

Sino Clean Energy, Inc.
Energy / Clean Coal
SCLX: OTC/BB

May 27, 2010

PROFILE

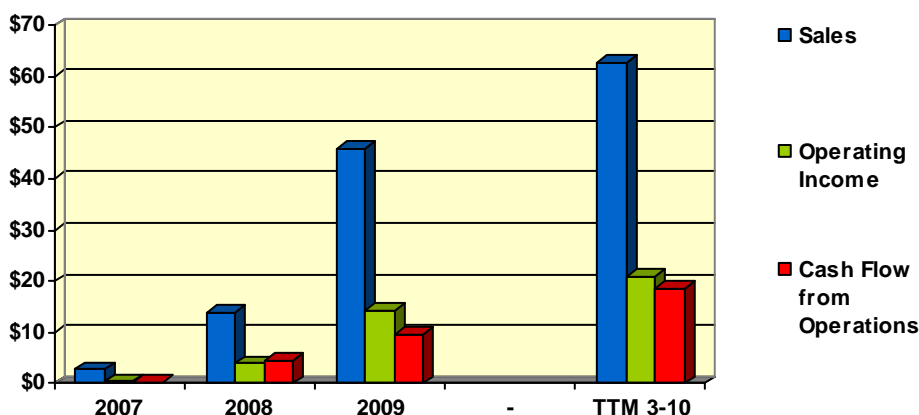
Sino Clean Energy is the third largest producer of Coal Water Slurry Fuel (CWSF) used in residential, commercial and industrial boilers and furnaces. Produced from pulverized coal, mixed with proper proportions of water and suspension additives, CWSF is gaining interest as a cleaner fuel. The fluid can be transported by truck to customer sites, where the fuel is used in properly outfitted boilers for heating or industrial processes.

The Company benefits from strong central and local government mandates in China to reduce carbon dioxide and particulate emissions that are associated with burning coal aggregate. Economic and environmental plans developed by the People's Republic of China call for the adoption of clean energy alternatives in general and investment in research and development of clean coal alternatives in particular. Three cities in China have mandated conversion of aggregate coal-fired boilers to a clean energy alternatives, including the Company's home city of Tongchuan. No add new aggregate coal-fired furnaces are being permitted. Additional cities are expected to follow suit.

Sino Clean Energy recently expanded production to 850,000 metric tons to meet the needs of a building customer base, which has recently topped forty regular customers. Current supply agreements total 800,000 metric tons. To serve additional customers, the Company plans to expand production by another 150,000 metric tons by the end of 2010.

Capacity expansion and strong execution in penetrating its markets helped Sino Clean Energy grow sales by 214% in the most recently reported quarter to \$24.5 million. The profit margin also increased to 41.2% on better coverage of fixed costs. The Company expects to reach the \$105 million sales level in 2010 and to deliver a 25% net margin excluding non-cash expenses. Capacity expansion could drive sales to a higher level.

FINANCIAL PERFORMANCE



Dollars in millions; fiscal year ends December.

Source: Company Reports

MARKET DATA

Price: \$6.75 (5/26/10)
 52 Wk Hi-Lo: \$10.10 - \$0.55
 Ave. Volume: 98 K
 Short Interest: <1%
 Beta: 1.20

VALUATION

Price/Sales: 1.8 X
 Price/CFO: 6.0 X
 Price/EPS: 8.0 X
 Price/Book Value: 4.2 X

Based on TTM ending 3/31/10

Consensus EPS 2010: NA
 Forward PE: NA
 Consensus EPS 2011: NA
 Forward PE: NA

EQUITY SECURITIES

Common Shares Out: 16.6 M
 Insiders: 32.5%
 Float: 11.2 M
 Institutional: <5%
 5% Holders: 19.3%

Common Dividend: Nil
 Warrants and Options Outstanding: 4.1 M
 Preferred Shares Out: -0-
 Preferred Stock: -0-
 Preferred Dividend: Nil

