SINO Gas & Energy
中澳煤层气能源

Sino Gas & Energy Holdings Limited

BUSINESS REVIEW

Size, Scalability, Market and Pricing with Funding Secured

ABOUT US

SINO Gas & Energy
中澳煤层气能源

ASX Listed Company Australia

49%

Sino Gas & Energy Limited

(SGE)

64.75% | 49%

Linxing PSC | **Sanjiaobei PSC**

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. SGE has been established in Beijing since 2006 and is the operator of the Linxing and Sanjiaobei Production Sharing Contracts (PSCs) in the Ordos Basin, Shanxi province.

SGE's interest in the Linxing PSC with CUCBM is 64.75% and 49% for the Sanjiaobei PSC held with PCCBM. SGE has a 100% working interest during the exploration phase of the PSC, with SGE's PSC partners being entitled to back-in upon Overall Development Plan (ODP) approval, by contributing development and operating costs in line with their PSC interest.

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 region has mature field developments with an established pipeline infrastructure to major markets. Rapid economic development is being experienced in the province in which Sino Gas' PSCs are located and natural gas is seen as a key component of clean energy supply in China.

2012 was a significant year of transformational change for Sino Gas, driven by the need to gear up in several key areas; most notably strengthening the Board, securing project funding, finding a strategic partner and shoring up our resources to drive development approvals.

During the year we achieved the project re-rating required to push towards development; we strengthened the Board with the right mix of regional and technical expertise; we secured funding via a strategic partnership and our extensive 2012 work programs delivered results.

2013 sees us poised for another significant year in Sino Gas' development, commencing with an updated resources assessment, a comprehensive frac testing program, further expansion of our drilling and appraisal programs leading into Chinese Reserve Report (CRR) preparation and pilot production program planning.

CONTENTS

2012 ACHIEVEMENTS

Seismic

- 2012 Linxing East and Sanjiaobei 270km seismic program completed
- 2013 Linxing West and Sanjiaobei 650km out of 1,235km surveying completed and data acquisition underway

Drilling

- Linxing East – 8 well shallow program completed
- Linxing West – 1 well of 2 well program completed
- Sanjiaobei – 3 wells of 6 well program completed

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)

AN ESTABLISHED GAS COMPANY FOCUSED ON DEVELOPMENT

Sino Gas has all the Size & Scalability

- 5.7 tcf of 100% project un-risked mid-case reserves and resources independently assessed by RISC, with Sino Gas' attributable net reserves and resources at 1.6 tcf[1]
- Significant upside remains, with approximately half of the blocks yet to be explored
- PSC area covers 2,998 km² (740,822 acres)

Exceptional Economics and Low Cost Access to Market

- High margins underpinned by strong pricing regime
- Ready access to existing pipelines which traverse the PSCs
- Share of project NPV in developing the 2P Reserves and mid-case Contingent & Prospective resources is US$1.86 billion[1]

Funding Secured

- US$90m of PSC expenditures being funded by MIE Holdings Corporation
- Extensive, fully funded 2013 work programs designed to gather seismic and drilling data required for Chinese Reserve Report preparation

Expertise to Deliver

- Multiple decades of technical and management experience in delivering Tier 1 projects
- In-country experience and benefiting from strategic partner's proven track record of delivering Overall Development Plans approvals on Chinese PSCs

Source: Company disclosure, Bloomberg

[1] Refer to Resource Statement on page 26 for full disclosure.

2013 **OUTLOOK**

	2013 WORK PROGRAM	FORWARD PROGRAM
EXPLORATION ACTIVITY	Spud remaining 2012 wells Sanjiaobei & Linxing West - 2013 drilling programs	Continue exploration and appraisal activity on Sanjiaobei and Linxing PSCs
APPRAISAL ACTIVITY	Linxing East - batch flow testing Sanjiaobei & Linxing West - batch flow testing	
DEVELOPMENT ACTIVITY	Linxing East - CRR submitted Sanjiaobei - CRR finalised	Commence pilot program and continue drive towards full field development
PRODUCTION MILESTONES	Pilot program plant design and construction	

