Unconventional Gas

China moves towards fulfilling its potential

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SINO Gas & Energy

SINO Gas & Energy
中澳煤层气能源
An Emerging Clean Energy Company in China

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Sino Gas is building a Significant Gas Business in China

- ASX listed company with our heart in China
- Large scale gas assets in China's Ordos Basin (2nd largest gas basin)
- Exploration success has driven large scale resources: 2P Reserves 19Bcf, Contingent + Prospective Resources of 1.9Tcf
- 6 years of successful exploration & appraisal has significantly de-risked the assets – now focusing on Development
- Sino Gas is leveraged to the world's fastest growing energy market - China

UNCONVENTIONAL GAS IN CHINA – CURRENT STATE OF PLAY

A bright future for China's Unconventional Gas

- 2011+ expected to deliver increasing commercial production[1]
- The 12th 5-year plan expected to provide the breakthrough[2]
- Chinese Government – reliant on the unconventional gas sector[3]

1- Gavin Thompson, Wood Mackenzie, Challenges hamper China's near-term unconventional development, Jan 2011
2 - Duties lifted on imports of equipment for CBM, ChinaDaily September 1, 2011
3- Early days for China's CBM sector, Unconventional Oil & Gas Monitor, Newsbase, Sep 2011

The CBM Industry in China is evolving

Gradual development due to some unique challenges[1]

- Significant potential as geological conditions and resources are understood
- Accessibility to technology, infrastructure and markets is improving
- Additional investment is expected to propel the industry
- Service sector capability improving

1- Gavin Thompson, Wood Mackenzie, Challenges hamper China's near-term unconventional development, Jan 2011

Significant potential as Geological conditions are understood

- China's geological conditions differ from USA and Australia[1]
- Coals variable in quality among different basins[2]
- Some operators now on ‘cusp’ of commercial production
- China’s CBM resource base is huge[3]

1- Neil Beverige, China Coal Bed Matheme X Factor, BernsteinResearch, Jul 2011
2 – Ibid
3 - Early days for China’s CBM sector, Unconventional Oil & Gas Monitor, Newsbase, Sep 2011

Accessibility to technology, infrastructure and markets is improving

- The key is to transfer proven technologies & project management experience
- Industry re-structure expected to provide platform for increased cooperation[1]
- Pipelines being constructed to connect fields to markets[2]

1- Gavin Thompson, Wood Mackenzie, Challenges hamper China's near-term unconventional development, Jan 2011
2 - Ibid

Additional investment is expected to propel the industry

- Increasing CBM investment driving commercialization[1]
- Historically – most funds from foreign companies[2]
- Steady progress achieved through PSC cooperation
- Chinese CBM companies also underway

