

ASX ANNOUNCEMENT

21 February 2011

SINO GAS RECEIVES CERTIFICATION OF INITIAL RESERVES AND SIGNIFICANT INCREASE IN PROJECT VALUE

Highlights

- Initial 2P Reserves of 19 Bcf certified on Pilot Development Programs which comprises 2% of Sino Gas's Discovered Area
- 62% increase in project risked value to US\$664 million
- Planning towards commercial development

The platform to commercialise Sino Gas's large asset position is in place

Sino Gas & Energy Holdings Limited (Sino Gas; ASX: SEH), an Australian Company focused on developing Chinese Gas Assets, is pleased to announce that it has achieved a significant milestone in the Company's development and growth, with the independent certification of initial Reserves on its Linxing and Sanjiaobei Production Sharing Contracts (PSC's).

The independent certification of 2P (100%) Reserves of 19 Bcf under the rules of the Society of Petroleum Engineers Petroleum Resources Management System (SPE PRMS) relates to the Pilot Development area which is 2% of Sino Gas's Discovered Area. In addition a 62% increase in Sino Gas's share of the project risked value from US\$410 million to US\$664 million was confirmed.

Managing Director, Stephen Lyons said that achieving the Reserves and Resources Upgrade was a major milestone and the first step in unlocking substantial value as Sino Gas moves forward to commercialise its large gas asset position.

"The focus of Sino Gas's 2010 work program was on generating the data required to upgrade its Reserves and Resources.

During that program, Sino Gas successfully drilled 3 new Gas Discovery Wells and completed flow tests on 4 wells. These flow tests achieved economic gas flow rates in tests of single formations, and in the case of the TB07 Gas Discovery Well a significant economic flow estimated at 2,900,000 scf/day was achieved from a single formation without the need for fracturing. Extensive work was also completed on the Company's Pilot developments.

To have successfully and safely completed the 2010 Work Program delivering initial reserves and at the same time driving a substantial increase in project value is particularly pleasing, and reflects the hard work and dedication of Sino Gas's people," said Mr Lyons.

The area associated with the initial Reserves certification relates to an area which is 2% of Sino Gas's Discovered Area (for which Contingent Resources are certified), where the wells associated with the Pilot Developments are located.

SINO GAS CERTIFIES INITIAL RESERVES

Sino Gas intends to proceed to development in a phased approach. As the Company works to complete the required steps and obtains the necessary approvals to move to development, significant further increases in Reserves from Contingent Resources and from Prospective to Contingent Resources are expected.

“With gas prices increasing in China and end markets close to Sino Gas’s PSC’s, the improving project economics now indicate that the single formation flow tests completed by Sino Gas in 2010 exceeded the minimum calculated threshold economics, in some cases by a significant margin. As Sino Gas has potential gas pay in multiple pay zones this provides further support to move towards commercialisation of its gas assets”, said Mr Lyons.

Initial Reserves Certified on Pilot Development Programs

The Reserves and Resource certification was completed by independent resource industry consulting firm, RISC Pty Ltd under the SPE PRMS. The results are summarised below¹:

	Independently Certified Reserves/Resources 100% (Bcf) (1)		
	Probability Range		
	P90	P50	P10
Total Reserves			
Reserves	7 <i>1P</i>	19 <i>2P</i>	44 <i>3P</i>
Total Resources			
Contingent Resources	242 <i>1C</i>	961 <i>2C</i>	1,599 <i>3C</i>
Prospective Resources	342 <i>Low</i>	1,266 <i>Medium</i>	2,093 <i>High</i>
Total Resource Base			
Gas Initially in Place (GIIP)	5,850	9,027	14,391

↑
Increasing Chance of Commerciality

← Range of Uncertainty →

Under SPE PRMS only those intervals expected to be developed by the Company’s planned 2011 Pilots were classified by RISC as Reserves.

In total the Pilot wells are expected to develop an area of approximately 7km², or around 2% of the current Discovered Area of 420km² (for which Contingent Resources have been certified).

In addition, some of Sino Gas’s wells have multiple formations per well, with 2 formations initially assumed contributing to the Pilot. RISC note that if additional wells or additional formations are successfully added to the Pilot this would have the effect of increasing the Reserves estimates.

It is Sino Gas’s intention to develop the field in a number of phases, with the initial phase likely to consist of the Pilot well area. Subsequent phases of development will focus on expanding the development area, continuing the appraisal of the discovered area and exploring the larger prospective area and remainder of each PSC.

¹ Figures represent 100% assessment (combined for Linxing & Sanjiaobei PSC’s). Sino Gas’s share of the Linxing PSC is approximately 65% and share of the Sanjiaobei PSC is 49%. Reserves/Resource classification is per the SPE PRMS.

