PetroAsian Energy Holdings Limited
中亞能源控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 850 & Warrant code: 344)

LETTER OF INTENT IN RESPECT OF POSSIBLE ACQUISITION OF 52% OF THE PARTICIPATING INTERESTS IN MODAMUJI SAG, HAILAER OILFIELD OIL AND GAS PROJECT

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules.

LETTER OF INTENT IN RESPECT OF THE POSSIBLE ACQUISITION

The Board announces that on 12 May 2010 (after trading hours), the Company entered into the non-legally binding LOI with the Vendor in relation to the Possible Acquisition regarding the sale and purchase of 52% of the Participating Interests in the Project.

Under the Joint-Operating Agreement entered into between the Vendor and Yanchang Petroleum dated 1 April 2008, the Vendor has been fully entrusted to execute the Project as regards the gas and oil exploration and exploitation in Modamuji Sag in Hailaer Basin. As at the date of this announcement, the entire Participating Interests is held by the Vendor. After the completion of the Possible Acquisition, the Participating Interests in the Project shall be owned as to 52% and 48% by the Company and the Vendor respectively.

The Board wishes to emphasize that no binding agreement in relation to the Possible Acquisition has been entered into as at the date of this announcement. As such, the Possible Acquisition may or may not proceed. If the Possible Acquisition is materialised, it may constitute a notifiable transaction on the part of the Company. Shareholders and investors are urged to exercise caution when dealing in the securities of the Company. Further announcement in respect of the Possible Acquisition will be made by the Company in the event when any Formal Agreement has been signed.

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules.

The Board announces that on 12 May 2010 (after trading hours), the Company entered into the non-legally binding letter of intent with the Vendor in relation to the Possible Acquisition.

LETTER OF INTENT IN RESPECT OF THE POSSIBLE ACQUISITION

Date:	12 May 2010 (after trading hours)
Parties:	
The Purchaser:	The Company
The Vendor:	Sino Oil Investment Corp. (北京寶通昊業投資有限公司)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendor and its ultimate beneficial owners and their respective associates, is not a connected person of the Company and is an independent third party not connected with the Company and its connected persons.

Major terms of the LOI

Under the LOI, it is proposed that the Company will acquire 52% of the Participating Interests in the Project from the Vendor.

The consideration for the Proposed Acquisition shall be RMB180 million (equivalent to approximately HK$205.71 million), and has been/will be payable in the following manner:

(i) the deposit (the "**Deposit**") in the sum of RMB35 million (equivalent to approximately HK$40 million) has been paid by the Company to the Vendor upon signing of the LOI; and

(ii) the sum of RMB15 million (equivalent to approximately HK$17.14 million) will be paid by the Company to the Vendor upon Completion; and

(iii) the balance of the consideration of RMB130 million (equivalent to approximately HK$148.57 million) will be paid by the Company by allotting and issuing new Shares at the Issue Price of HK$1.09, which represents the average of the closing prices of one Share for each of the last 5 consecutive Trading Days up to and including the date of the LOI.

The payment of the above Deposit shall be financed by the internal resources of the Group. If the Formal Agreement is not entered into on or before the date falling 90 days from the date of the LOI, the LOI shall cease and terminate and the Vendor shall forthwith refund the above Deposit (without interest) to the Purchaser in any event, and neither party shall have any obligations and liabilities to each other (save and except for any antecedent breach).

Completion of the Proposed Acquisition will be conditional upon, including but not limited to, the followings:

(i) the Company being satisfied with the results of the due diligence review on the Vendor, the Joint-Operating Agreement and the Project to be conducted by the Company;

(ii) if required, the Shareholders passing at its extraordinary general meeting an ordinary resolution approving the Formal Agreement and the transactions contemplated thereunder;

(iii) the obtaining of a PRC legal opinion (in form and substance reasonably satisfactory to the Company) by a qualified PRC legal adviser to be nominated by the Company covering, inter alia, matters relating to the legality and validity of the Possible Acquisition and the transactions contemplated thereunder; and

(iv) the obtaining of all necessary consents, authorization and approval required for the Possible Acquisition from the relevant governmental authorities.

