



29 April 2008

**AVONLEA MINERALS LIMITED  
To be renamed  
SINO GAS & ENERGY HOLDINGS LIMITED**

**MERGER WITH SINO GAS & ENERGY HOLDINGS LIMITED – CHANGE OF ACTIVITIES FOR  
AVONLEA**

**Change of activities for Avonlea Minerals Limited to focus on gas and energy and change of  
name to Sino Gas and Energy Holdings Limited**

**Change of Activities**

The directors of Avonlea Minerals Limited (**Avonlea** or **Company**, ASX:AVZ) are pleased to announce the Company has entered into a conditional merger implementation agreement for the merger of the Company and Sino Gas & Energy Holdings Limited (**SGEH**) by way of scheme of arrangement under which Avonlea will make offers to acquire all of the issued shares in SGEH. Avonlea will also make individual offers to acquire 100% of the options in Sino in exchange for options in Avonlea, conditional on completion of the Merger.

Contemporaneous with the merger, Avonlea will transfer all of its existing assets, with the exception of its current cash balances which will remain in Avonlea, to a newly incorporated wholly owned subsidiary (**Newco**) in exchange for shares in Newco and will then distribute those Newco shares to shareholders of Avonlea.

Avonlea will then focus on the gas and energy operations and activities owned by SGEH and Newco will focus on the existing assets of the Company.

The change in focus of Avonlea from the exploration of gold and base metals to gas and energy will involve a significant change in the nature and scale of Avonlea's activities and accordingly, it will need to comply with Chapters 1 and 2 of the ASX Listing Rules if the proposal is approved by shareholders.

Shareholders should note that Avonlea will need to consolidate its capital on a 1 for 3 basis for the purposes of re-compliance with Chapters 1 and 2 of the ASX Listing Rules. The merged Avonlea will also seek to raise new capital by the offer of approximately 8,500,000 post consolidation shares pursuant to a prospectus. The amount of the offer and the pricing will be determined at the time of lodgment of the prospectus.

After completion of the merger, Avonlea will change its name to "Sino Gas & Energy Holdings Limited" to more accurately reflect the nature of the new business of the Company.

A summary of SGEH's structure and current activities, the effects of Avonlea undertaking the above changes in activities and associated matters is set out below.

### **Sino Gas & Energy Holdings Limited's current activities**

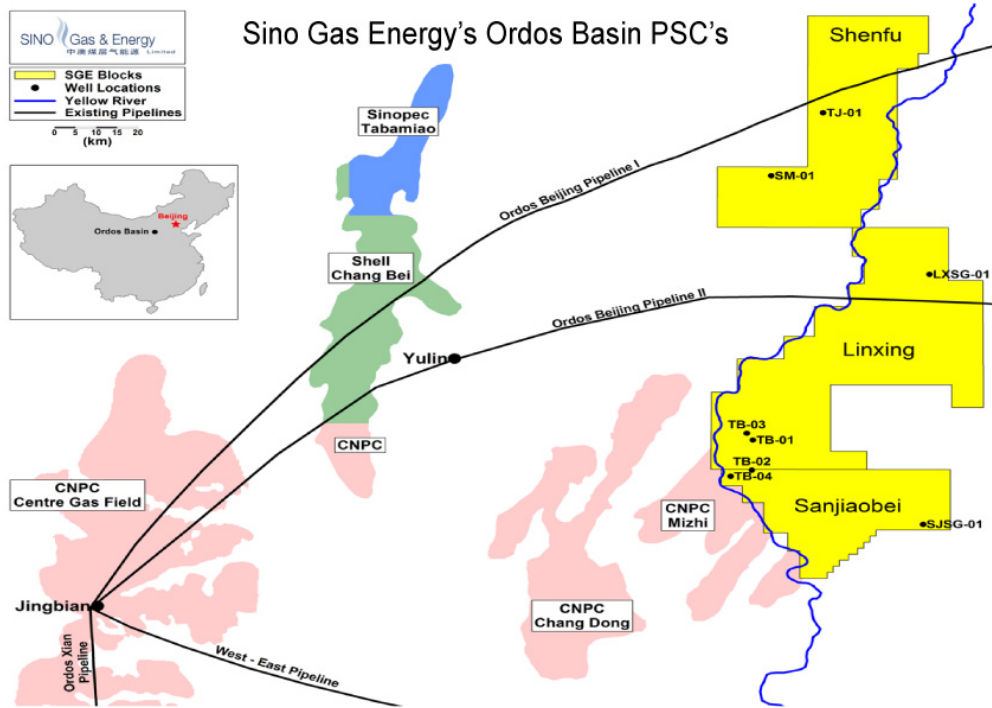
SGEH is an Australian company focused on developing tight gas (**TGS**) and conventional coal seam gas (**CSG/CBM**) projects in China. In summary, SGEH (including its wholly owned subsidiary, Sino Gas & Energy Limited, (**SGE**)):