EXECUTING OUR STRATEGY: **DELIVERING VALUE TO ALL STAKEHOLDERS**

CHINA **OPPORTUNITY**

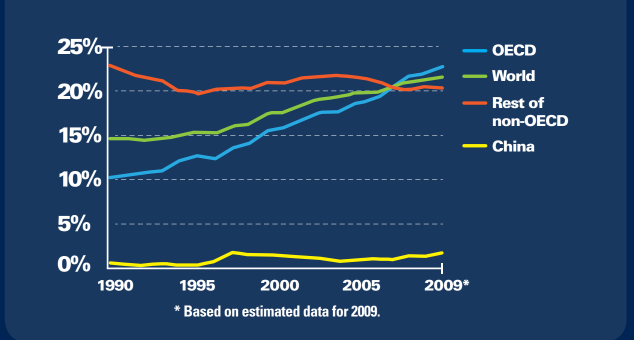
Demand for natural gas use in China is being driven by rapid urbanisation, industrialisation and a focus on green initiatives to reduce China's over dependence on high carbon-emitting coal.

Coal still accounts for over half of China's energy mix, despite progress in recent years, while political pressure is mounting to improve the country's poor air quality.

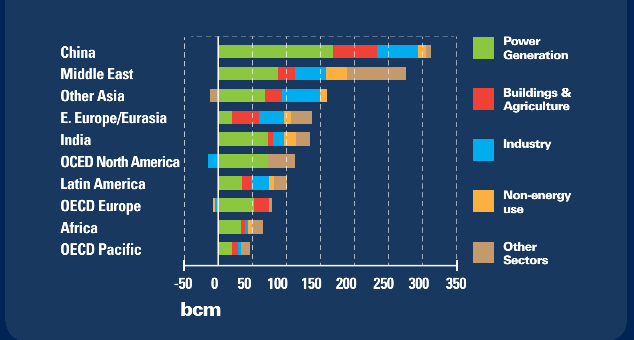
China's recently adopted 12th Five-Year Plan strongly favours gas consumption and provides economic incentives, in the form of both pricing reform and infrastructure investment, to accelerate unconventional gas projects.

Natural gas can be readily substituted for inefficient coal in power generation and given it currently represents just 3% of total Chinese energy demand, compared with 21% globally, there is significant scope for using more natural gas in the country's expanding power sector.

Share of gas-fired electricity generation in the power sector



Incremental primary gas demand by region and sector in the WEO New Policies Scenario, 2008-2035



CHINESE GAS MARKET **A DECADE OF GROWTH AHEAD**

Current

Although China accounts for 21% of world energy consumption, gas only accounts for 3% of its energy mix, as compared to 20% in the US and EU, given its heavy dependence on coal.

Chinese total energy use has more than doubled since 2000, yet per capita use is still low, meanwhile natural gas has experienced double digit demand growth, overtaking domestic supply in 2006.

Demand is unevenly distributed and concentrated in the industrial cities near the Eastern coast with the bulk of economic activity being energy-inefficient.

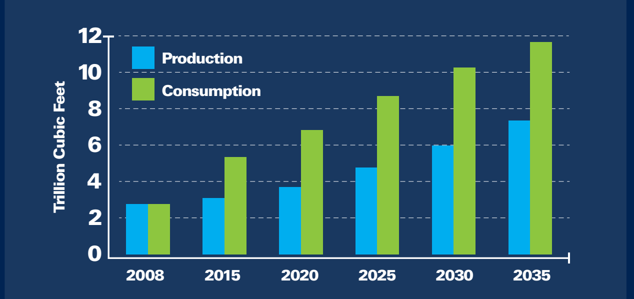
Future

Massive urbanisation, modernisation and industrial growth is already underway and is fuelling further demand with the potential for even more rapid growth in the coming decades supported by strong macroeconomics and policy initiatives.

The Chinese Government is taking steps to reduce dependence on imported energy, by encouraging the development of cleaner untapped energy sources, especially gas and renewables.

