in a timely manner upon the Group's request, even during peak periods, and at rates lower than those offered by state-owned oilfield service companies.

Given the aforesaid, and in particular:

- (i) We consider that it is a normal business practice of the industry that oilfield operators generally outsource to third party services providers for ancillary services related to the operation of oilfields. In particular, we note from the annual report for the year ended 31 December 2011 of CNOOC Limited ("CNOOC"), a state-owned oil company listed on the Stock Exchange and which is mainly engaged in exploration, development, production and sale of offshore oil and natural gas. CNOOC Group, the parent company of CNOOC, continues to provide services related to oil and gas exploration, development, production, marketing and management to CNOOC. This is also the case for PetroChina Company Limited ("PetroChina"), a state-owned oil and gas producer and distributor listed on the Stock Exchange. China National Petroleum Corporation ("CNPC"), the parent company of PetroChina, also provides, among other things, exploration technology services, downhole operation services, oilfield construction services, oil refinery construction services, and engineering and design services to PetroChina as disclosed in PetroChina's annual report for the year ended 31 December 2011. Similarly, China Petroleum & Chemical Corporation ("Sinopec"), an integrated energy and chemical

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company listed on the Stock Exchange is also engaged in a number of continuing connected transactions with its parent company, China Petrochemical Corporation, involving provision of, among other things, technical and ancillary production services by China Petrochemical Corporation to Sinopec.

- (ii) We have obtained and inspected the business license, qualification certificates, patent certificates and other relevant information of Jilin Guotai Group. We note that Jilin Guotai Group possesses the business license to be engaged in the provision of Oilfield Services, including but not limited to well maintenance services, well logging services, fracturing services, oil tanker transportation services, oilfield construction related works and other oil operations related services in the PRC. Jilin Guotai Group also possesses qualification certificates as an authorized service provider for PetroChina on oilfield services including maintenance services, downhole operations and other oil operations related services. Furthermore, we note that Jilin Guotai Group has been established since June 2004 and been providing oilfield services to the Group for over five years, we consider Jilin Guotai Group to have the relevant experience and capacity to provide the necessary services as stated in the Renewed Oilfield Services Agreement which are necessary and conducive to the operations of the Company. In particular, we also note that the three main oilfield assets of the Group namely the Daan, Moliqing and Miao 3 oilfields, are also located in Jilin province. Therefore, we also consider that Jilin Guotai Group, which is based in Jilin province, to be location-wise well positioned to provide timely services to the Group.
- (iii) The Directors confirmed that the Group has not had any dispute with or issues with the quality of services provided by Jilin Guotai Group since the commencement of their business relationship and similar to other third party suppliers, Jilin Guotai Group is also required to go through the open bidding process conducted by the Group for their ongoing selection of relevant suppliers. The selection process would include an assessment of, among other things, the cost, work quality, track record and proposed delivery schedule that the Company consider important for selection of suppliers. In addition, the terms of the individual contracts between members of the Group and the members of Jilin Guotai Group are subject to review and approval of the joint management committee formed for the purpose of supervising the Group's petroleum operations and chaired by a chief representative designated by PetroChina, an independent third party. Furthermore, representatives from PetroChina for the Daan, Moliqing and Miao 3 production sharing contracts must approve work orders for any procurement of oil services (including oil services to be procured from the Jilin Guotai Group).

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- (iv) We have also performed our own research and studies regarding the oilfield services industry in the PRC and we understand that the oilfield services industry is dominated by relevant entities of the three national oil companies (“NOCs”), namely CNOOC Group, CNPC, and China Petrochemical Corporation, while these oilfield services companies would generally give priority in providing oilfield services to their respective related group of companies. On the other hand, Jilin Guotai Group has been providing oilfield services to the Group for over five years and, as confirmed by the Company, has been able to provide stable and satisfactory oilfield related services to the Group even during peak periods. We therefore consider that such arrangement to be beneficial to the operations of the Group.
- (v) According to the Directors, members of the Group, in particular Sino Gas has had experienced difficulties and/or have to pay a premium in getting state-owned oilfield service companies to provide oilfield services during winter months. Given the track record of Jilin Guotai Group in providing stable and reliable services to the Group even during peak periods and at rates no less favourable than those charged by state-owned oilfield services companies, we consider that new members of the Group such as Sino Gas could benefit, going forward, from the Oilfield Services contemplated under the Renewed Oilfield Services Agreement entered into between the Group and Jilin Guotai Group.

