

Driving the Development of our China Gas projects

Q4

2011 - Activities Report



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

Photo: SJB2 Well - drilling underway Nov, 2011

Dear Shareholders

Sino Gas's Drive Toward Development is Gaining Momentum

Q4 rounds out an outstanding year of operational performance that has resulted in:

- 3 new gas discovery wells;
- an extensive seismic program on the Sanjiaobei project that led to a major resource expansion;
- multiple commercial gas flows on all wells tested during 2011;
- technical confirmation of the feasibility of Compressed Natural Gas (CNG) Pilot production; and
- substantial progress towards preparation of the Chinese Reserves Report.

These activities have also generated a substantial increase in gas resources and project value. Sino Gas's share of project NPV has increased 96% to US\$2.3 billion (February 2011: US\$1.2 billion) and 2C (100%) Contingent Resources have increased by 79% to 1.8 Tcf (February 2011: 1.0 Tcf).

This result, whilst significant in its own right, also means that Sino Gas can confidently implement our strategy to move towards development of the gas from each project during 2012.

We announced last quarter that we had commenced a program designed to address the significant discount at which Sino Gas trades on the ASX compared to our international peers.

I am pleased to see that some of those efforts are being reflected in the value of your Company. In particular over Q4 and to the current date has seen:

- continued strengthening of the leadership team;
- gas reform initiatives and other policy measures from the Chinese Government underpinning the domestic gas industry and the profitability of the Company's projects; and
- the Company evaluating several strategic approaches which has resulted in the appointment of Argonaut as Corporate and Financial Advisor with the aim of pursuing non-dilutive funding opportunities to progress the move towards development.

Further details of the Company's progress during Q4 are set out in the remainder of this report.

Gavin Harper
Executive Chairman



Activities Supporting Development	Key Focus Targets for Q4	Achievements during Q4	Q1 and Continuing Targets
Appraisal Program	well program to evaluate potential for unexplored/evaluated areas: - 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	Linxing project: - TB10 gas discovery well drilled and logged - multiple hydrocarbon zones Sanjiaobei project: - SJB2 gas discovery well drilled and logged - multiple hydrocarbon zones - successful fracture stimulation on SJB1 delivers initial commercial gas rate of 150,000 scf/day	2012 work program planning underway - contractor and rig selection to ensure effective implementation of key field activity - focus is on the preparation of the Chinese Reserves Reports

Pilot Production Program	- progress towards 24/7 operation on Sanjiaobei project - Linxing project - initiate pilot program planning including potential use of available pipelines, LNG in preference to CNG operation (improves scale, deliverability etc) - TPO operations continue	- dialogue continued on both Linxing and Sanjiaobei projects towards LNG pilot production - TPO operations completed on TB04 well - pipeline commissioning begins on dedicated CBM pipeline connecting Sino Gas's Linxing and Sanjiaobei projects	continued push to move towards early LNG gas production on both the Linxing and Sanjiaobei projects including negotiation of offtake agreements and technical implementation contractors
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Photo: TB04 well testing - stimulation underway

Activities Supporting Development	Key Focus Targets for Q4	Achievements during Q4	Q1 and Continuing Targets
Resource Development	- Reserves + Resources preliminary independent assessment by RISC - launching new program to prepare Chinese Reserves Report for shallow CBM resources on Linxing East (per NSAI ~ 324 Bcf of mid case (100%) Contingent + Prospective Resources)	- substantial increase in gas resources and project value confirmed following close of 2011 work program: - independent project value doubles to US\$2.3 billion 2C (100%) Contingent Resources up 79% to 1.8 Tcf 2C (100%) Contingent and Mid case Prospective Resources increase to 3.7 Tcf	2012 work program expected to provide foundation for substantial Reserves maturation from Contingent Resources through: - further production from Company's Pilot tests - additional wells and seismic to support preparation of Chinese Reserves Reports - continued evaluation of shallow CBM resource potential

Partner Relationships	- 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	- MOC approval of Linxing PSC exploration period extension - planning and agreement of 2012 work programs	- Sanjiaobei PSC - continue work towards exploration period extension - prepare approvals for early production - appointment of key contractors for Chinese Reserves Report on Linxing project
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Organisational Capability	- Executive Chairman provides direct oversight of asset development process - appointment of additional Non-Executive Director (NED)	- Peter Mills appointed NED. Peter has extensive experience in the upstream Oil & Gas business globally and is Managing Director of Eureka Energy (ASX:EKA) a Texas shale play. Peter brings to the Company extensive operations and development expertise in particular in relation to shale gas which may represent an additional future opportunity for Sino Gas - Executive Chairman, Gavin Harper, transitions to full-time basis to assist in development process	31 Jan 12 announced the appointment to the Board of Colin Heseltine. Colin has been assisting the company since July 2011 in the role of China Strategic Consultant - continued steps to strengthen the organisation in preparation for development
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Activities Supporting Development	Key Focus Targets for Q4	Achievements during Q4	Q1 and Continuing Targets
Strategic Opportunities / Funding	• 'value gap' receiving focus • intensive dialogue with parties in Australia, Hong Kong and the UK • additional independent research underway	• approaches being evaluated from strategic farm-in partners with extensive dialogue continuing • intensive investor engagement in Australia, Hong Kong and London • following shareholder approval, completion of two tranche placement raising A\$6 million with funds placed in Australia, Hong Kong and the United Kingdom • Quam (HK) and Patersons (Australia) release research reports	• 30 Jan 12, announced the appointment of Argonaut as Corporate & Financial Advisor • considering a broad range of non-dilutive funding opportunities as the Company progresses towards development
Sustainable Development in China	• building on reputation as responsible operator in China • Incident free operations remains key focus	• gas reform initiated in China linking gas prices to imports and proposed doubling of the CBM production subsidy • Sino Gas's projects included in 12th 5 Year Plan for CBM • 580,000+ incident free man hours worked during 2011	• keep building on reputation as responsible operator in China • Incident free operations 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 or NSAI. Unless otherwise noted, quoted well flow rates are calculated at a flowing tubing head pressure (FTHP) of 200 psi.

Certain statements included in this announcement may constitute forward-looking statements. Any forward-looking statements are based on current assumptions and forecasts and are not guarantees or predictions of future performance. Such statements involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the forward-looking statements. Accordingly, Sino Gas, its directors, officers and agents do not give any assurance or guarantee that the occurrence of the events referred to in this document will occur as contemplated.

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