Both the Company and the Vendor will proceed to the negotiation for a legally-binding Formal Agreement on or before the date falling 90 days from the date of the LOI. It is agreed that save and except with consent from the Company, the Vendor will not within 90 days from the date of the LOI negotiate with any party for the Possible Acquisition.

It is further agreed that the Company shall, after completion of the Possible Acquisition, inject RMB50 million (equivalent to approximately HK$57.14 million) (the "**Initial Investment**") to the Project to finance its 3D seismic data collection and exploration work, and thereafter, in the event that any additional exploration and development expenditure is required under the Project, the Company and the Vendor shall be responsible for such additional expenditure in proportion to their respective Participating Interests in the Project.

It is also agreed that the income from the production of oil and gas under the Project shall, after deducting 16% of such income payable to Yanchang Petroleum as royalty payment and after the repayment of the Initial Investment to the Company, be distributed to the Company and the Vendor in accordance with their respective Participating Interests.

The LOI does not constitute legally-binding commitment in respect of the Possible Acquisition. The Possible Acquisition is subject to the execution and completion of the Formal Agreement.

If the Formal Agreement is entered into, it is expected that the Possible Acquisition will constitute a notifiable transaction on the part of the Company pursuant to the Listing Rules. In this regard, the Company will comply with the reporting, disclosure and/or Shareholders' approval requirements under the Listing Rules.

INFORMATION ON THE PROJECT

As informed by the Vendor, under the Joint-Operating Agreement entered into between the Vendor and Yanchang Petroleum dated 1 April 2008, the Vendor has been fully entrusted to execute the Project as regards the gas and oil exploration and exploitation in Modamuji Sag in Hailaer Basin. As at the date of this announcement, the entire Participating Interests is held by the Vendor. After the completion of the Possible Acquisition, the Participating Interests in the Project shall be owned as to 52% and 48% by the Company and the Vendor respectively.

Modamuji Sag is located within the territory of Zuoqi, Xinbaerhu, Hulun Beier, with the location of the structure at the north of Hailaer Basin covering an area of 1671.395 square kilometers. It is one of the sags of higher appraise among peripheral faults of the Hailaer Basin.

According to the preliminary reserves report with regards to the evaluation of oil and gas resources from Modamuji Sag issued by BGP International in November 2009, it is found that there was a strong correlation in the geological structure and geological prospect to proven reserves in the surrounding area of Modamuji Sag. It is also stated that over 300 million tons of reserves discovered in surrounding areas in the past 3 years. It is estimated that the

Modamuji Sag has an estimated total resources of approximately 80.6 million tons to 92 million tons and a potentially recoverable resources of approximately 32 million tons (i.e. approximately 233.6 million barrels of oil).

REASONS FOR THE POSSIBLE ACQUISITION

The Company is an investment holding company. The Group is principally engaged in exploration, drilling, production and sale of crude oil, manufacture and sale of paints, blended solvents and plastic colorants, trading of chemical materials, provision of painting services, and property investment.

The Vendor is a company established under the laws of the PRC with limited liability and is principally engaged in investment management, investment consulting, technology development and chemical products.

The Directors believe that the Possible Acquisition, if successful, will be an important step for the Group's further business development in the energy sector in the PRC. The Directors also believe that the Possible Acquisition will provide additional income to the Group so to strengthen its revenue base.

In addition, the Vendor has extensive experience and a proven track record in oil and gas exploration and exploitation. As the Project may require a substantial amount of technical support, the Directors consider that the cooperation between the Vendor and the Group shall further strengthen the Group's technical capability in oil exploration and exploitation and facilitate its operations in the Project as the Vendor has a strong technical team comprises advanced equipment and technologies in international petroleum industry standard.