- has operated in Beijing, the Peoples Republic of China since July 2005;
- holds a 50% gross working interest in TGS and CBM (**CBM/CSG**) assets through Production Sharing Contracts (**PSC's**) in the prolific oil & gas producing Ordos Basin in North East China. The PSC's cover an area >5,500km<sup>2</sup>;
- is the Operator of the PSC's and, accordingly, is responsible for defining and executing the agreed work programs;
- has a Beijing based management team with extensive Chinese and unconventional gas expertise;
- has a quality and advanced Exploration Project with approximately US\$50.3 million spent by Chevron, others and SGE to date. The Project offers scale with 5.9 tcf gross initial gas in place (**GIIP**) on TGS, 100%. There exists further potential for CBM resources on the three PSC's;
- has conducted an extensive drilling campaign and seismic program over the last 2 years. SGE has found 4 gas discovery wells to date with proven gas flow: TB-02 - 457 mcf/d and TB-01: 175 mscf/day. Two other gas discovery wells (SM-01 and TB-04) drilled and ready for testing. The flow rates from both zones in TB-02 exceed the expected minimum threshold projected for commercial production;
- is seeing encouraging results from offset wells, particularly adjacent to SGE's Tuban Discovered Area; and
- is well positioned in a region where there is a large gas market with supportive central, provincial and regional government and an increasing gas price.

### *Background*

SGE holds a 50% gross working interest in three Production Sharing Contracts (**PSC's**) named Linxing, San Jiao Bei and Shenfu. Chevron currently holds the other 50% gross working interest in these PSC's. The PSC's are located in the onshore Ordos Basin in the provinces of Shanxi and Shannxi in North East China and comprise an area of some 5,500 km<sup>2</sup>.

The Ordos Basin is the second largest oil and gas producing basin in China with over 50 Tcf of proven gas in place which is either under development or in production.



SGE acquired its interest in these PSC's through a successful farm-in (**Farm-In**) from Chevron Texaco (**Chevron**), the global oil and gas energy company. SGE is the operator of the PSC's and accordingly is responsible for defining and executing the agreed work programs.

SGE is seeing encouraging results from offset wells, particularly adjacent to SGE's Tuban Discovered Area in the Mi Zhi and Shilou developments.

SGE operates in China to "Western Oilfield" standards: it conducts its operations safely and in an environmentally friendly manner.

The PSC's are a contractual arrangement between SGE, China United Coal Bed Methane (**CUCBM**) the Chinese Government participant and Chevron governing the exploration, development and production of CBM on the project areas. Subject to Chinese regulatory approvals, Chevron is in the process of disposing of its 50% gross working interests in these PSC's to an American company that is developing a portfolio of energy assets in Asia. Subject to these approvals, the disposal would be effective from 1 July 2007.

The PSC's operated by SGE are typical of the industry – though each has minor variations. They provide the right to CUCBM to join the project at the development phase, paying their proportionate share of the costs (30% for Linxing and Shenfu and 51% for San Jiao Bei). Revenue from production is distributed among the PSC participants in accordance with a formula that first recovers operational, exploration and finally development costs.

Each of the PSC's comprises an exploration period, a development period and a production period. The key terms of each PSC are as set out below:

	<b>Interests (from development)</b>	<b>Effective Date</b>	<b>Term</b>	<b>Current Status</b>
Linxing PSC	CUCBM 30% SGE 35% Chevron 35%	1 Sep 1998	30 years	Exploration period – extended to 31 Aug 09
San Jiao Bei PSC	CUCBM 51% SGE 24.5% Chevron 24.5%	1 Sep 1998	35 years	Exploration – period extended to 31 Aug 08 <sup>1</sup>
Shenfu PSC	CUCBM 30% SGE 35% Chevron 35%	1 May 2001	35 years	Exploration period – extended to 30 Apr 08 <sup>1</sup>
<sup>1</sup> SGE (and the other PSC participants) have made application for extension of the exploration periods for the Shenfu and San Jiao Bei PSC's, however, such applications are not yet finalised and the process of obtaining the extensions is currently underway with CUCBM.				