We concur with the Company that the entering into of the Renewed Oilfield Services Agreement are in the ordinary and usual course of business of the Group and is in the interests of the Group and the Shareholders.

II. Principal Terms of the Transaction

Common major terms

As stated in the Letter from the Board, Jilin Guotai Group agreed to provide to the Company from time to time various Oilfield Services subject to the entering of individual contracts as agreed between Jilin Guotai Group and the Group. In addition, the terms of the individual contracts between members of the Group and the members of Jilin Guotai Group are subject to review and approval of the joint management committee formed for the purpose of supervising the Group’s petroleum business. The Transactions are or will be based on normal commercial terms and negotiated on arm’s length basis between the parties with reference to prevailing market rates.

We have reviewed the Oilfield Services Agreement and understand that major terms under the Renewed Oilfield Service Agreement essentially remain unchanged except for the extension of the term of each agreement for another three-year period from 1 January 2013 to 31 December 2015.

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The Renewed Oilfield Services Agreement is on a non-exclusive basis, under which the Group agreed to procure various Oilfield Services from Jilin Guotai Group from time to time, provided that the terms offered by Jilin Guotai Group are no less favourable than the terms offered by independent third parties, which, as advised by the Company, is mainly due to the good long term relationship between the Group and Jilin Guotai Group in addition to the factors set out in the sub-section headed “Reasons for and benefits of entering into the Renewed Oilfield Services Agreement”. The Group is however not obliged to engage Jilin Guotai Group to provide Oilfield Services should the Group be able to find other service provider(s) that can provide the same services at more favourable terms than those offered by Jilin Guotai Group.

We have reviewed (i) sample of quotation that Jilin Guotai Group offered to the Group as compared to what independent third party state-owned oilfield company was offering for similar services and we noted that the terms including pricing offered by Jilin Guotai Group are no less favourable than the relevant market rate; (ii) sample of quotations that Jilin Guotai Group offered to its other third party customers for similar type of services that they offer to the Group and we noted that the terms including pricing offered by Jilin Guotai Group are no less favourable than the terms Jilin Guotai Group offered to its other customers; and (iii) the selection mechanism that the Group has in place for selection and procurement of service providers and the Directors confirmed that the Group would ensure that the selection of Jilin Guotai Group is on the basis that the terms to be offered by Jilin Guotai Group would be no less favourable than the terms offered by independent third parties. On such basis, we are of the view that the selection process and mechanism is sufficient to ensure a fair and open procedure has been put in place by the Group as far as the procurement of third party service provider is concerned.

Giving the above, we concur with the view of the Directors that the pricing principle under the Renewed Oilfield Services Agreement is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Proposed Annual Caps

The Annual Caps for the transactions contemplated under the Renewed Oilfield Services Agreement are RMB250.0 million, RMB280.0 million and RMB330.0 million for the three years ending 31 December 2015, respectively.

As disclosed in the Letter from the Board, such Annual Caps are determined by reference to the historical values of the transactions between the Group and members of Jilin Guotai Group for Daan, Moliqing and Miao 3 production sharing contracts and the anticipated demand for such services by the Group taking into account the requirements of Daan, Moliqing and Miao 3 production sharing contracts and the recent acquisitions of PCR and Sino Gas, which are primarily involved in oil and gas development and production and the exploration of unconventional gas assets in the PRC, respectively, and the business growth prospects of the Group.

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In assessing the reasonableness of the Annual Caps, we have taken into account the following factors:

(a) *Historical transaction amounts under the Oilfield Services Agreement*

Set out below are the approximately values of the provision of oilfield services by Jilin Guotai Group to the Company for the three financial years ended 31 December 2011 and for the eleven months ended 30 November 2012:

	Financial year ended		Eleven
	31 December		months ended
	2010	2011	30 November
	<i>(in RMB</i>	<i>(in RMB</i>	<i>(in RMB</i>
	<i>million)</i>	<i>million)</i>	<i>million)</i>
Historical transaction amount	108.6	163.3	169.2
Approximate increase/(decrease) as compared to the previous year (%)	40.5%	50.4%	N/A
Annual caps under the Oilfield Services Agreement	130.0	169.0	202.8 <i>(Note)</i>
Utilization of the historical transaction amount to the proposed caps under the Oilfield Services Agreement	83.5%	96.6%	83.4%