Shares outstanding gives effect to one for ten reverse stock split May 2010

As of 3/31/10

INVESTMENT HIGHLIGHTS

Positives

- Large market opportunity for heating fuel with numerous end users in the immediate region as well as potential for geographic expansion
- Environmental regulatory and governmental policy trends that favor non-conventional fuel sources offering efficiency
- Highly fragmented coal processing industry with opportunities for expansion through acquisition
- Government-sponsored restructuring of China's coal industry presents opportunity for backward integration into coal production, the primary input for the CWSF product, that could lead to input cost reduction
- Output increases resulting from the recent and planned capacity expansion, leading to profit margin expansion through economies of scale
- Highly qualified management team with lengthy experience in coal industry and fossil fuel boilers; expanded independent board of directors
- Adequately capitalized with \$25.8 million in cash and nominal operating liabilities following conversion of outstanding convertible debentures

Negatives

- Potential for competition from alternative fuel sources such as natural gas or fuel oil that meet government requirements for clean energy production
- Potential for quarterly earnings variance in the event of an interruption in production due to equipment failure, accidents or disruption in raw material supplies
- Production of the primary input, coal, is highly regulated and may be subject to price controls by China central government authorities
- All of the Company's operations are located outside the U.S. and business is conducted primarily in the Chinese language, adding additional complexity to investors' due diligence efforts
- Changes in exchange rates between China's renminbi (functional currency) and the U.S. dollar (reporting currency) may negatively impact reported earnings and balance sheet values
- Potential dilutive effects from the exercise of outstanding options and warrants totaling 4.1 million shares, representing 24.7% dilution

OPERATING RESULTS

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>3 Mo 09</u>	<u>3 Mo 10</u>	<u>2010 Est</u>
Sales	\$2.8	\$13.8	\$46.0	\$7.8	\$24.5	\$105.0
Gross Profit	\$1.0	\$ 4.5	\$17.1	\$2.4	\$10.1	
Margin	35.7%	32.8%	37.2%	30.8%	41.2%	
Oper. Inc.	\$0.4	\$ 4.0	\$14.2	\$1.9	\$ 8.5	
Net Inc.	\$1.3	\$ 3.0	(\$34.8)	\$1.6	\$20.5	
CFO	\$0.3	\$ 4.4	\$ 9.7	\$2.4	\$11.3	\$ 25.0
EPS	\$0.12	\$0.03	(\$0.36)	\$0.17	\$1.37	
ROE	11.4%	15.9%	Neg			
ROA	9.0%	14.2%	Neg			

Dollars in millions except EPS/LPS; Fiscal year ends December.

Source: Company Reports and Crystal Equity Research Estimates

OUTLOOK

In our view, the March 2010 quarter was a period of inflection for Sino Clean Energy. The Company completed a project to expand its production capacity and efficiency with new processing equipment, bringing capacity to 850,000 metric tons. With customer orders in hand for 800,000 tons, we expect further top-line growth. Management has guided for \$105 million in total sales in 2010, suggesting strong comparisons in coming quarters that could inspire investor confidence and higher valuation.

During the March 2010 quarter the Company was also able to strengthen its capital structure through the conversion of outstanding notes into common stock. The conversion eliminated long-term debt, cleared up shareholder's deficit, and eliminated much of the derivatives accounting that has muddied quarterly EPS comparisons.

We view SCLX shares as highly speculative and appropriate for investors with long-term investment horizons and a tolerance for risk.

RECENT EVENTS

- **Dec. 2009** - Legal reorganization of control and operating subsidiaries
- **Feb. 2010** - Completion of capacity expansion to 850,000 tons and installation of fluid acoustic energy system in Tongchuan facility
- **March 2010** - Conversion of \$10.2 million in convertible debentures in 5.4 million shares of common stock
- **May 2010** - One-for-10 reverse stock split

BUSINESS DESCRIPTION

Sino Clean Energy's primary source of revenue is the sale of Coal Water Slurry Fuel (CWSF) that is sold directly to industrial and commercial customers. The Company's primary production facility is located near the City of Tongchuan in the coal-rich Shaanxi Province in north-central China. A second production line is located at Shenyang, Liaoning Province. Production capacity was recently expanded to 850,000 tons and plans are underway to expand production by another 150,000 metric tons by the end of 2010. The installation a state-of-the art processing system has helped reduce raw material requirements and enables long-distance pipeline distribution of the finished product. Sino Clean Energy is domiciled as a public company in the State of Nevada, but its executive offices are located in the city of Xi'an, Shaanxi province. The Company maintains an Internet presence at www.sinocei.net.