The Board wishes to emphasize that no binding agreement in relation to the Possible Acquisition has been entered into as at the date of this announcement. As such, the Possible Acquisition may or may not proceed. If the Possible Acquisition is materialised, it may constitute a notifiable transaction on the part of the Company. Shareholders and investors are urged to exercise caution when dealing in the securities of the Company. Further announcement in respect of the Possible Acquisition will be made by the Company in the event when any Formal Agreement has been signed.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

"associate(s)"	has the meaning ascribed to this term under the Listing Rules
"BGP International"	The Geologic Research Centre of GRI, BGP (東方地球物理勘探有限責任公司), a subsidiary of China National Petroleum Corporation (中國石油天然氣集團公司) and is one of the world's leading geophysical service companies based in Beijing, the PRC, providing oil exploration, seismic processing explanation, oil geological research, geophysical prospecting research and other service for global oil companies
"Board"	the board of Directors from time to time

"Company"	PetroAsian Energy Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
"connected person"	has the meaning ascribed to this term under the Listing Rules
"Director(s)"	director(s) of the Company
"Formal Agreement"	the formal sale and purchase agreement which may or may not be entered into in relation to the Possible Acquisition
"Group"	the Company and its subsidiaries
"Hailaer Basin"	海拉爾盆地, located in Hulun Buir, Inner Mongolia, the PRC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Joint-Operating Agreement"	the joint operating agreement entered into between the Vendor and Yanchang Petroleum dated 1 April 2008, pursuant to which the Vendor has been fully entrusted to execute the Project as regards the gas and oil exploration and exploitation in Modamuji Sag in Hailaer Basin
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LOI"	the non-legally binding letter of intent dated 12 May 2010 entered into between the Company and the Vendor setting out the preliminary understanding in relation to the Possible Acquisition
"Modamuji Sag"	莫達木吉區塊 located in the Hailaer Basin with an area of approximately 1,671.359 square kilometres, which is the subject area of the Joint-Operating Agreement
"Participating Interests"	the undivided interest of such party expressed as a percentage of the total interest of all parties that comprise the contractors under the Joint-Operating Agreement in the rights and obligations derived from the Joint-Operating Agreement in relation to the Project
"Possible Acquisition"	the possible acquisition by the Company from the Vendor of 52% of the Participating Interests
"PRC"	the People's Republic of China, which for the purpose of this announcement excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Project"	the oil and gas exploration and exploitation project in Modamuji Sag in Hailaer Basin under the Joint-Operating Agreement
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholders"	holder(s) of the issued Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

“Trading Day”	day on which dealing in Shares on the Stock Exchange take place during the normal trading hours
“Vendor”	Sino Oil Investment Corp. (北京寶通昊業投資有限公司), a company established under the laws of the PRC with limited liability, being the vendor under the LOI
“Yanchang Petroleum”	Shaanxi Yanchang Petroleum (Group) Limited, a state-owned large-scale petroleum enterprise which has the legal rights to explore and exploit petroleum in the PRC and is principally engaged in oil and gas exploration, exploitation, refinery, extraction, transportation and trading
“HK$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of PRC
“%”	per cent.

By order of the Board
PetroAsian Energy Holdings Limited
Poon Sum
Chairman

Hong Kong, 12 May 2010

For the purpose of this announcement, unless otherwise indicated, conversion of RMB into HK$ is calculated at the approximate exchange rate of RMB0.875 to HK$1.00. This exchange rate is adopted for the purpose of illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this rate or any other rate at all.

As at the date of this statement, the Board comprises (i) three executive directors, namely Mr. Poon Sum, Mr. Wong Kwok Leung and Mr. Poon Wai Kong; and (ii) three independent non-executive directors, namely Mr. Chan Kam Ching, Paul, Mr. Chan Shu Kin and Mr. Cheung Kwan Hung.