#### *SGE Operating History (2006 Farm-in / 2007 Work Program)*

The Farm-In required SGE to drill and test five wells, bearing 100% of the costs until such time as this activity was completed. Two wells were drilled to evaluate the shallow coal in the eastern parts of the contract areas while the other three wells evaluated deeper prospects to the west.

Two of the wells drilled, TB-01 and TB-02, were considered to be gas discoveries by electric log analyses in multiple zones. The TB-01 well was fracture stimulated in September/October 2006 in three reservoir intervals and subsequently flowed natural gas from the commingled zones at the rate of 5,000 cubic meters per day (175mcf/d).

SGE received acknowledgment of its successful Farm-In in early calendar 2007 and from this point the costs of the forward program have been shared 50%/50% between SGE and Chevron.

The 2007 work program commenced in early April 2007 with commencement of a seismic acquisition program. By mid-July 2007, the Company had acquired 414 kilometers of new two-dimensional seismic to supplement the limited existing seismic database of 147 kilometers shot by Chevron in year 2001 on the Linxing and San Jiao Bei contract areas. Prior to the 2007 seismic shoot, there was no existing seismic information available to the Company on the Shenfu block.

In calendar 2007 SGE also drilled three additional deep exploration wells: TB-03, TB-04 and SM-01. All three of the wells drilled in 2007 are considered to be gas discoveries by electric log analysis.

From early September through mid-November 2007, fracture stimulations and production tests were conducted on two separate formations in the TB-02 well and on one zone in the TB-03 well. In the TB-02 well, the Taiyuan formation flowed gas at a sustained rate of 6,500 cubic meters per day (230mcf/d) and the He8 formation flowed gas at a rate of 4,800 cubic meters per day (170mcf/d), each with flowing tubing head pressures of 200 psia. The combined flow rates from both zones in TB-02 exceed the expected minimum threshold

projected for commercial production. The Taiyuan formation in the TB-03 well showed a weak gas blow after perforation but flowed only water following the fracture treatment.

The SM-01 well drilled on the Shenfu PSC discovered an 8 meter thick good quality gas bearing Shiqianfeng formation zone and a 12 meter thick gas bearing Taiyuan zone directly adjacent to the #8 coal seam. These zones will be further evaluated in the calendar 2008 work program.

Since the completion of the calendar year 2007 drilling and testing program, SGE has focused on a range of technical work including the 2007 seismic data set interpretation, regional sediment and deposition study using all the collected conventional and side wall core information, PVT and water analyses on the collected fluid samples, evaluation of the pressure build-up curves on each flow test, and special core analyses on the Taiyuan, He8 and Shiqianfeng formations to determine the shape and endpoints of the relative permeability curves for gas and water. This data is being incorporated into the forward operating plan.

At the end of calendar 2007, SGE had spent approximately US\$17.8 million (its share) on the PSC exploration program.

#### *SGE 2008 Work Program*

SGE is currently in the process of agreeing its calendar 2008 Work Program with its partners. The program has been developed to: upgrade SGE's prospective resources to contingent resources by drilling and testing wells in the prospective resources area, and to appraise and progress commercialization of SGE's contingent resources.

Specifically, it is expected that the program will consist of: drilling an additional 6 TGS appraisal wells, 1 additional CBM well, the evaluation of the SM-01 discovery as well as other geological and engineering studies.

The 2008 Work Program on a 100% basis is expected to be around US\$14.1 million. These costs will be shared 50%/50% between SGE and Chevron (or its partner successor in the event that the proposed transfer from Chevron is effected).

#### *Management Team*

The SGEH group has been operating in Beijing, Peoples Republic of China, since July 2005. SGEH has a small core of Beijing based senior executives with a balance of experience across a broad range of disciplines relating to TGS and CBM as well as delivering administrative and operational management skills.

#### *Funding History*

SGEH has funded its activities to date through a combination of both private equity and debt funding.

In the financial year ended 30 June 2006, the SGEH group raised some \$6.5 million through private equity raisings. This was supplemented in late calendar 2006 and in early calendar 2007 through a secured convertible loan of \$11.7m from a foundation shareholder. This loan will be converted into ordinary shares in SGEH as part of the Scheme and is included as such in the Proposed Capital Structure of Avonlea set out below.

Again, in mid calendar 2007, the SGEH group raised additional funds totaling \$15.1 million.

## Avonlea's current activities

### *Diemals*

The Diemals Iron Ore Project is located 240 kilometers north of Southern Cross in a well known iron ore producing region in Western Australia. Portman Mining Ltd's Koolyanobbing Iron Ore Project is located in this region with 26.9 million tonnes of ore processed over the previous five years and total mineral resources of 146.5 million tonnes of ore at 61.94% Fe.