Note: Proposed annual cap of RMB202.8 million is for the full year ended 31 December 2012

As shown above, we note that:

- The utilization of the proposed caps under the Oilfield Services Agreement was approximately 83.5% and 96.6% under the Oilfield Services Agreement for the two financial years ended 31 December 2011 respectively. Based on such utilization rate, we consider that the Company has made a reasonable effort in estimating the previous historical annual caps under the Oilfield Services Agreement; and
- The increase of aggregate transaction amount of the provision of services procured by the Group from Jilin Guotai Group was approximately 40.5% and 50.4% respectively for the two years ended 31 December 2010 and 2011, which is generally in line with the

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increase in the revenue growth of the Group. Revenue of the Group increased by approximately 54.7% and 56.6% respectively for the two years ended 31 December 2010 and 2011.

We also note that the auditors of the Company have performed a review of the non-exempt continuing connected transactions for the two financial years ended 31 December 2011 (the “Past Transactions”). We noted from the 2010 and 2011 annual reports of the Company that the auditors confirmed that the Past Transactions (a) had received the approval of the Board; (b) were entered into in accordance with the pricing policies as stated in financial statements of the Company; (c) had been entered into in accordance with the relevant agreements governing them; and (d) had not exceeded the relevant annual caps.

(b) The estimation basis of the Annual Caps

The Annual Caps under the Renewed Oilfield Services Agreement and the estimated annual increase are set as follows:

	Financial year ended 31 December		
	2013	2014	2015
	<i>(in RMB million)</i>	<i>(in RMB million)</i>	<i>(in RMB million)</i>
Proposed Annual Caps for the provision of Oilfield Services under the Renewed Oilfield Services Agreement	250.0	280.0	330.0
Approximate increase/ (decrease) as compared to the annual cap of previous year (%)	23.3% <i>(Note)</i>	12.0%	17.9%

Note: Compared to the annual cap for financial year ended 31 December 2012

As set out in the Letter from the Board, the Group has rapidly expanded its scale and capacity in 2011 and 2012, through a combination of developing its existing oilfields and acquisitions. During 2011, the Group successfully acquired oil and gas assets in Kazakhstan and in the USA, becoming a growing international upstream company and the Group drilled a gross total of 467 wells in China, whilst starting a development well and an exploration well in late 2011 in Kazakhstan. For the six months ended 30 June 2012, the Group has drilled a gross total of 254 wells, including 248 wells in China. In 2012, the Group also made three acquisitions, namely the acquisition of White Hawk Petroleum, LLC in May 2012 as disclosed in the interim report of the Company for the six months ended 30 June 2012, the acquisition of Sino Gas as disclosed in the announcement issued by the Company on 27 June 2012 and the

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acquisition of PCR as disclosed in the announcement issued by the Company on 21 November 2012. As part of our due diligence exercise, we have also obtained and reviewed, with the preliminary internal annual budget of the Company for the years from 2013 to 2015 (providing for, among other things, the preliminary number of wells expected to be drilled in the oilfields and estimated capital expenditure amount).

In addition to company specific growth and developments, we also consider that oil and gas industry in the PRC would continue to experience positive growth in the coming future. According to a report titled “2012 Oil & Gas Security — People’s Republic of China” (the “Report”) issued by The International Energy Agency (“IEA”) in 2012, China’s total oil demand in 2009 averaged around 8 mb/d (385 Mt). It has been rising rapidly from 4.6 mb/d (225 Mt) in 2000, increasing by a compound average growth rate of 6.7%. Overall oil demand is expected to continue along this gradual increasing trend. Under the assumptions of the New Policy Scenario (NPS) in the IEA’s World Energy Outlook (“WEO”) 2011, China’s primary oil demand would rise to 12.2 mb/d in 2020 and almost 15 mb/d in 2035. With the development of natural gas pipeline networks, China’s demand for natural gas has rapidly increased from 24.5 bcm in 2000 to around 130 bcm in 2011. According to the Report, for gas consumption, the residential sector and the sector of electric power, gas and water have experienced a rapid growth of consumption with a compound annual growth rate of around 21% and 36.5% respectively during the period from 2000 to 2009. Overall demand is expected to continue along an increasing trend although at a lower growth rate. In the NPS of the IEA’s WEO 2011, China’s primary gas demand is expected to rise on average by 6.1% to over 500 bcm in 2035.

