SINO Gas & Energy 中澳煤层气能源

Quarterly Report

For the three months ended 31 December 2012

Q4

2012 Activities Report

A YEAR OF SIGNIFICANT MILESTONES COMPLETES TRANSFORMATION

The final quarter of 2012 completes a year of transformation for Sino Gas, as we move towards development on two of the largest Foreign-Sino Production Sharing Contracts (PSCs) in the Ordos Basin, China. Having met significant milestones throughout the year, including strengthening the Board with extensive technical and regional experience, securing US$100 million in project and corporate level funding via a strategic partnership with MIE Holdings Corporation, and significantly upgrading total project contingent and prospective resources by approximately 40% to 3.7 trillion cubic feet[1], the Company's focus in Q4 has been on the safe and efficient execution of the work programs.

During the fourth quarter additional drilling rigs and seismic teams were deployed to accelerate the work programs. This enabled the completion of 12 wells, with an additional four rigs on location ready to spud in Q1 2013. Exploration success continued with the eight-well program on Linxing East confirming major coal seams, TB-11 identifying 69.3 metres of total pay across multiple pay intervals on Linxing West, and half of the six-well program completed on Sanjiaobei identifying an average of 30.9 metres of total pay per well. Following the successful completion of the 270km seismic program, surveying for 600km of the 1,160km seismic work planned for 2013 was completed on Linxing West and Sanjiaobei. Results from the drilling and seismic programs completed in 2012 will be fed into the independent reserves and resources assessment, which is expected to be completed by internationally recognised oil and gas consultants RISC during Q1 2013.

I would like to take this opportunity to thank the Operations Team for the exceptional progress made up to year end, with in excess of 15,000 metres drilled and over 350km of seismic lines shot, culminating in 598,000 man hours of OH&S incident-free field operations being recorded. To put this scale of this achievement into perspective, the level of drilling and seismic work completed in the past few months of operations is comparable to that of the previous work programs combined.

The Company's operational success has also been reflected at the corporate level, with the market capitalisation increasing fourfold over the course of the year to approximately A$140 million at year end. The stronger share price in the final quarter provided the opportunity to bolster the balance sheet, while also enhancing the share register via a placement to two leading institutional investors raising A$10.1 million. In addition, 30,532,041 listed options due to expire on 31 December 2012 were converted to ordinary shares, raising A$3.8m.

2012 ACHIEVEMENTS

Seismic

- 2012 Linxing East & Sanjiaobei 270km seismic program completed
- 2013 Linxing West & Sanjiaobei 650km out of 1,160km surveying completed

Drilling

- Linxing East – 8 well shallow program complete (LXDG-01 scheduled to spud Q1 2013)
- Linxing West – 1 well of 2 well program completed (TB-12 rig onsite, scheduled to spud in Q1 2013)
- Sanjiaobei – 3 wells of 6 well program completed (2 rigs onsite, 1 pending relocation, scheduled to spud Q1 2013)

Capital Raising

- A$10.1m raised via institutional placement
- A$3.8m raised via option conversion

Safety

- 598,000 OH&S incident free man hours were recorded this year (578,000 in 2011)

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[1] Figures are 100% project mid-case for Linxing West & Sanjiaobei determined by Society of Petroleum Engineers Petroleum Resource Management Systems (SPE PRMS). Refer to Resource Statement for full disclosure.

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A YEAR OF SIGNIFICANT MILESTONES COMPLETES TRANSFORMATION

With these operational and corporate milestones achieved, your Company is well positioned to take advantage of this significant growth opportunity and remains focussed on value creation for shareholders through the development of the PSCs. In January 2013, we have already seen the market capitalisation of the company exceed A$200m, reflecting the underlying transformation that has taken place.

The fully funded work programs for 2013 have been set with the same level of intensity as the previous year. Work programs for an initial eleven wells on Sanjiaobei (including one horizontal) and three wells on Linxing are to commence by Q2 2013, with additional contingent wells to be considered as required.
In the second half of the year our focus will shift to completing the Chinese Reserve Reports, starting with the submission of Linxing East and the finalisation of Sanjiaobei, and commencing preparations for pilot production programs, expected to begin before the end of the calendar year.

We look forward to continuing to update the market on our progress as we move towards meeting further key milestones in 2013.

Gavin Harper
Executive Chairman
31 December 2012

2013 OUTLOOK

Q1

- RISC independent reserves & resource assessment
- Spud remaining wells from 2012 work program, 4 rigs already mobilised to site
- Batch flow testing of wells to commence with 20+ zones scheduled to be tested

Q2

- 2013 Sanjiaobei & Linxing West drilling programs commence

Q3

- Chinese Reserve Report submitted on Linxing East
- Complete pilot production design and commence construction of facilities

Q4

- Chinese Reserve Report finalised on Sanjiaobei

Site visit to TB-11

KEY PROJECTS UPDATE

Linxing PSC (Sino Gas 31.7%)

Substantial progress was made on seismic and drilling programs on the Linxing PSC, to support key requirements for Chinese Reserve Report (CRR) submission and boost capacity ahead of pilot production.

