Accelerating Development of our Significant China Gas Portfolio

Q3

2011 - Activities Report

Sino Gas & Energy Holdings Limited (Sino Gas, ASX:SEH)

Photo: Investor Field Visit to SJB1 Well in Oct, 2011

Dear Shareholders

Sino Gas is on-track to move towards development of our substantial Gas Assets with PetroChina CBM and CUCBM (50% owned by CNOOC).

During Q3 and to the current date, in particular, Sino Gas has delivered:

- significant commercial gas flows on 3 wells from continuing successful testing operations;
- expected significant increase in the reserves/ resources on the Sanjiaobei PSC based on the 410.5km of new seismic;
- the Modification Agreement with CUCBM resulting in a 2 year extension of the Exploration Period on the Linxing PSC and opportunities for future cooperation in CBM and Shale Gas in China; and
- $6 million capital raising with strong Australian, Hong Kong and institutional support enabling the suspension of the existing SpringTree Funding Facility.

Further details on the Company's progress during Q3 are set out in the remainder of this report.

In addition, to realise our potential Sino Gas has implemented a program designed to address the significant discount at which Sino Gas trades at on the ASX compared to our international peers. We look forward to these efforts being reflected in the value of your Company.

Stephen Lyons
Managing Director

Photo: SJB1 Rig

Activities Supporting Development	Key Targets for Q3	Achievements during Q3	Q4 and Continuing Targets
Appraisal Program	• continue flow testing program focussed on key pay zones • completion of seismic program • well site selection and drilling	Linxing PSC: significant commercial gas flow rates delivered from testing activity: • TB08: 882,500 scf/day from 2 pay zones • TB06: strong initial flow ~ 1,000,000 scf/day from 1 pay zone Sanjiaobei PSC: • TB04: 1,087,000 scf/day from 2 pay zones - 1st well on Sanjiaobei PSC > 1,000,000 scf/day • 410.5km Seismic Program completed and all data analysed • new seismic enabled drilling of SJB1 well in record time with identification of multiple potential pay zones	Well Program to evaluate potential for additional highly productive pay zones: • drill and complete new SJB2 well on Sanjiaobei PSC • additional well SJB4 pending weather • spud and complete TB10 well on Linxing PSC Testing Program to assist in field development planning: • continue flow testing program - initial focus SJB1
Pilot Production Program	• gas sales agreements + sales commencing • Trial Production Operations (TPO) commencing - to determine long term field deliverability	• limited CNG operations on SJB03 well • progress towards expanding CNG operation on Sanjiaobei PSC to 24/7 basis • TPO operations involving longer term tests on TB04 and TB02 underway	• progress towards 24/7 CNG operation on Sanjiaobei PSC • Linxing PSC - initiate pilot program using available pipelines, LNG in preference to CNG operation (improves scale, deliverability etc) • TPO operations continue


Photo: Gas pipeline under construction on Sino Gas's acrege

Activities Supporting Development	Key Targets for Q3	Achievements during Q3	Q4 and Continuing Targets
Resource Development	• grow reportable Reserves & Resources • move towards Chinese Reserve report	• seismic and well program on Sanjiaobei PSC expected to drive significant resource/ reserve upgrade • additional resources/reserves from new tested pay zone in TB04 well • Q2 - appointment of National Centre of Coal Bed Methane (NC-CBM) - for Chinese Reserve report • Q3 - coordinated efforts with NCCBM on testing, well and seismic program - as part of Chinese Reserve report	• Sanjiaobei PSC Reserves + Resources preliminary independent audit by RISC expected shortly • launching new program to assess shallow CBM resources on Linxing East (per NSAI ~ 324 Bcf of mid case (100%) Contingent + Prospective Resources
Partner Relationships	• aim to be Unconventional Gas 'partner of choice' for PCCBM and CUCBM • intensive dialogue with Chinese partners in full compliance with Production Sharing Contracts (PSC's)	• Modification Agreement with CUCBM for 2 year extension of the exploration period on Linxing PSC. Only foreign operator to have agreed such an extension during 2011 • Potential future cooperation on new CBM and Shale Gas with CUCBM • Sanjiaobei PSC formerly transferred from CUCBM to PCCBM	• continue cooperative dialogue with Chinese partners • Sanjiaobei PSC - working on exploration period extension and Work Program to ODP (Overall Development Plan) • Pilot and 2012 Work Program agreed with CUCBM
Organisational Capability	• continue strengthening of organisation in preparation for development	• appointment of Mr Colin Heseltine as Strategic Consultant: 40+ years senior diplomatic experience mainly in Asia • milestone based Performance Rights granted to key Chinese staff • 30+ technical, operational, finance and administration staff in Beijing and field locations	• Executive Chairman provides direct oversight of asset development process • appointment of additional Non-Executive Director

Activities Supporting Development	Key Targets for Q3	Achievements during Q3	Q4 and Continuing Targets
Strategic Opportunities	• focus on additional funding opportunities • focus on strategic alliances in respect to development • address 'value gap' reflected in ASX listing	• extensive dialogue with investors and brokers in Hong Kong and Australia - continuing • $6 million raising during Oct 11 ($4m placement + shareholder SPP) majority raised via institutions, 1/3 of funding raised from Hong Kong • suspended SpringTree Funding Facility + repaying outstanding amounts • field trip conducted during Sep 11 with key investors - to increase awareness	• 'value gap' receiving extensive focus • continuing dialogue with parties in Australia, Hong Kong and the UK • additional independent research underway • Merrill Lynch appointed as Financial Advisor in respect to possible strategic opportunities
Sustainable Development in China	• responsible operator in China • maintain Zero Accident, Zero Incident and Zero Environmental impact targets	• 300,046 man hours worked during Q3 maintaining Zero, Zero, Zero target • 504,580 man hours in total during 2011 to end Q3 • Chinese 12th 5 year plan flags doubling of gas subsidy - gas prices > US$7.0Mscf	• building on reputation as responsible operator in China • Zero, Zero, Zero target remains key focus

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The statements of resources in this report have been independently determined to Society of Petroleum Engineers (SPE) Petroleum Resource Management Systems standards by internationally recognized oil and gas consultants RISC Pty Ltd, unless otherwise ntoed. Quoted well flow rates are calculated at a flowing tubing head pressure (FTHP) of 200 psi, unless otherwise noted.