As a whole, in order to cope with the expected business growth of the Group and an overall growing demand in the oil and gas industry in the PRC, we consider that it is reasonable that the amount of procurement of Oilfield Services by the Group from Jilin Guotai Group would increase accordingly.

Having considered the above, we are of the view that the basis of determining the Annual Caps are justifiable and that the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. However, Shareholders should note that the Annual Caps relate to future events and they do not represent a forecast of the actual amounts to be generated under the Transactions. Consequently, we express no opinion as to how closely the actual amounts to be generated under the Transactions correspond with the Annual Caps.

III. Others

Approval of Independent Shareholders

Independent Shareholders should note that the approval of the Independent Shareholders in respect of the Renewed Oilfield Services Agreement and the transactions contemplated thereunder will only be sought at the AGM, which is expected to be held in or around May 2013.

As stated in the letter from the Board, prior to obtaining approval from the Independent Shareholders at the AGM, the Company will closely monitor the aggregate value of the transactions under the Renewed Oilfield Services Agreement to ensure that the applicable percentage ratios in respect of such transactions fall within 5%. The Directors confirmed that various control mechanisms have been adopted by the Company to ensure that the applicable percentage ratios in respect of such transactions fall within 5%. Such mechanisms include generating monthly forecasts and monthly reports to monitor the aggregate value of such transactions, imposing a lower percentage threshold as an internal cap whereby a warning signal will be issued and preventive measures will be taken immediately if the internal cap will be reached. In the event that the Independent Shareholders do not approve the Renewed Oilfield Services Agreement and the transactions contemplated thereunder at the AGM, the Company will ensure that the annual transaction amounts of such transactions fall within the 5% threshold and will make announcement to inform the Shareholders and the investor public as and when necessary.

We have discussed and reviewed the control mechanism put in place by the Company to monitor the Transactions. We note that the Company has assigned relevant suitably qualified personnel for the monitoring and supervision of the Transactions and consider that the control mechanism as abovementioned to be sufficient for effective monitoring and reporting.

Listing Rules' Implications

As required by the Listing Rules, for each financial year of the Company ending 31 December 2015, the Transactions shall be subject to the annual review by the independent non-executive Directors and the Company's auditors as required by Rules 14A.37 and 14A.38 of the Hong Kong Listing Rules, respectively. In particular, each year, the independent non-executive Directors must confirm that the Transactions have been entered into:

- in the ordinary and usual course of business of the Company;
- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

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- in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, each year, the Company's auditors must provide a letter to the Board confirming that the Transactions:

- have received the approval of the Board;
- were entered into in accordance with the pricing policies as stated in financial statements of the Company;
- had been entered into in accordance with the relevant agreements governing them; and
- had not exceeded the relevant annual caps.

Given the above, we consider that there exist appropriate procedures and arrangements to monitor whether the Transactions will be conducted on terms pursuant to the Renewed Oilfield Services Agreement entered into between Jilin Guotai Group and the Group for the three years ending 31 December 2015.

RECOMMENDATION

Having considered the principal reasons and factors discussed above, we are of the view that the entering into the Renewed Oilfield Services Agreement is in the ordinary and usual course of business of the Company and on normal commercial terms; and that the terms of the Renewed Oilfield Services Agreement and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the AGM to approve the Renewed Oilfield Services Agreement and the transactions contemplated thereunder (including the Annual Caps).

Yours faithfully,
for and on behalf of
**China Galaxy International
Securities (Hong Kong) Co., Limited**
Steven Chiu
Managing Director

1. RESPONSIBILITY OF THE DIRECTORS

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS

Directors' and Chief Executive's Interests in Shares and Underlying Shares

(a) *Interests and short positions in the shares, underlying shares and debentures of the Company or its associated corporations*

Save as disclosed below, as at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures (if any) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO, or were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Name of corporation	Capacity/Nature of interest	Number of shares	Number of underlying shares	Approximate total percentage of interest in the corporation
Mr. Zhang Ruilin	The Company	Interest of controlled corporation (Note 1)	1,414,600,000		53.42%
		Beneficial owner (Note 2)		2,347,000	0.09%
Mr. Zhao Jiangwei	The Company	Interest of controlled corporation (Note 1)	1,414,600,000		53.42%
		Beneficial owner (Note 2)		2,347,000	0.09%
Mr. Zhang Ruilin	Far East Energy Limited ("FEEL")	Beneficial owner (Note 1)	999		9.99%
Mr. Zhao Jiangwei	FEEL	Beneficial owner (Note 1)	9,000		90.0%