INDUSTRY CALENDAR

- ♦ Sept. 21-22, 2010 - **Second Annual Upgrading Coal Conference**, CoalTrans, Jakarta, Indonesia
- ♦ Oct. 26-29, 2010 - **China Coal Expo**, Beijing
- ♦ Nov. 16, 2010 - **China Mining Congress and Expo**, Tianjin, China
- ♦ Nov. 24-26, 2010 - **China's International Exhibition on Coal Processing**, Beijing, China
- ♦ April 4-11, 2011 - **Asia Mining Congress 2011**, Singapore
- ♦ TBD - **9th Annual Coal Markets Conference 2011**

RELATIONSHIPS

- ♦ **Xin Juan Coal Mine** - one of three washed coal suppliers
- ♦ **Qingdoa Haizhon Industry, Inc.** - CWSF-compatible boiler manufacturer
- ♦ **Zhejiang Jinggong Group** - production equipment supplier
- ♦ **Weinberg & Company** - independent auditor
- ♦ **Richardson & Patel** - legal counsel

PRODUCTS

Sino Clean Energy's principal product is Coal Water Slurry Fuel (CWSF), a highly viscous liquid fuel made from pulverized coal particles suspended in water. Suspensions additives are added to prevent settling of the coal particles during transport to customer premises. CWSF mixtures are typically half to three-quarters coal particles and the rest water. Coal particles have a typical size of less than 200-300 microns. CWSF is used in residential and commercial boilers for heating and industrial furnaces for production processes.



The smaller the particle size the more versatile the CWSF is for application. For example, in the largest particle form CWSF is a viable substitute for heavy grade fuel oils used to produce steam in boilers. Additionally when the particle size is 80 microns or less the CWSF can be used as a co-fuel or substitute fuel in diesel engines. The finer the particle size the more difficult it is to manufacture. Despite the flexibility of CWSF application, China's output is used largely for heating and industrial process .

When burned, coal aggregate emits sulfur oxides (SOx), nitrogen oxides (NOx), mercury, and particulate matter (PM). Coal also produces more carbon dioxide per unit of energy produced than oil or natural gas. Higher combustion efficiencies using CWSF leads to lower emissions relative to burning coal aggregate, making CWSF a comparatively cost effective and environmental friendly fuel for heat and power generation. The presence of water in CWSF helps

prevent explosion of the highly combustible pulverized coal and enables more cost efficient transport to customer premises.

Coal of almost any type can be used as a raw material for CWSF, including lignite, flame and gas flame coals, anthracites and brown coal. Sino Clean Energy sources its coal from at least three different suppliers in the Company's immediate market in Shaanxi Province in central China.



BALANCES

	<u>12/31/09</u>	<u>3/31/10</u>
Cash	\$18.3	\$25.8
Current assets	\$28.8	\$33.7
PP&E, net	\$12.6	\$15.6
Total assets	\$44.6	\$53.1
Accts. Payable	\$ 2.7	\$ 3.6
Trade Payable	\$ 1.6	\$ 2.1
Derivative Liability	\$16.8	\$21.0
Current Liabilities	\$21.1	\$26.8
LT Convertible Note	\$ 1.6	\$ -0-
LT Derivative Liability	\$28.4	\$ -0-
Equity (Deficit)	(\$ 6.5)	\$26.3
Shares Outstanding	10.8	16.6
Warrants and Options	4.1	4.1
Shares underlying		
Convertible Debt	6.4	-0-

Dollars, shares and derivatives in millions

Source: Company Reports and Crystal Equity Research Estimates

RECENT CAPITALIZATION DEVELOPMENTS

Sino Clean Energy's balance sheet at the end of March 2010, is substantially improved compared to three months earlier. Holders converted notes valued at \$1.6 million at the end of December 2009, less a valuation discount totaling \$8.6 million, into 5.4 million shares of the Company's common stock. Previously in 2009, \$1.4 million of the notes had been converted to 723,684 shares.