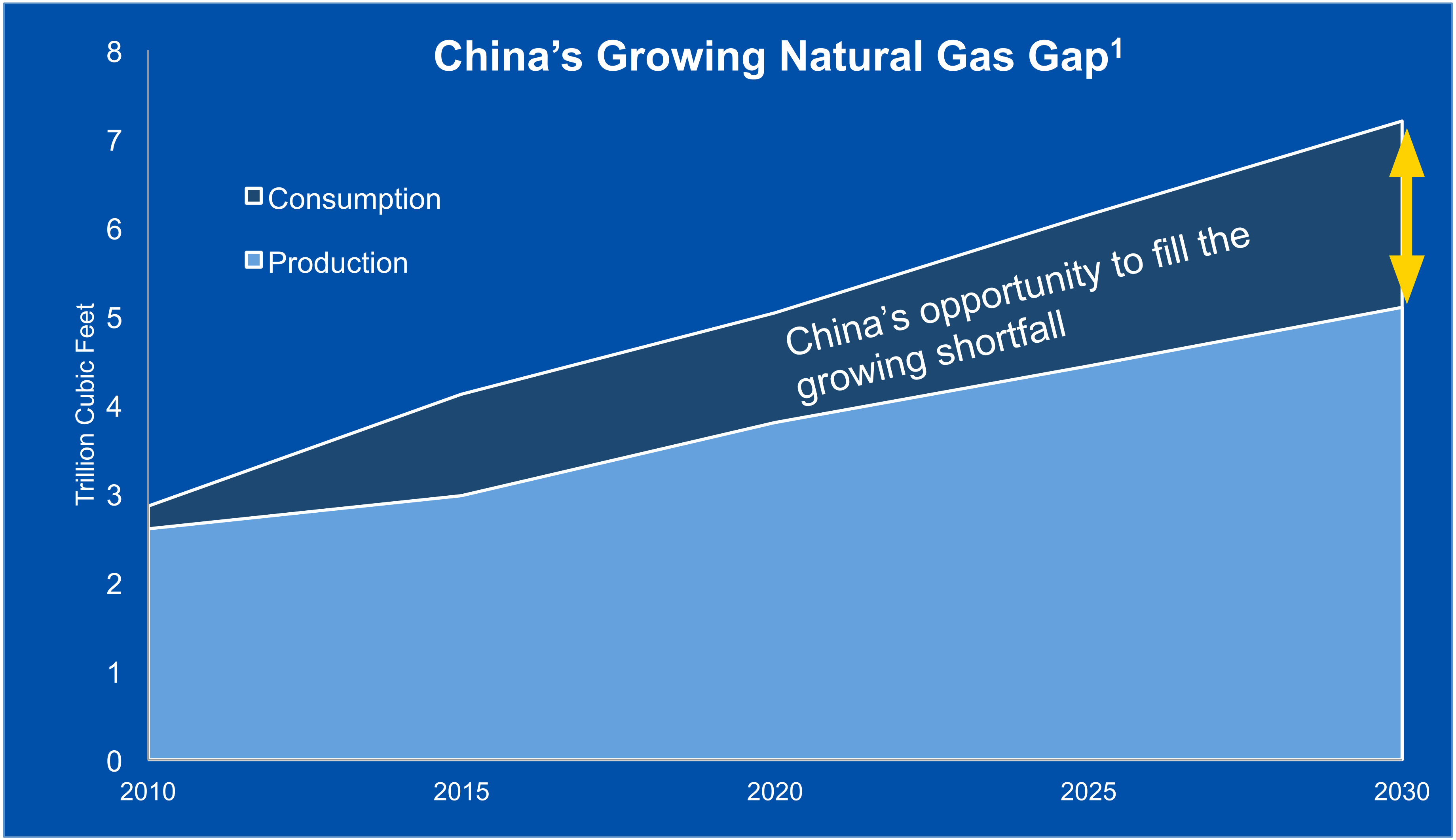
1- Demand surge driving gas imports, ChinaDaily Aug 2011
2 - Early days for China's CBM sector, Unconventional Oil & Gas Monitor, Newsbase, Sep 2011

Significant development in the service sector is occurring

- Unconventional gas – large number of wells drilled fast at low cost[1]
- Over past 5 years ~ significant improvement in capability & safety performance
- Supply chain for complex equipment is improving[2]

1- Gavin Thompson, Wood Mackenzie, Challenges hamper China's near-term unconventional development, Jan 2011
2 - Ibid

Production must increase to meet demand



1 – EIA-International Energy Outlook, 2010, Natural Gas forecast

China is overcoming its unconventional gas challenges

Pilot testing as "proof of concept"

Pipeline construction to deliver gas to markets[1]

Increased foreign player involvement[2]

Supportive government policies[3]

1- China to build 13 CBM pipelines, China Oil, Newsbase, Sep 2011
2 - Duties lifted on imports of equipment for CBM, ChinaDaily September 1, 2011
3- Ibid.

Improving returns for producers driving the development of CBM in China

CHINA DAILY | CHINADAILYUSA.COM — THURSDAY, SEPTEMBER 1, 2011 | PAGE 13

Duties lifted on imports of equipment for CBM

Move will reduce costs, improve profits for domestic producers

By ZHOU YAN
CHINA DAILY

BEIJING — China will waive import duties for the fast-growing imports of equipment for coalbed methane (CBM) exploration and development projects during the 12th Five-Year Plan (2011-2015), making it the country's first exemption in the sector.

POLICY

The move aims to support the development of the gas, the Ministry of Finance said on its website recently.

The duty-free list mainly targets equipment, instruments, components and parts imported by China United Coalbed Methane Corp and its partners, the ministry's statement said.

China United is the country's major CBM explorer and developer. It is jointly owned by the State-owned China National Coal Group and China National Offshore Oil Corp Ltd.

"It's the first time for the country to launch such policies for the industry," said Zhou Xiujie, an energy analyst at the CIC Industry Research Center.

He said the move would cut costs and boost profits for domestic CBM gas producers, which have borne relatively high exploration costs and use immature technologies to support their growth.