Name of Director	Name of corporation	Capacity/Nature of interest	Number of shares	Number of underlying shares	Approximate total percentage of interest in the corporation
Mr. Forrest Lee Dietrich	The Company	Beneficial owner (Note 2)		9,166,489	0.35%
Mr. Allen Mak	The Company	Beneficial owner Beneficial owner (Note 2)	3,030,904	8,408,808	0.11% 0.32%
Mr. Mei Jianping	The Company	Beneficial owner (Note 2)		1,267,933	0.05%
Mr. Jeffrey W. Miller	The Company	Beneficial owner (Note 2)		1,811,333	0.07%

Notes:

- (1) FEEL is held by Mr. Zhang and Mr. Zhao as to 9.99% and 90%, respectively. On 16 May 2003, 9,999 shares in FEEL were issued to Mr. Zhang, who then transferred 9,000 shares out of his 9,999 shares to Mr. Zhao on 4 October 2003. Mr. Zhang and Mr. Zhao have entered into an Acting-in-Concert Agreement under which they agreed to act in concert in relation to all matters that require the decisions of the shareholders of FEEL. Pursuant to the Acting-in-Concert Agreement, if a unanimous opinion in relation to the matters that require action in concert is unable to be reached, Mr. Zhang shall be allowed to vote on both his and Mr. Zhao's shares.
 - (2) These interests represent interests in outstanding stock options under the Stock Incentive Compensation Plan adopted by the Company prior to its listing on the Stock Exchange and the Share Option Scheme adopted by the Company on 27 November 2010.
- (b) Mr. Zhang and Mr. Zhao are directors of Far East Energy Limited, the Company's controlling shareholder, which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up.

4. DIRECTORS' SERVICE CONTRACTS

On 20 November 2009, Mr. Zhang and Mr. Zhao, each an executive Director, entered into a service contract with the Company and its wholly-owned subsidiary, MI Energy Corporation (MIE), respectively, which is renewable yearly unless terminated (i) with twelve months' notice by either party, or (ii) by the Company or MIE (as applicable) upon certain events such as the Director having committed serious or persistent breaches of the service contract. Should the Company or MIE (as applicable) terminate the service contract, Mr. Zhang and Mr. Zhao will be entitled to receive a severance payment equivalent to one year's basic pay under the service contract, save for circumstances described in item (ii) above.

Save as disclosed above, none of our Directors had entered into a service contract with us which does not expire or which is not terminable by us within one year without the payment of compensation (other than statutory compensation).

5. COMPETING INTERESTS

As at the Latest Practicable Date, the Directors were not aware that any of them or any of their associates had interests in any business which competes or was likely to compete, either directly or indirectly, with the business of the Group which would fall to be disclosed under the Listing Rules.

6. OTHER ARRANGEMENTS INVOLVING DIRECTORS

Save as disclosed by the Company, as at the Latest Practicable Date:

- (a) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group; and
- (b) none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2011 (the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; (ii) leased to; (iii) are proposed to be acquired or disposed of by; or (iv) are proposed to be leased to any member of the Group.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice, which are contained or referred to in this circular:

Name	Qualification
China Galaxy International	a corporation licensed to carry out business in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable date, China Galaxy International:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 21 January 2013 and references to its name, in the form and context in which it appears;
- (b) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (c) did not have any direct or indirect interest in any assets which had been since 31 December 2011 (the date to which the latest published audited accounts of the Company were made up), acquired, disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group.

8. DOCUMENT AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the Company's principal place of business in Hong Kong at Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong from the date of this circular for a period of 14 days:

- (a) the Oilfield Services Agreement;
- (b) the Renewed Oilfield Services Agreement;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 10 of this circular;
- (d) the letter of advice from China Galaxy International, the text of which is set out on pages 11 to 24 of this circular;
- (e) the written consent from China Galaxy International referred to in paragraph 7 of this appendix; and
- (f) the service contract referred to in the paragraph headed "Directors' Service Contracts" in this appendix.

9. MISCELLANEOUS

This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.