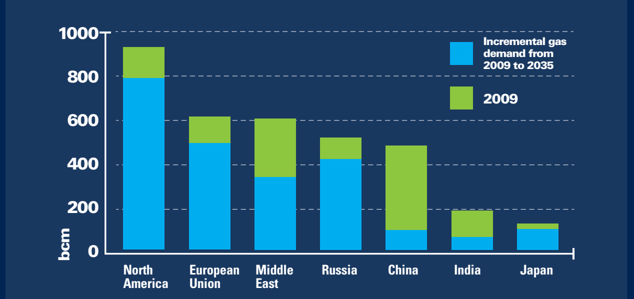
As China's energy consumption continues to expand, the country will face ongoing challenges in meeting that demand.

China Natural Gas Production and Consumption



Source: U.S. EIA - International Energy Outlook

Global Natural Gas Demand



Source: EIA - WorldEnergy Outlook

CHINA'S 12TH FIVE-YEAR PLAN

In its 12th Five-Year Plan, China has signalled its intention to shift from a policy of maximizing growth to balancing growth with social harmony and environmental sustainability.

The Plan has continued the promotion of natural gas as a clean energy source, which has been further supported by the outlining of more favourable gas pricing reform to be rolled out nationally.

Of particular note in the Plan was the earmarking of the eastern fringe of the Ordos Basin for accelerated development, on which Sino Gas' PSCs are located.

Gas market conditions in Shanxi province continue to remain robust, with major gas powered infrastructure coming online in the next five years to support the rapid urbanisation and green initiatives in the region that are designed to reduce dependence on high carbon emitting coal and underpin future gas demand. This is important for Sino Gas, as this is the domestic market where much of its gas is expected be consumed.

We continue to work closely with Chinese partners to ensure that the PSCs remain in good standing, and to that end, have successfully obtained formal extensions to the exploration periods on both blocks during the year.


Taiyuan shifting to greener growth model

China kicks off 12th Five-year Plan

Expanded domestic demand
Double income
Massive development of western regions
Regional economy
Guaranteed housing
To solve:
Imbalanced regional development
Core issues
Imbalanced industrial structure
Imbalanced demand structure
Improved industrial structure
Development of strategic emerging industries
Upgrade of traditional industries

ORDOS BASIN THE RIGHT PLACE AT THE RIGHT TIME

The Ordos Basin is the second largest sedimentary basin in China located ~500km southwest of Beijing in Central China.

This is an area of strong regional demand for unconventional gas with proximity to major long distance pipelines, providing opportunities to key power generation and industrial segments in the growing domestic market.

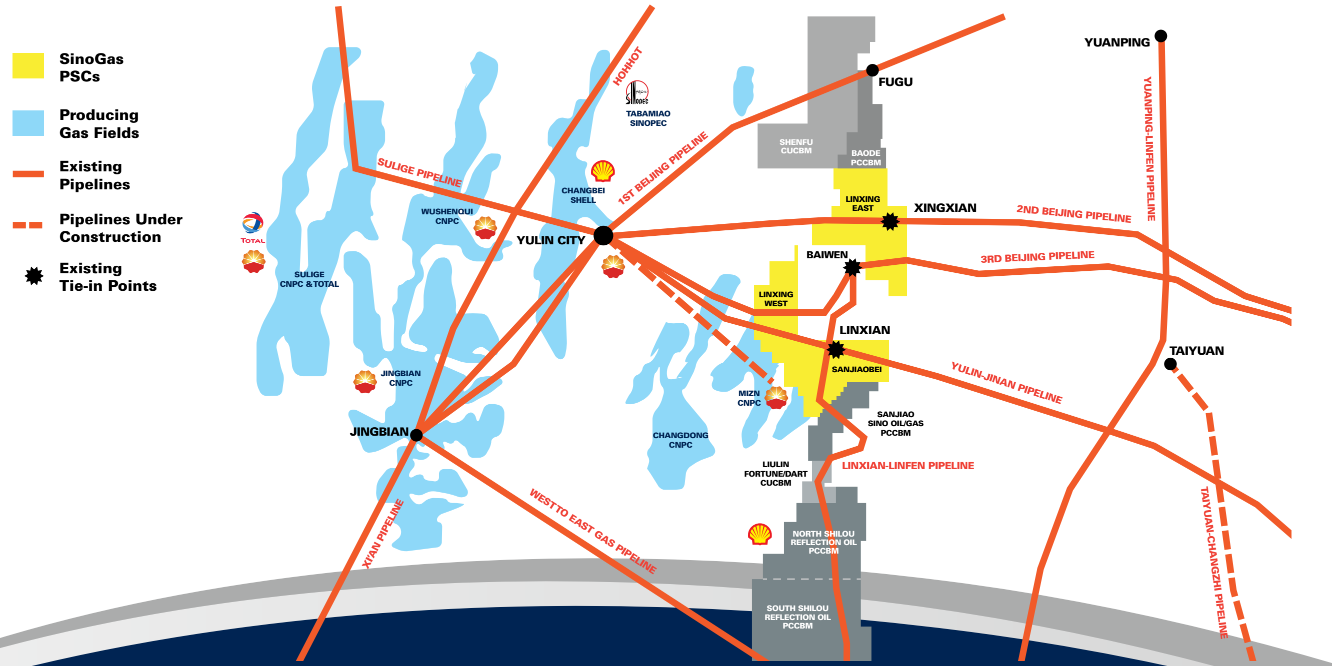
The basin currently accounts for ~30% of Chinese domestic gas production with current production at ~1.5bcf a day and also hosts major resources of coal (~37 billion tonnes or 20% of China's total), petroleum, natural gas and coal bed methane (CBM). Operators include TOTAL, SHELL, CNPC and SINOPEC.