CBM is a type of natural gas extracted from coal deposits. It has become an emerging clean fuel that is increasingly tapped in Australia, Canada and the United States.

China's reserves of the unconventional natural gas rank third in the world after Russia and Canada at 37 trillion cubic meters (cu m), accounting for 13 percent of the world's total, according to Sun Maoyuan, commissioner of the National Energy Commission.

Sun said that the 12th Five-Year Plan (2011-2015) provisions for the development and use of CBM, which haven't been officially released, show that China aims to achieve 20 billion to 40 billion cu m production of the fuel by the end of 2015.

China is stepping up efforts to diversify its energy sources to cut emissions. Clean natural gas is listed among the primary alternative resources for China, where coal accounts for about 70 percent of total energy consumption.

Industry experts have forecast that as China's surging demand for natural gas outpaces domestic output, the foreign-dependency ratio for the fuel could reach as high as 50 percent by 2020. Therefore, China has to step up exploration of unconventional natural gas, including CBM and shale gas.

The country's CBM industry will have "breakthrough" development in the future, but that will require trillions of yuan in investment, Sun said.

Since China's geological conditions differ from those of other countries that have the most sophisticated exploration technologies, the nation still has far to go before it can widely use the gas commercially, said Dong Weiguo, a senior researcher at the Beijing Research Institute of Coal Chemistry.

At present, most underground reserves of CBM in China are used for electricity generation, but it can be difficult to connect these generating sources to the grid, Dong said.

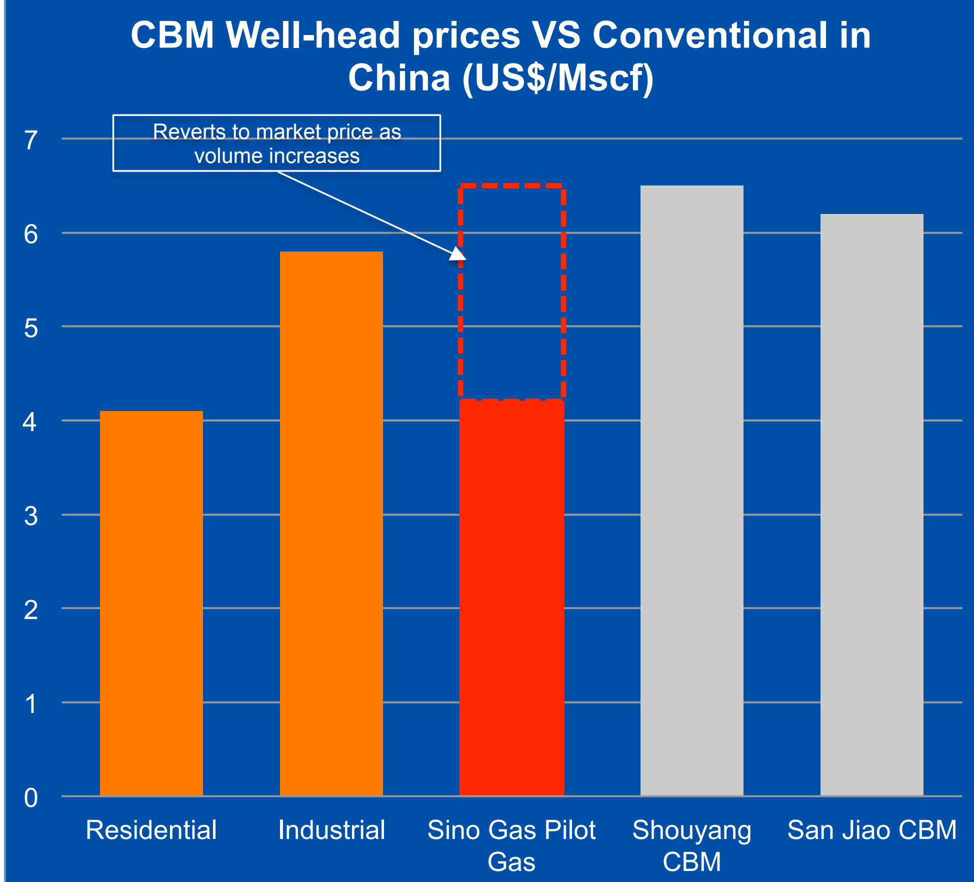
"We anticipate that broad commercial use of the gas cannot be realized until 2020, when the license confusion is tackled and technologies are more developed," Zhou said.