Seismic

During the quarter, 350km of the 650km of seismic work originally planned for 2013, commenced on Linxing West to enable further resource assessment and support the drilling and flow testing results required for a separate Chinese Reserve Report (CRR). By the end of the quarter, surveying had been completed and seismic teams had started data acquisition. The additional 300km of seismic planned for 2013 is to further define the resource potential on the northern portion of Linxing West.

The 270km of seismic data successfully acquired in Q3 on Linxing East, covering both the infield drilling area in the north-eastern corner, and a previously unexplored portion to the south-west will be provided to RISC to be included in the Q1 reserves and resources assessment.

Drilling

The Linxing East drilling work program, consisting of eight coal bed methane (CBM) shallow wells on the north-eastern portion of the PSC, has been successfully completed. The final four wells were spudded during the quarter, with initial results to date confirming expectations of coal seams in the area at an average of 30.9 metres of total pay per well.

Late in the quarter, a fraccing and dewatering program commenced on 4 of the 8 wells, which is expected be expanded and will continue over coming months before definitive results become available.

The first of the two-well program on Linxing West was completed at TB-11, with initial electronic wire line logs results identifying 16 pay intervals across multiple pay zones during drilling, totalling 69.3 metres of pay.

The remaining well on Linxing West and the exploration well on Linxing East, LXDG-01 (formally named TB-13), are scheduled to be spud in Q1 2013.

Sanjiaobei PSC (Sino Gas 24%)

Following adverse weather conditions, which prevented operations crews from accessing drill locations within the Sanjiaobei PSC, road access was restored early in the quarter, allowing drilling operations to recommence.

Seismic

Seismic teams commenced surveying on 300km of the 510km of seismic lines planned for 2013. This program is designed to acquire the data for the remaining north/south running lines to complete the seismic grid required for Chinese Reserve Report (CRR) submission on the western portion of the block.

In addition, outfield seismic will also be shot to further define the previously underexplored resource potential to the east of the block. The further 260km of outfield seismic is scheduled to commence in 2013.

The 100km of north/south running seismic lines acquired in Q3, which supplements existing seismic data, will be provided to RISC to be included in the Q1 reserves and resources assessment.

Drilling

Three wells of the six-well program were spudded during the quarter and have completed drilling. Initial mud log and wire line log results of the major pay zones identified are in line with expectations and the range of total pay encountered at an average of 30.9 metres per well is consistent with previous gas discovery wells on Sanjiaobei. The remaining three wells of the program are scheduled to be spud in Q1 2013, with three drilling rigs already on site.

Occupational Health & Safety

Despite adverse weather in the region and operations continuing through sub-zero temperatures, 598,000 OH&S incident free man hours were recorded this year (578,000 in 2011) in implementing the drilling and seismic work programs.

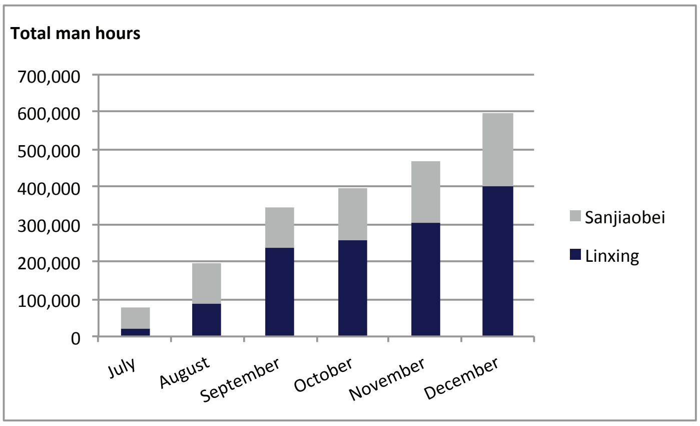


Figure 1: Cumulative OH&S incident free man hours

CORPORATE

Investor Relations and Marketing

Marketing efforts were expanded to Europe during the quarter, with a roadshow to existing and potential institutional investors in London.

Our Corporate Advisor, Argonaut, introduced two leading institutional investors onto the register via a A$10.1 million placement, adding considerable strength to our existing shareholder base.

Site Visit

A briefing and site visit was conducted during the quarter for brokers and analysts to the Company's exploration blocks in the Shanxi province.

FINANCIAL

Financial Position

Sino Gas' cash position at the end of the quarter was approximately A$7.5 million.

Capital raising activities completed in early 2013, strengthened the Company's balance sheet and boosted the working capital cash position to A$19 million:

- The placement of 82,448,979 fully paid ordinary shares to two leading institutional investors at $0.1225 per share to raise approximately A$10.1 million, before costs.
- The Company completed the conversion of listed options (ASX: SEHOC) at $0.125 per share. The remaining 303,751,716 options have expired.