The complete conversion of debt into common stock, eliminated the Company's deficit and reduced the impact of non-cash accounting treatments for derivatives on the Company's income statement. A long-term derivative liability totaling \$28.4 million and related to the conversion feature of the convertible notes was eliminated. The valuation discount of \$8.6 million was fully amortized and included in interest expense in the first quarter 2010.

A current derivative liability of \$21.0 million remains on the balance sheet and is associated with 4.1 million warrants. The Company will continue to book quarterly gains or losses related to these derivatives until all the warrants are exercised. The average exercise price is \$2.24.

At the end of the March 2010 quarter, the Company had a cash balance of \$25.8 million and working capital of \$27.9 million, excluding the warrant liability of \$21.0 million. The debt-to-equity ratio is now zero compared to a negative ratio previously.

COMPARISONS**As Reported**

	<u>1Q09</u>	<u>4Q09</u>	<u>1Q10</u>
Sales	\$7.8	\$19.3	\$24.5
Gross Profit	\$2.4	\$ 8.1	\$10.1
Margin	30.8%	42.0%	41.2%
Oper. Inc.	\$1.9	\$7.1	\$ 8.5
Margin	24.4%	14.4%	34.7%
Net Inc.	\$1.6	(\$6.0)	\$20.5
CFO	\$2.4	\$ 4.6	\$11.3
EPS	\$0.17	(\$0.06)	\$1.37

As Adjusted for Non-cash Charges*

	<u>1Q09</u>	<u>4Q09</u>	<u>1Q10</u>
Sales	\$7.8	\$19.3	\$24.5
Gross Profit	\$2.4	\$ 8.1	\$10.1
Margin	30.8%	42.0%	41.2%
Oper. Inc.	\$1.9	\$7.1	\$ 8.5
Margin	24.4%	14.4%	34.7%
Net Inc.	\$1.3	\$ 5.4	\$ 7.8
EPS	\$0.14	\$0.05	\$0.52

Dollars in millions except EPS; Fiscal year ends December

**Crystal Equity Research Estimates.*

OPERATING PERFORMANCE

Sino Clean Energy reported a record quarter in March 2010, with sales of \$24.5 million compared to \$7.8 million in the year-ago quarter and \$19.3 million in the December 2009 quarter. Expanded production capacity and successful market penetration are the primary drivers behind the growing top-lines. Selling prices of the Company's CWSF product have remained stable over the past year. Gross profit increased to 41.2% of sales compared to 30.8% in the prior-year quarter. Profit margins expanded largely due to economies of scale and better coverage of fixed costs by the higher sales volume in the recent quarter.

Operating margin increased to 34.7% in the March 2010 quarter as the Company has sought to control SG&A spending rates. Operating expenses totaled \$1.6 million in the near quarter or 6.5% of total sales compared to \$555,458 a spending rate of 7.7% in the year-ago quarter.

Accounting for financial instruments and derivative liabilities has made comparison of quarterly and annual performance a bit tricky, at least from on a net income or earnings per share basis. We illustrate year-over-year and sequential comparisons for the most recently reported quarter ending March 2010, first "as reported" and then "as adjusted for non-cash charges" associated with the Company's now-converted notes and current outstanding warrants.

Accordingly we suggest investors look carefully at cash flow from operations in addition to net income and earnings per share. Operations generated \$11.3 million and \$18.6 million in cash in the three and twelve months ending March 2010, respectively.