The Diemals Iron Ore Project covers approximately 200 square kilometers of ground and the Company has acquired an 85% interest in the rights to Iron Ore (with 15% free carry to Bankable Feasibility Study). An interpreted 20 kilometers strike of Banded Iron Formation (**BIF**) exists within the tenement, which has received little, if any exploration for Iron Ore. LandSat TM data shows the target BIF sequence outcropping in the southern portion of the tenement.

Shortly after acquisition of the project a total of 27 random rock samples were collected from 4 areas over some 18 kilometers of strike. These samples were collected from sub-cropping to out-cropping Banded Iron Formation (**BIF**) and tested on site, with 25% of these samples showing Fe values above 55%.

The Company considers the BIF sequence to be the northern extension to the BIF sequence that occurs within ground held by Transit Holdings Ltd. No systematic mapping or sampling for Iron Ore along the entire interpreted strike length has been completed.

A number of companies are actively exploring for iron ore in the Diemals region. These include:

- (a) Portman Ltd, who in addition to exploring are operating the Windarling Iron Ore Mine 60 kilometers south of the Diemals Project, (one of three operating Portman mines in the region and the closest to the Diemals Project);
- (b) Transit Holdings Ltd (ASX:TRH) are exploring for Iron Ore immediately south of the diemals Project where rock chip samples over 60% Fe have been collected from the "Bolger" Prospect from BIF; and
- (c) Polaris Metals NL (ASX:POL) are exploring for Iron Ore near the Diemals Project.

### *Geology*

A number of individual BIF units exist at Diemals. These are interbedded with iron-rich sediments, and Fe-cherts. Widths of individual BIF units vary from 2 to 25m, however the entire package of BIF, Fe-chert and iron-rich sediments (here named the "BIF sequence") can range from 60-150 meters +. The BIF generally forms low to moderately steep strike ridges which can be up to 1 kilometer long. Float from the ridges can be widespread and persist downslope for 100's of meters.

### *Wentworth*

The Wentworth Project consists of two Exploration Permit Mineral (**EPM**), EPM 14662 and EPM 14745, located in the Drummond Basin of Central Queensland, approximately 300km southwest of McKay. The closest regional centre is Moranbah, 40km to the south east.

The Wentworth Project is considered prospective for Mt Wright or Kidston style breccia systems associated with felsic volcanics.

Historical results from several holes include 17 metres @ 0.71% zinc, 70m @ 0.4 g/t Au, 11m @ 0.75 g/t Au and 1.2m @ 174 g/t silver and 1.5% zinc.

A detailed work plan has been completed and exploration will commence in the fourth quarter. The results from this work plan have allowed the Company to reduce the size of the two EPMs to retain key exploration areas.

#### *Post Merger*

The assets of Avonlea, with the exception of its current cash balances which will remain in Avonlea, will be transferred to Newco in consideration for shares in Newco and Newco will continue to explore these assets. The Newco shares will be distributed in specie to the shareholders of Avonlea. Accordingly, Avonlea shareholders will still retain an interest in these assets, albeit through an unlisted company.

#### **Scheme of Arrangement**

Under the terms of the proposed merger to be completed by way of scheme of arrangement, SGEH shareholders will receive 1 Avonlea share (post consolidation) for every 1 SGEH share held.

The scheme of arrangement will be subject to conditions including:

- (a) satisfactory due diligence by the boards of both companies;
- (b) SGEH shareholder approvals and court approvals in respect of the scheme;
- (c) approval from Avonlea shareholders to the scheme, capital raising, change of name and a change in the nature and scale of the activities of Avonlea;
- (d) all relevant regulatory approvals, including FIRB approval (if required); and
- (e) other conditions customary for a public transaction of this nature.

The companies have entered into the merger implementation agreement and will bear their own costs of the merger and implementation of the schemes.

#### **Benefit to Avonlea shareholders**

The benefits to Avonlea shareholders include the following:

- (a) exposure to a quality and advanced gas exploration project offering significant scale;
- (b) exposure to the China market which is expected to show significant growth in natural gas demand as China moves to secure additional energy sources; and
- (c) leverage to increasing gas prices as China continues to develop new gas markets and move towards environmentally sustainable energy.