Gas was first discovered in the basin in 1989 and it has since been identified as one of three basins in China targeted for large-scale production following a Wood Mackenzie study of global unconventional gas assets.

The basin was recognised for its competitive well costs relative to large resource potential and recoverability; and presents one of the highest potential returns on investment for developers.

China's 12th Five-Year Plan stipulates accelerated development of Ordos Basin gas, while Sino Gas' Linxing PSC receives a specific mention in the Plan.

ACCESSIBLE ROUTES **TO MARKET VIA EXISTING PIPELINES**



The Chinese Government has been significantly investing in pipeline infrastructure over the last 10 years to open up the transportation of natural gas supplies to end market users.

The Ordos Basin pipeline infrastructure represents a key transcontinental gas transport hub that has opened a new stage in the evolution of China's natural gas market, from that of a local business to a nationwide business.

The pipelines in the Ordos Basin are owned by Shanxi Gas, Sinopec and CNPC , and boast both existing above ground infrastructure and ample spare capacity. Nearby gas fields are operated by Total, Shell, CNPC and SINOPEC.

Sino Gas' projects are serviced by existing provincial pipelines, the West-to-East Gas Pipeline and the Shaanxi-Beijing Gas Pipeline to Beijing. These serve a crucial role providing gas to the two largest cities in China: Beijing and Shanghai. The West-to-East Gas Pipeline runs from Xinjiang province to Shanghai, with a current capacity of 600Bcf/y and targeting to reach 706Bcf/y before 2015.

The three Shaan-Jing Gas Pipelines together supply 847Bcf/y of natural gas to Beijing with ~950km per pipeline in length.

On current estimates, the existing and planned demand for natural gas far exceeds supply, with the Shanxi Province alone (population ~ 35 million) underpinning supply.