SINO GAS CERTIFIES INITIAL RESERVES

In determining the current Reserves and Resources, RISC have classified the resources into Contingent Resources and Prospective Resources, the difference being:

- Contingent Resources are associated with potential future development areas, and would be expected to mature to Reserves in phases as development plans for that phase are matured - supported by successful pilot test results; and
- Prospective Resources lie beyond the Discovered Area and would be expected to mature into Contingent Resources as further successful exploration proceeds.

In comparing the current Reserves and Resources certification with that prepared by RISC in mid 2009, the major differences are the:

- Initial 2P (100%) Reserves of 19 Bcf certified, based on the Pilot Developments;
- 2C (100%) Contingent Resources increasing slightly to 961 Bcf;
- Decrease to 1,266 Bcf from 1,747 Bcf in Mid Case (100%) Prospective Resources; and
- GIIP (100%) decreasing slightly from 9.1 Tcf to 9.0 Tcf.

The reduction in Prospective Resources is due to additional pressure data that indicates lower pressures than previously estimated for the shallower formations. This reduces the estimated volume of gas when converted to standard temperature and pressure. Additional discoveries have offset the lower pressures resulting in marginal changes in Contingent Resources and GIIP. Sino Gas will target additional pressure information in its 2011 work program.

Sino Gas has gas pay potential in multiple pay zones and has so far only performed specific tests on 3 of these formations. RISC comment that if mobile gas were demonstrated in well tests on formations not yet tested then this could drive a significant increase in the Contingent Resource assessment.

Similarly, a successful test on additional formations, could also increase the Prospective Resources as the potential contribution from these formations has been discounted in the Prospective Resource assessment.

Again, Sino Gas will further consider these matters in its 2011 work program.

62% increase in independently verified project valuation to \$US664 million

The certification performed by RISC also confirmed a significant 62% increase to the independently verified project risked value from US\$410 million to US\$664 million.

This increase was driven through the further de-risking of the projects that occurred during Sino Gas's 2010 work program and continued improvements in the underlying gas price regime in China.

RISC estimated the single well economic flow rates based on an assumed 15% return on investment. They estimated that a minimum longer term gas flow rate of around 125,000 scf/day per well (or initial rates of between 250,000 scf/day to 350,000 scf/day) would be required to support development.

During the 2010 work program, Sino Gas achieved economic gas flow rates in tests of single formations on 4 wells and in the case of the TB07 well a flow potential of 2,900,000 scf/day was achieved without the need for fracturing.

The potential that exists from the multiple formations within Sino Gas's acreage and the favourable gas market that exists in North China strengthens Sino Gas's move towards commercial development.

Planning towards commercial development

The 2010 Work Program and the independent certified Reserves & Resources upgrade provides the platform for Sino Gas to move towards commercialising its large gas asset position in China over 2011.

The main focus for Sino Gas will be on implementing the Pilot Developments, the completion of the Chinese reserves reports and Overall Development Plan (ODP).

Sino Gas has been working with its partners, China United Coal Bed Methane (CUCBM) and PetroChina Coal Bed Methane (PCCBM) and expects to be in a position to confirm the specifics of the 2011 Work Program in the near term.

Depending on the weather, it is expected that field work should commence around the end of Q1, 2011 following the winter in North China.

Similarly, Sino Gas continues to make good progress on its Pilot Developments and is targeting the commissioning on the first in a series of Pilot wells during March 2011.

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About Sino Gas & Energy Holdings Limited

Sino Gas & Energy Holdings Limited (ASX: SEH) is an Australian company focused on developing Chinese gas assets. The Company has operated in Beijing since 2005 and holds a portfolio of unconventional gas assets in China through Production Sharing Contracts (PSC's).

The PSC's are located in Shanxi province in the Ordos Basin and cover an area of over 3,700km². The Ordos Basin is the second largest onshore oil and gas producing basin in China. The area has mature field developments with an established pipeline infrastructure to major markets. Rapid economic development is being experienced in the provinces in which Sino Gas's PSC's are located and natural gas is seen as a key component of clean energy supply in China.

On Sino Gas's Tuban prospect, 10 wells have been drilled, the latest being TB-09 in Q4, 2010. Extensive seismic and other subsurface studies have also been conducted. Multiple wells have been flow tested with commercial flow rates achieved on many of the wells, including significant commercial rates on the TB-07 well.

The statements of resources in this Release have been independently determined to Society of Petroleum Engineers (SPE) Petroleum Resource Management Systems (SPE PRMS) standards by internationally recognized oil and gas consultants RISC Pty Ltd.

Additional information on Sino Gas can be found at www.sinogasenergy.com