China's Favorable Policies[2]

- Duties lifted on CBM equipment imports – China Daily 1 Sep 11
- Full VAT rebate + no resource tax on CBM
- CBM priority pipeline connection over conventional gas
- Higher prices for electricity generated from CBM

(1) *As quoted in Bernstein Research on CBM Sector citing the 12th 5 Year Plan – 20 July 11*
(2) *As quoted in UBS Investment Research "China Oil and Gas Sector" – Dec 11*

Robust & Increasing Gas Prices



- Well head gas prices ~ US $6.5Mscf – US$7Mscf under longer term contract
- Subsidies on gas prices currently RMB 0.2/m^3 (US $0.83/Mscf) – set to double[1]
- Lifting costs between US $2Mscf - US$3Mscf
- CBM prices guided by natural gas prices[2]
- NDRC raised gas prices by 25% (May 2010)[3]

Sources:

1. & 4. UBS Investment Research – China Oil and Gas Sector Published on December 16, 2010

2. Natural Gas Price Rise to Stimulate China CBM Industry, Published by AsiaPulseNews Jun 7, 2010

3. China raises gas prices 25%, cuts gasoline rates, China Daily, June 1, 2010

SINO GAS IS BUILDING A SIGNIFICANT GAS BUSINESS IN CHINA

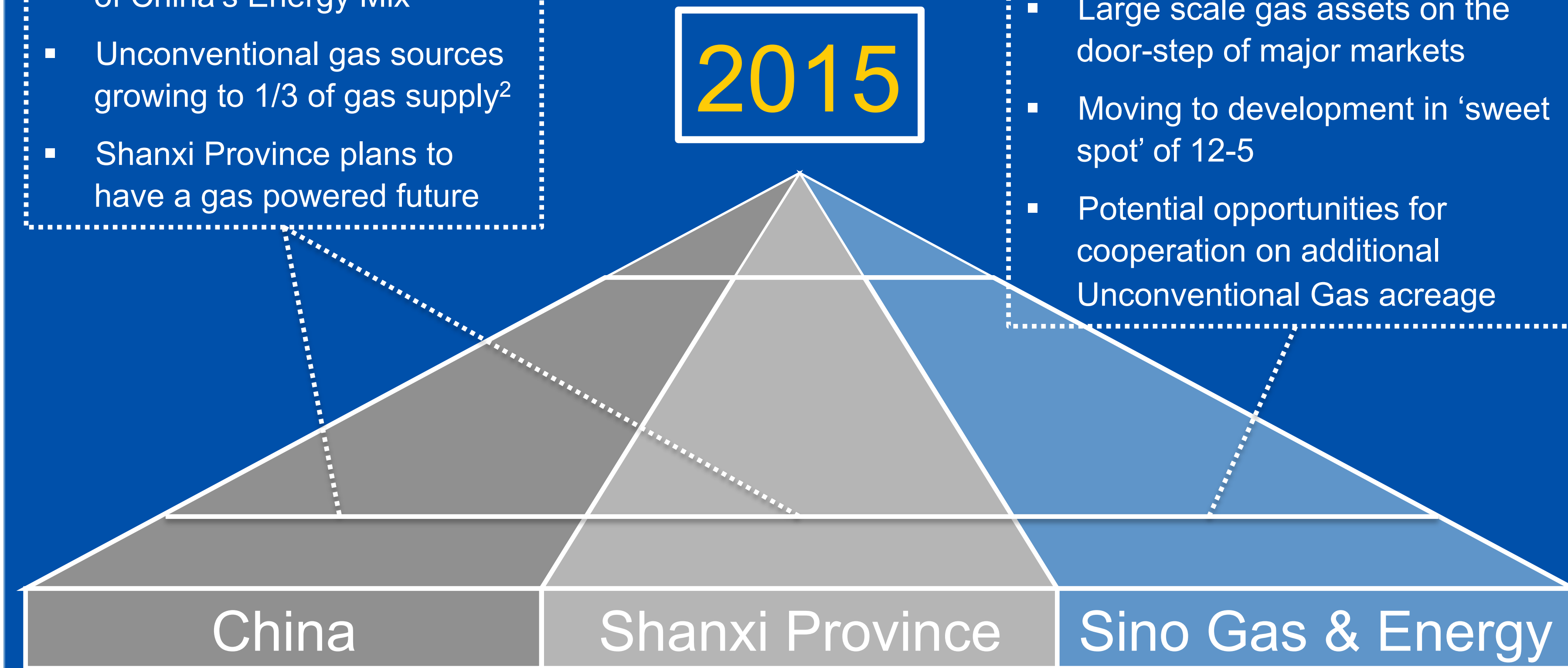
Our strategy benefits from China's 12th 5-year plan (12-5)