GAS PRICING **CHINESE GOVERNMENT REFORMS**

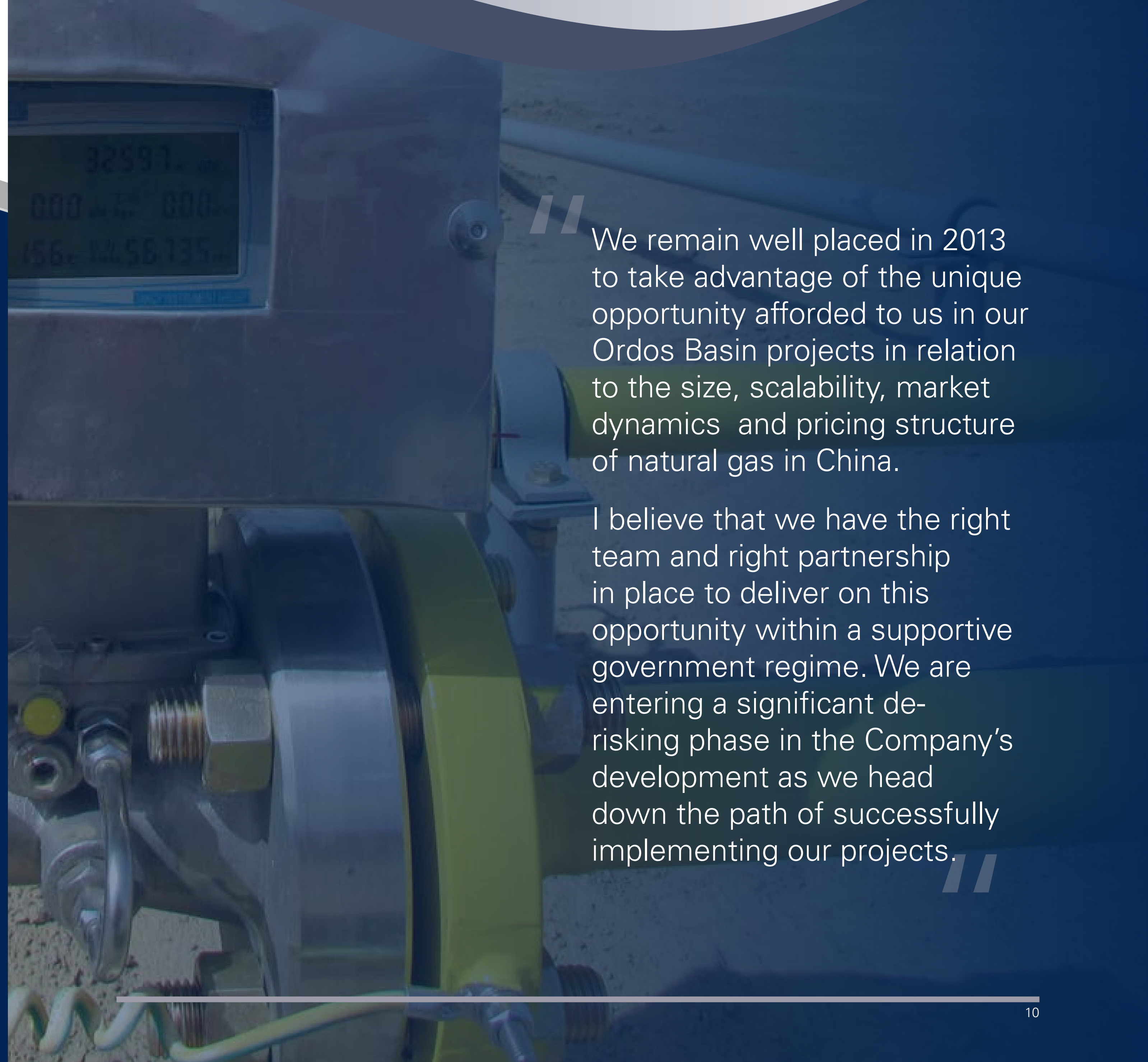
Natural gas prices are regulated by the Chinese Government and price levels are set in order to promote natural gas use as a substitute for coal. Consequently, China's domestic prices for natural gas are far cheaper than international prices.

In a significant positive step, the Chinese Government recently announced the commencement of reforms to Chinese city gate gas prices so that they are subject to market based pricing according to a reference basket of fuel oil and imported LPG with prices also 'flexing' in accordance with an affordability constraint.

The new mechanism is being trialled in Guangdong and Guangxi provinces, before an expected national-wide rollout.

Prices will be adjusted annually and then move to a quarterly basis. Whilst still early days, this is a positive step in linking domestic and import prices with some forecasting the potential of gas prices reaching ~US$10mcf/d compared with the current ~US$7-8mcf/d.

CHAIRMAN'S **REPORT**



"We remain well placed in 2013 to take advantage of the unique opportunity afforded to us in our Ordos Basin projects in relation to the size, scalability, market dynamics and pricing structure of natural gas in China.

I believe that we have the right team and right partnership in place to deliver on this opportunity within a supportive government regime. We are entering a significant de-risking phase in the Company's development as we head down the path of successfully implementing our projects."