SHARE PRICE ACTIVITY FOR THE DECEMBER QUARTER

High	$0.14
Low	$0.068
Last	$0.13 (31 December 2013)
Average Daily Volume	3,398,000 (Yearly Average 1,886,000)

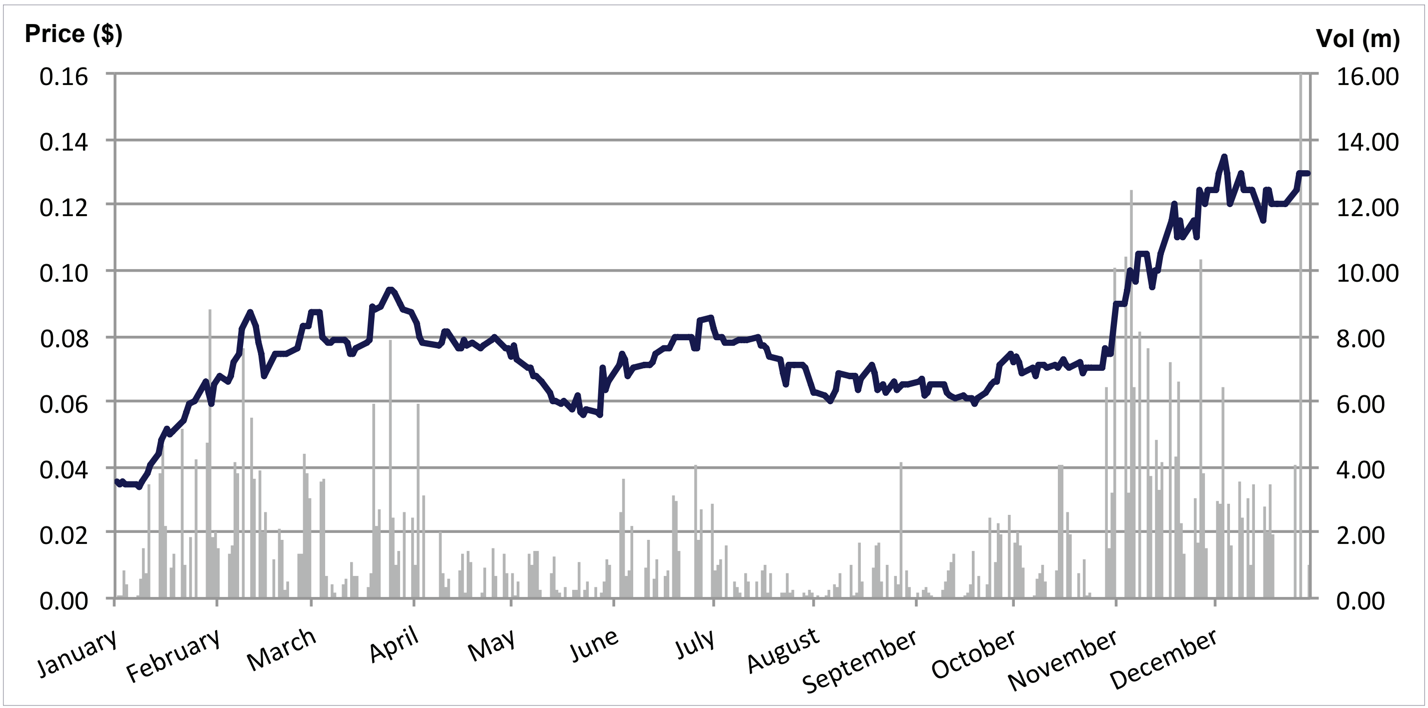
Market Activity

- Sino Gas has 1,822 shareholders and the share capital position is as follows:

ISSUED SHARE CAPITAL

Ordinary Shares (as at 31 Dec)	1,128,933,816
Institutional Placement	82,448,979
Listed Options exercised at 12.5 cents	27,265,345
Total Ordinary Shares	**1,238,648,140**
Total Unlisted Options	**40,060,000**
Listed Options	334,283,757
Exercised prior to 31 Dec	(3,266,696)
Exercised at 31 Dec	(27,265,345)
Expired	(303,751,716)
Total Listed Options	**0**

2012 Year to Date Share Price Performance (ASX: SEH)



Source: ASX data

ABOUT US

About Sino Gas & Energy Holdings Limited

Sino Gas & Energy Holdings Limited ("Sino Gas" ASX: SEH) is an Australian energy company focused on developing Chinese unconventional gas assets. Sino Gas holds a 49% interest in Sino Gas & Energy Limited ("SGE") through a strategic partnership completed with MIE Holdings Corporation ("MIE" SEHK: 1555) in July 2012 to develop two blocks held under Production Sharing Contracts (PSCs) with CNPC (Sanjiaobei 49%) and CUCBM (Linxing 64.75%). SGE has been established in Beijing since 2005 and is the operator of the Sanjiaobei and Linxing PSCs in Shanxi province.

The PSCs are located in the Ordos Basin and cover an area of approximately 3,000km^2. 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 PSCs are located and natural gas is seen as a key component of clean energy supply in China.

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

Resources Statement

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 (January 2012) and NSAI (2008). These statements were not prepared to comply with the China Petroleum Reserves Office (PRO-2005) standards or the U.S. Securities and Exchange Commission regulations and have not been verified by SGE's PSC partners CNPC and CUCBM. All resource figures quoted are mid case - 100% unless otherwise noted.

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.