## Benefit to SGEH shareholders

The benefits to SGEH shareholders include the following:

- (a) access to immediately available funds through the proposed merger;
- (b) SGEH becoming an ASX listed entity. This event will provide some liquidity for existing and new shareholders;
- (c) the ability to more easily attract funds in capital markets through a listed entity structure; and
- (d) the merger by way of a Scheme of Arrangement is a straight forward process for SGEH to become a listed entity: one where both companies can control the process timing and documentation.

## Proposed Capital Structure

Outlined below is the capital structure of the Company assuming completion of the merger.

### Ordinary shares

Current shares on issue	26,450,000
Post consolidation 3:1	8,816,667
Scheme consideration	136,082,544 <sup>1</sup>
Capital raising	8,500,000 <sup>2</sup>
<b>Total shares on issue</b>	<b>153,399,211</b>

### Options

Current options on issue	7,000,000
Post consolidation 3:1 <sup>3</sup>	2,333,333
Current options on issue in SGEH	1,760,000 <sup>4</sup>
<b>Total options on issue</b>	<b>4,093,333</b>

Notes:

<sup>1</sup> this assumes that SGEH will have 153,399,211 shares on issue at the time the merger is implemented, which assumes the issue of 25,821,732 SGEH shares upon conversion of the current secured convertible loan in SGEH, based on the outstanding loan amount as at 31 March 2008. The number of SGEH shares on issue at the time the merger is implemented is contingent upon the time at which the current secured convertible loan in SGEH is converted. The number of SGEH shares issued for the conversion of that loan in full will increase to account for further interest payable by SGEH up to the time of conversion.

<sup>2</sup> the number of shares to be issued under the capital raising may alter.

<sup>3</sup> exercise price of options will be consolidated in accordance with the ASX listing rules in inverse proportion. Accordingly, the options currently exercisable at \$0.20 each will be exercisable at \$0.60 each on or before 31 May 2012 post consolidation.

<sup>4</sup> exercise price will be \$0.50 each on or before 13 March 2013. SGEH also proposes to issue an additional further 500,000 options, with an exercise price of \$0.50 each, to Mr Sam Snyder, a director of SGEH, subject to shareholder approval.

### Pro forma balance sheet

Outlined below is a pro forma balance sheet of the Company as at 31 December 2007 assuming completion of the merger, capital raising and in specie distribution.

	Sino 31/12/07 \$	Avonlea 31/12/07 \$	Proforma
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7,799,036	2,488,425	15,387,461 <sup>1</sup>
Trade and other receivables	1,955,219	24,590	1,979,809
<b>Total current assets</b>	<b>9,754,255</b>	<b>2,513,015</b>	<b>17,367,270</b>
<b>Non-current assets</b>			
Plant and equipment	200,779	2,025	200,779
Deferred exploration and evaluation expenditure	20,121,925	1,006,145	20,121,925
<b>Total non-current assets</b>	<b>20,322,704</b>	<b>1,008,170</b>	<b>20,322,704</b>
<b>Total assets</b>	<b>30,076,959</b>	<b>3,521,185</b>	<b>37,689,974</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	3,834,844	14,723	3,849,567
Provisions	8,701	-	8,701
Interest bearing loans and borrowings	12,524,334	-	24,334
<b>Total current liabilities</b>	<b>16,367,879</b>	<b>14,723</b>	<b>3,882,602</b>
<b>Total liabilities</b>	<b>16,367,879</b>	<b>14,723</b>	<b>3,882,602</b>
<b>Net assets</b>	<b>13,709,080</b>	<b>3,506,462</b>	<b>33,807,373</b>
<b>EQUITY</b>			
Issued capital	21,010,644	3,557,492	42,168,136
Reserves	(752,082)	-	(752,082)
Accumulated losses	(6,549,482)	(51,030)	(7,608,681)
<b>Total equity</b>	<b>13,709,080</b>	<b>3,506,462</b>	<b>33,807,373</b>

<sup>1</sup> Assumes a capital raising of \$5,100,000.

### Prospectus

The prospectus that will be issued for the recompliance with Chapters 1 and 2 of the ASX Listing Rules will contain a detailed description of the merged group and the use of the Company's funds.

## Indicative Timetable

An indicative timetable for completion of this transaction will be announced in due course. This timetable will include details of the court hearing dates, the meeting dates and the completion dates.

## Other

The shareholders of Avonlea do not need to take any action at this time. A notice of meeting and explanatory statement outlining all relevant information is currently being prepared and will be distributed to shareholders as soon as practically possible.

For further information, please contact Andrew Gastevich of 08 9476 9202 or contact the Company at [admin@avonleaminerals.com.au](mailto:admin@avonleaminerals.com.au).

Yours sincerely



Roger Steinepreis  
Chairman