CHAIRMAN'S **REPORT**

Dear Shareholder,

2012 was a significant year of transformational change for your Company. While we started the year with some significant gas discoveries already in hand on our Sanjiaobei and Linxing blocks, the Board of Sino Gas recognised that we needed to improve in several key areas specifically;

- **strengthening the Board,**
- **securing project funding,**
- **finding a strategic partner, and**
- **shoring up our resources to drive development approvals.**

I am pleased to say that Sino Gas has met significant milestones in these areas during the year.

The appointment of Colin Heseltine as a Non-Executive Director has brought years of highly relevant regional experience to Sino Gas. Colin's 40 year career as a diplomat and his deep understanding of the region, adds a valuable perspective to an Australian company doing business in China.

Robert Bearden's commencement in May and subsequent appointment as Managing Director and CEO has delivered immense technical and operational expertise to both the Board and the Beijing team. Robert has over 30 years of leadership experience in major international oil and gas development and production operations, many of which have been in Asia.

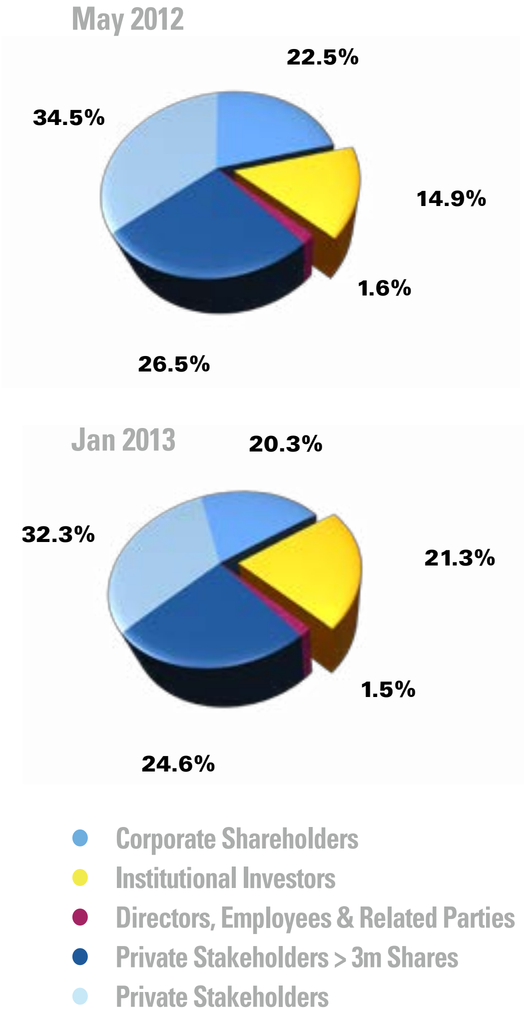
Sino Gas entered into a Strategic Partnership with Hong Kong listed MIE Holdings Corporation in July, which provided Sino Gas with both US$100 million in development funding for its projects and a partner that has extensive experience in delivering Sino-Foreign PSCs through regulatory approval to production.

RISC's independent evaluation in January 2012 confirmed 3.7 trillion cubic feet ("tcf") of total project reserves and resources, with a net present value attributable to Sino Gas of US$1.1 billion. The key focus of the 2012 work program has been the gathering of data for the preparation and submission of the Chinese Reserve Report and also enabling Sino Gas to book reserves from resources.

I am pleased to confirm that RISC's most recent review in March of this year, identified 327 billion cubic feet ("bcf") of 2P Reserves that can be booked on the project with Sino Gas' share being 93 bcf, up from 6 bcf previously[1]. This recognises our commitment to developing the PSCs based on the progress made on preparatory work on regulatory submissions, reserve planning and contractor scheduling for pilot plant production.


Signing the Strategic Partnership with MIE Holdings

Transitioning share register



RISC's review also saw an increase of 56% in the total unrisked mid-case reserves and resources, to now sit at 5.7 tcf. Sino Gas' share of project NPV in developing the 2P Reserves and mid-case Contingent & Prospective resources has increased 66% to US$1,863 million.[1]

While inclement weather caused some operational challenges in the Ordos Basin this year, Sino Gas was able to carry out extensive work programs on its Linxing and Sanjiaobei blocks. In implementing the ambitious catch-up programs, the Operations team successfully executed almost more drilling and seismic work over the last few months of operations than previous work programs combined. It is within this context that I am particularly proud of the fact that the Operations team completed well over 500,000 man hours of incident-free field operations, continuing on from the outstanding record set in 2011.