China's 12-5 Plans

- Natural Gas to grow to 8.3% of China's Energy Mix[1]
- Unconventional gas sources growing to 1/3 of gas supply[2]
- Shanxi Province plans to have a gas powered future

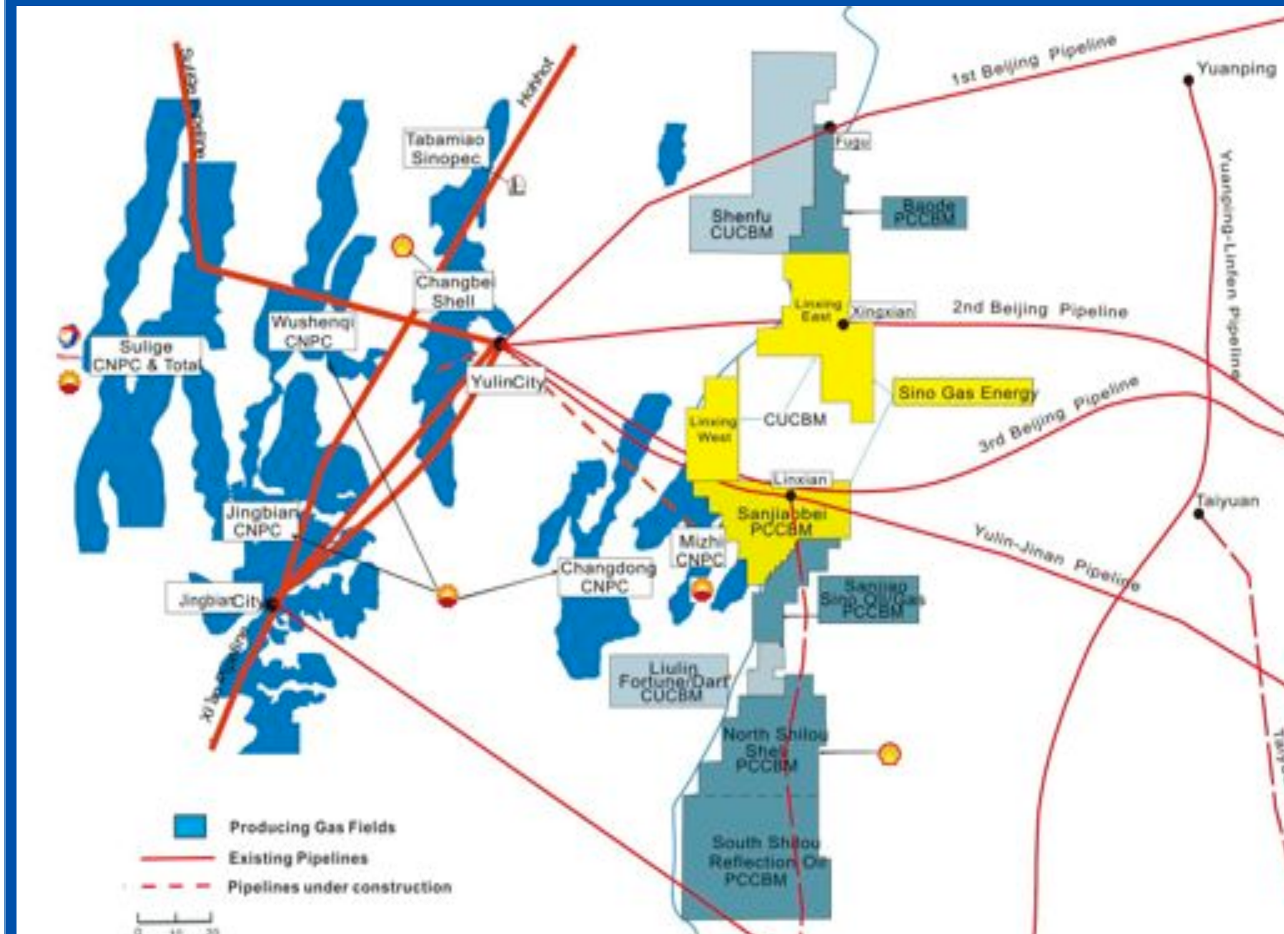
Sino Gas's Opportunity

- Demonstrated exploration success
- Large scale gas assets on the door-step of major markets
- Moving to development in 'sweet spot' of 12-5
- Potential opportunities for cooperation on additional Unconventional Gas acreage