GROWTH DRIVERS

- ♦ Global warming concerns
- ♦ New air particulates standards
- ♦ Local prohibitions against conventional coal-fired boilers
- ♦ Relative prices of heating fuel substitutes

TARGET MARKETS

- ♦ Power plant boilers
- ♦ Industrial kilns
- ♦ Central heating boilers
 - Government buildings
 - Schools
 - Military barracks
 - Multi-family residences

COMPETITION

- ♦ Coal Water Mixture Producers
 - Tai 'an Liangda CWM Co.
 - Datong Huihai CWM Co.
 - Daqing Shenhai Clean Coal Co
 - Ningbo Hongyuan CWM Co.
- ♦ Fuel Substitutes
 - Heavy Oil
 - Natural Gas
 - Gasified Coal
 - Coal Aggregate

SUPPLIERS

The principal raw materials for Sino Clean Energy's CWSF product are coal and water. There are numerous coal mines and water sources in the Tongchuan area, providing the Company with ample coal and water supply alternatives. In 2009, the Company purchased 85% and 12% of its coal raw materials from two suppliers, respectively, and has since expanded its supplier arrangements to a third source. The Company bought a total of 321,959 tons of coal in 2009.

MARKET OPPORTUNITY

Coal is a vital source of energy and industrial material in China. The country derives as much as two-thirds of its electricity from coal-fired power plants. Coal is also the foundation of China's leadership in steel making around the world. China is the largest producer of coal in the world, extracting over 2.5 billion tons of coal per year from its substantial coal mining complex, representing nearly half of world coal production.

Coal Water Slurry Fuel (CWSF) or Coal Water Mixture (CWM) as it is sometimes called in China is not a new innovation. CWSF has been produced commercially in China for over thirty years. While other markets such as the U.S. and Europe abandoned early work on CWSF as oil prices made that energy source more compelling, China continued to support research and development of coal processing alternatives.

China's policies turned out to be fortuitous. Growing environmental concerns are driving the adoption of both renewable fuels and efficiency innovations in fossil fuels. As much as 90% of China's air pollution can be attributed to direct combustion of coal aggregate. China's central government authorities have mandated reduction of nitrogen oxides, sulfates and particulates. Some local governments, including the cities of Tongchuan, Dongguan and Nanchang, have taken even more drastic action by prohibited the installation of any new coal-fired furnaces and requiring that existing coal-fired furnaces be converted to clean energy alternatives.

CWSF qualifies as one such clean energy fuel source, providing specific demand for Sino Clean Energy's product in localities with mandates to eliminate burning coal-aggregate. The Company sells to owners of boilers used for commercial and multi-family residential complexes as well as for use in industrial furnaces that support production processes. Commercial customers include an electronics manufacturing, a paper processor, a pharmaceutical producer and a textile producer, among others. In October 2009, the Company established a subsidiary Shenyang Sou'ang Energy to produce and sell CWSF in Shenyang, Liaoning Province. One of the Company largest customers is located in Shenyang.

COMPETITIVE POSITION

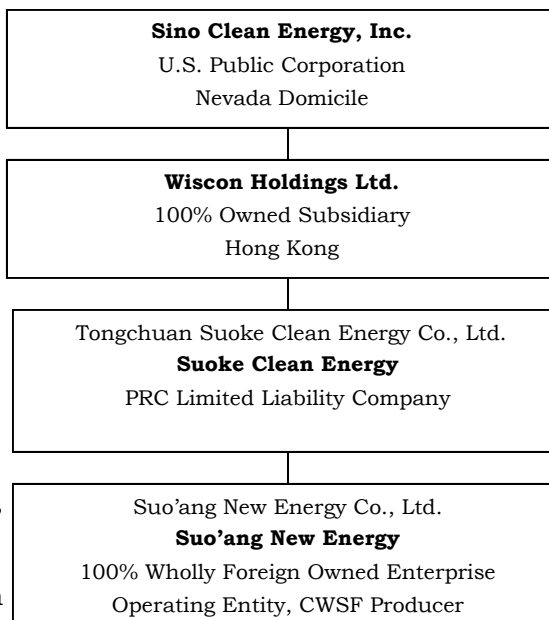
Sino Clean Energy management claims the number three position in China's Coal Water Slurry Fuel (CWSF) market on the basis of production volume. We believe there are at least four dozen active suppliers of CWSF in China, most of which produce less than 100,000 metric tons per year. There are no foreign producers of CWSF in China, primarily due to China's lead in developing CWSF technological knowhow as well as the localized nature of raw materials sources and transport.