Reflecting on our significant year of transformation and achievement of major milestones, the market capitalisation of Sino Gas has increased fourfold, starting the year at A$35 million and finishing it at A$140 million. It has also been pleasing to see a transitioning of the share register with an increasing proportion of institutional investors becoming shareholders in Sino Gas.

We remain well placed in 2013 to take advantage of the unique opportunity afforded to us in our Ordos Basin projects in relation to the size, scalability, market dynamics and pricing structure of natural gas in China.

I believe that we have the right team and right partnership in place to deliver on this opportunity within a supportive government regime. We are entering a significant de-risking phase in the Company's development as we head down the path of successfully implementing our projects.

I would like to take this opportunity to thank our new CEO and Managing Director, Robert Bearden, for his and his team's significant contribution to Sino Gas in 2012 and I look forward to another year of significant achievements.

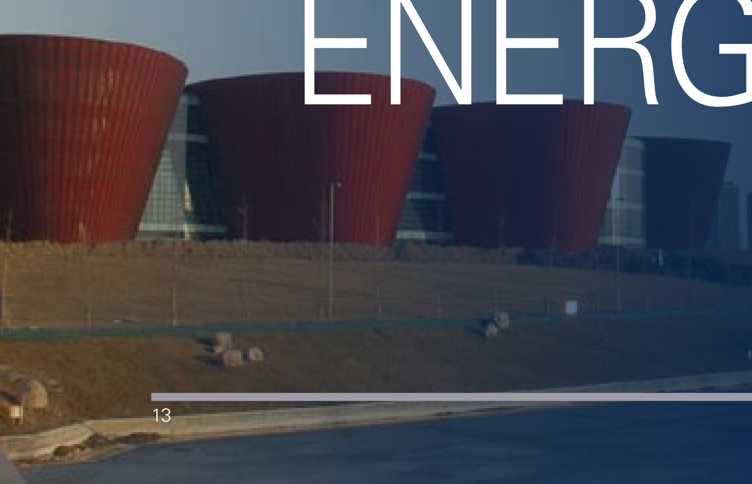
And finally, to you, our shareholders, thank you for your support in 2012. I believe the opportunity we have in front of us in 2013 will provide another rewarding year for shareholders.

Yours sincerely,

Gavin Harper
Chairman

[1] Refer to Resource Statement on page 26 for full disclosure.

BUILDING A **BETTER** ENERGY FUTURE FOR **CHINA**



CONVERSATION WITH **ROBERT BEARDEN**

"I believe cementing the Strategic Partnership between Sino Gas and MIE Holdings Corporation has been our greatest achievement as it has put Sino Gas in the a strong position to execute and deliver the potential of our Sanjiaobei and Linxing PSCs.

Looking back on our progress during 2012, it is very apparent what a difference a year makes with Sino Gas now in a significantly stronger position in terms of financial strength, operational capacity and regional expertise, compared with where we were 12 months ago."

CONVERSATION WITH ROBERT BEARDEN **MANAGING DIRECTOR AND CEO**

Q. You were appointed CEO in May 2012, a year of transformation for Sino Gas. What has been your most important achievement since being appointed CEO?

I believe cementing the Strategic Partnership between Sino Gas and MIE Holdings Corporation has been our greatest achievement as it has put Sino Gas in a strong position to execute and deliver the potential of our Sanjiaobei and Linxing PSCs.

The partnership has combined MIE's financial position, on-ground operational capability and Chinese regulatory experience with our gas projects and technical expertise. The results of this have already become evident, with almost as many wells being drilled on our blocks in 2012 as the Company was able to achieve in the past five years.

The other key attraction of MIE was its proven ability to successfully deliver Sino-Foreign PSCs through the Chinese regulatory approval system including Chinese Reserve Report and Overall Development Plan , and then operate the projects in a highly efficient manner.

Looking back on our progress during 2012, it is very apparent what a difference a year makes with Sino Gas now in a significantly stronger position in terms of financial strength, operational capacity and regional expertise, compared with where we were 12 months ago.