(1) International Energy Agency, June 2011
(2) Bernstein Research, Dec 2010

Large Gas Assets & Markets in the Ordos Basin, China



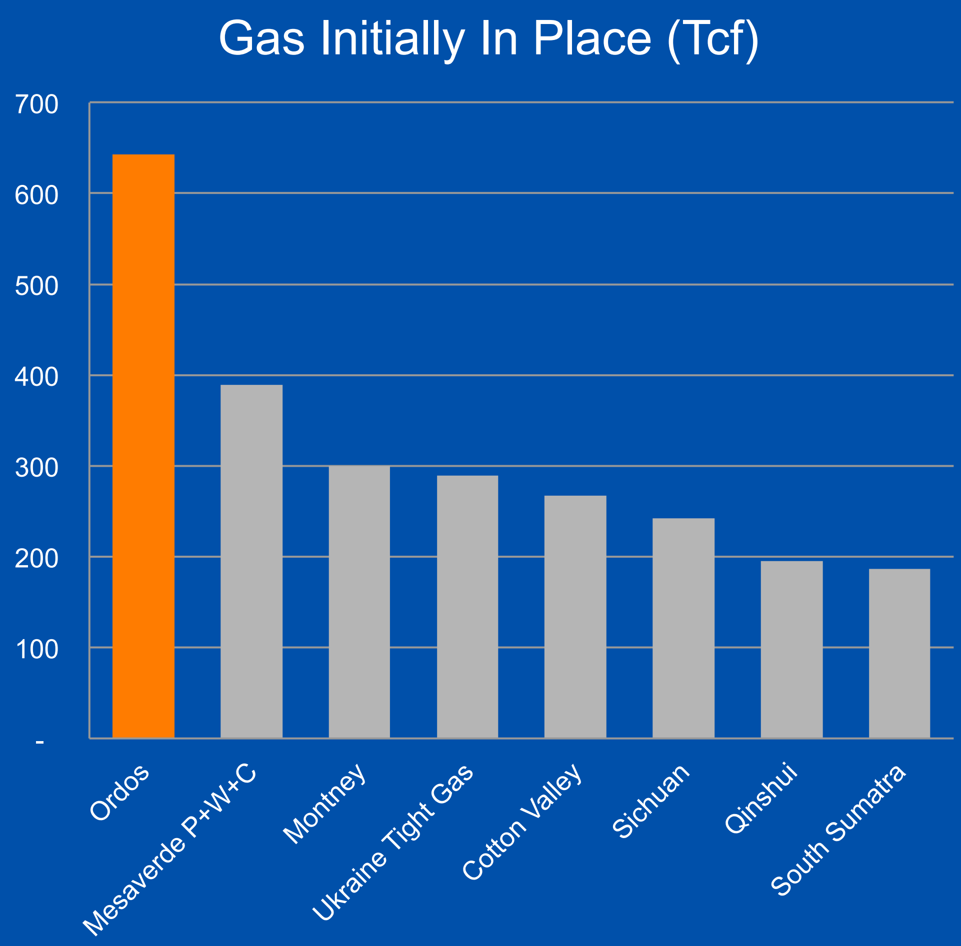
Ordos Basin China

- China's 2nd largest gas basin
- Key gas transport hub
- Substantial unconventional gas resources
- Growing pipeline network

Sino Gas & Energy

- Operator on 2 PSC's
- Partners with CNPC (PetroChina CBM) and CUCBM (50% owned by CNOOC)
- 3,000 km^2 – one of the largest foreign company holdings
- Substantial gas demand on our doorstep in Shanxi Province