There is little direct competition among this large highly fragmented CWSF producer group due to the regional market focus that is characteristic of CWSF production and sales. None of the CWSF producers has gained a national presence and none appear to have brand recognition beyond their immediate delivery geography. Given the early stage of the industry in China and strong support by local government agencies responsible for environmental protection, we believe Sino Clean Energy has a unique opportunity to build a strong, expandable franchise in CWSF. Geographic expansion may be accomplished through either "greenstart" of new production facilities or acquisition of existing operations.

A key source of competition arises from conventional and renewable fuel sources such as natural gas and fuel oil that qualify as clean fuels. We expect the relative price of heavy oil to remain a deciding factor for some customers, particularly owners of fuel oil-compatible boilers.

ORGANIZATIONAL CHANGES

Mid-2009, Sino Clean Energy made additional changes to its organizational structure to effect direct control of operations while maintaining acceptable legal status for relating to foreign operators. Sino Clean Energy is now a U.S. company doing business in China through its wholly owned subsidiaries as shown in the diagram at the right. The business is operated by Suo'ang New Energy through a wholly foreign owned subsidiary Tongchuan Suoke Clean Energy Co., Ltd., Tongchuan Suoke or simply Suoke Clean Energy is a limited liability company, which is incorporated under PRC law and wholly owned by Wiscon Holdings Ltd., a Hong Kong company, which is a directly owned subsidiary company. In October 2009, the Company also established Shenyang Sou'ang Energy Co., Ltd., a wholly-owned PRC subsidiary to produce and sell CWSF in Shenyang, Liaoning Province.



LEADERSHIP

Baowen Ren, CEO, President and Chairman since inception is nationally recognized for his leadership and business accomplishments. Ren has a degree in economic engineering from Hanzhong Normal University. He owns 3.1 million shares or 18.7% of total outstanding shares of the Company's common stock.

Wenjie Zhang, Director is the general manager of Hanzhong Minsheng Guomao Department Store. He has a degree in administration from Xi'an Science Institution in China.

Zidon Coa, Director is the Assistant Dean of the School of Energy & Power Engineering and Associate Director of the Research Center for Environmental Science & Engineering at Xi'an Jiaotong University. He is a member of the China's National Committee of Boiler Standardization.

Peng Zhou, General Manager of Suo'ang BST has been with the Company since 2002 and has degree in accounting from Shaanxi Institute.

Yong Li, Director was appointed to the board in late 2009. He is a partner at the investment banking firm of Investwide Capital. He is a graduate of China's Sichuan University and has advanced degrees in math and computer science from Pennsylvania State University in the U.S. Mr. Li owns 1.5 million or 9.0% of the Company's outstanding common stock.

Albert China-Hwa Pu, Director was appointed to the board in November 2009. He is the chief financial officer of China Integrated Energy Inc., a public energy company. Previously Pu served as controller a division of Amphenol Corp. and was director of finance of Endicott Interconnect Technologies. Mr. Pu received a degree in accounting from the State University of New York and is a Certified Public Accountant in New York.

CAPITALIZATION

Recent Price:	\$6.75
Shares Out:	16.6 M
Market Capital:	\$112.5 M
+ Preferred Stock	-0-
+ Debt	\$ -0- M
- Cash	<u>\$ 25.8 M</u>
Enterprise Val:	\$ 86.7 M
Book Value:	\$23.6 M
Working Capital:*	\$27.9 M

As of 3/31/10

*Working capital calculation excludes \$21.0 million derivative liability originating through GAAP accounting treatment of outstanding warrants

Source: Company Reports and Crystal Equity Research Estimates

OWNERSHIP

	Shares of Common Stock
Insiders:	
B. Ren, CEO	3.1
W. Fu, CFO	<0.1
H.W. Chan, VP Fin	<0.1
P. Zhou, Director	0.8
W. Zhang, Director	<0.1
Z. Cao, Director	-0-
A. Pu, Director	-0-
Y. Li, Director	<u>1.5</u>
Total Insiders	5.4
5% Holders	3.2

Shares in millions

Reflects one-for-ten reverse stock split in May 2010.

Reflects conversion of 10% convertible notes in March 2010

Source: Company Reports and Crystal Equity Research Estimates



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