

August 19, 2011

CTE's Potential Overpayments for Drilling Equipment could exceed US\$100 million.

SinoTech Energy Limited, Inc. (NASDAQ: CTE \$2.80) buys its Lateral Hydraulic Drilling ("LHD) rigs from Jet-Drill Well Services, LLC. However, there is an intermediary named Dongying Luda Petrochemical Equipment Co., Ltd., which is used for the purchases of these units. CTE makes payments to Dongying Luda, which then purportedly makes payments to Jet-Drill; the rigs are then delivered to CTE.

Dongying Luda has been paid approximately \$6.5 million for each of the LHD units. We believe that significantly superior LHD units from manufacturers with for greater experience than Jet Drill are available in the market for less than \$1 million. CTE alleges to have purchased 20 rigs for approximately \$6.5 million each.

Component specification can vary widely even for the most basic elements of LHD rigs. For instance, the steel coil that is wrapped around the tube that is run down the oil well to deliver the pressure that powers the down hole drilling tools can be constructed of different diameters, wall thickness and different qualities of stainless steel. The pump, tank and spool specifications and the complexity of the layout configuration materially affect the rigs' cost and can vary widely.

Our estimate of \$750,000 per LHD unit refers to a deep-well LHD built with the highest grade material and construction standards, and with above standard component redundancy.

To see a timeline detailing the purported delivery of the LHD units to CTE, click [here](http://www.asensio.com/cte/lhdcontract/LHDEquipmentTimeline(2).pdf).