Ordos - a World Scale Unconventional Gas Basin



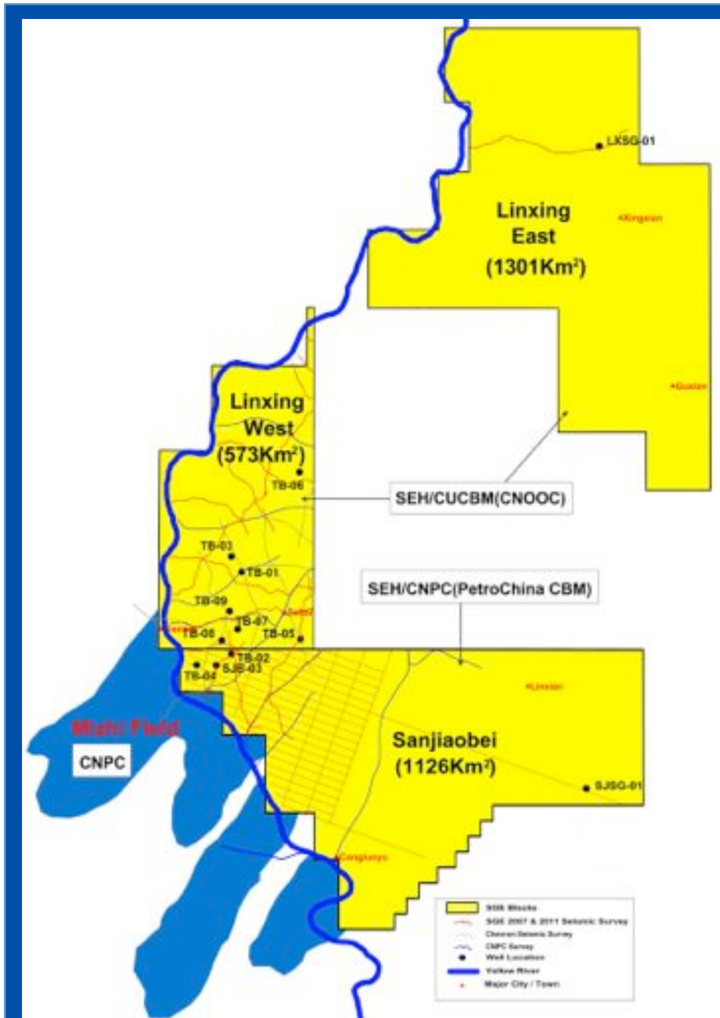
Unconventional Gas

- Large resource potential
- Comparable to proven US assets
- Potentially highly profitable
  ~ US$6.80/Mscf gas prices
- Technology application expected to increase economics & production

Sources:

1. Wood Mackenzie "A Benchmark of Unconventional Gas Plays – Aug 10"

Successfully working with Chinese Oil & Gas Majors



Linxing PSC (~ 65% following partner back-in from CUCBM)

- Partner for 6 years with CUCBM (now 50% owned by CNOOC)
- CNOOC recently announced strong strategic focus on unconventional gas opportunities in China
- PSC's exploration period recently extended to Aug 2013
- Potential future cooperation with CUCBM on additional Unconventional Gas opportunities

Sanjiaobei PSC (49% following partner back-in from CNPC/PetroChina)

- Following China industry restructure, partner for 3 years with CNPC with the PSC implemented by PetroChina CBM
- PetroChina CBM are a key part of China's 5 year plan for unconventional gas development

Stated Reserves and Resources are mid case and 100% - refer Resource Statements

PASSIONATE ABOUT UNLOCKING OUR POTENTIAL IN CHINA

SINO Gas & Energy
中澳煤层气能源
An Emerging Clean Energy Company in China

A world class team based in China

490,000

Incident free hours worked during 2011

30

Employees in Beijing and site locations… and growing

All key subsurface and operations functions now internalised

Leadership

Managing Director & key staff all based in Beijing

Significant Board involvement + China Strategic Consultant in place

2011 & 2012 Work Programs focused on Pilot production and delivering Reserves & Development approvals

New Wells, Tests and Seismic Data	Pilot Program & Chinese Reserve Report	ODP & Phase 1 pre-development

Sino Gas is building a Significant Gas Business in China: Key Investment Highlights

- Large scale gas assets in China's Ordos Basin
- Exploration success has driven large scale resources: 2P Reserves 19Bcf, Contingent + Prospective Resources of 1.9Tcf
- 6 years of successful exploration & appraisal has significantly de-risked the assets – now focusing on Development
- Moving to commercialize large gas assets in high demand markets with attractive gas prices
- Further upside on large PSC holdings + potential additional co-operation with Chinese partners

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