Q. 2013 appears to be shaping up as another significant year in Sino Gas' development. Would you care to outline some of the key stages in the development of Sino Gas' PSCs to ultimately produce natural gas for the domestic Chinese market?

In the same way that 2012 was a transformational year for Sino Gas, 2013 will be about executing our strategy and delivering value to all stakeholders. The first stage in our drive towards full field development has been the commencement of the extensive fully funded 2013 work programs designed to gather seismic and drilling data required for Chinese Reserve Report preparation.

Our surveying for 2013 is already well progressed, we have batch flow testing teams onsite ready to test over 20 zones, and work programs are on track to have ten drill rigs in the field and up to 25 wells completed during the year.

The completion of the drilling and seismic work will then go into the preparation of the Chinese Reserve Reports on the Sanjiaobei and Linxing PSCs. This is expected to happen in the second half of 2013.

Finally, we expect to be signing gas sales agreements, completing pilot production design and commencing construction this year.

Q. As a foreign owned entity operating in China, what do you see as some of the key attributes of Sino Gas that will enable you to successfully develop both of your PSCs?

Sino Gas has been operating in China since 2006 and I have worked in Central and Far East Asia for over 10 years. As a team, we endeavour to understand the culture of the environment that we operate in and to conduct ourselves well within the regulatory and governmental guidelines. To that end, we use local content as much as possible in assisting us in our activities.

In addition, I cannot emphasise enough the benefits of our strategic partnership with MIE, who currently have three PSCs in production in China. MIE operates over 2,000 wells on its Daan, Moliqing and Miao 3 PSCs in the Songliao Basin annually and produces over 10,000 barrels of oil per day.

Q. What do you see as some of the key challenges for Sino Gas in 2013 and how do you propose to address them?

The drive towards submission of the China Reserve Report (CRR) and Overall Development Plan (ODP) remain our key focus for 2013 and beyond. The biggest challenge to move to full field development is our ability to successfully implement and execute our development plans. Our current work programs are focussed on gathering data to meet the Chinese government regulatory and environmental specifications on CRR and ODP.

Sino Gas in 2013 will be about the focussed execution of our development plans in a structured and disciplined way. To a large extent, we know what we have in our PSCs, and we know what we need to do in going through the appropriate channels, in the appropriate ways using the appropriate data. The focus will be on de-risking the development framework of the PSCs and, as a result, the range of uncertainties will become tighter. The control of our future remains in our hands and our ability to execute.

Q. The Chinese Government recently released its 12th Five-Year plan, which included a commitment to reduce pollution by increasing the proportion of electricity generated by natural gas. How well do you believe Sino Gas is positioned to assist China in achieving these goals?

Of particular note in the Chinese Government's 12th Five-Year plan was the earmarking of the eastern fringe of the Ordos basin for accelerated development, on which Sino Gas' PSCs are located. In addition, the plan has been further supported by the outlining of a more favourable gas pricing regulation to be rolled out nationally, which will encourage domestic production.

The operating environment for Sino Gas is one of a supportive government regime in which we are in the fortunate position of being able to assist China in developing natural gas as a clean energy source. China is targeting an increase in production of domestic origin gas by 2.5 times in the next five years alone.

Q. Sino Gas has an enviable safety record over the past two years, reflecting its strong commitment to occupational health and safety initiatives. To what do you attribute your success in this area?

I am particularly proud of our achievement in maintaining an unblemished safety record over the past two years. A culture of safety starts at the top and needs to filter its way down through an organisation. It essentially stems from a philosophy of caring for one another and looking out for one another; it is not just a passive philosophy but also encapsulates the need to take action when necessary to assist.

At an operational level, we continue to maintain high standards, employing dedicated personnel that are well trained and operating equipment that is of world class standards. We also endeavour to partner with skilled and diligent operators who balance a high regard for safety with an equal regard for getting the job done efficiently.

Q. Sino Gas's share price performance during 2012 was very strong, with the Company now ranked in the top 25 Australian listed oil and gas explorers and producers by market capitalisation. What do believe has attracted investors to your share register?

The share price performance has been particularly pleasing for the management team and, I believe, reflects our efforts in progressing the Company along the development timeframe. The attaining of major milestones in our progression towards full field development has subsequently de-risked the investment proposition and begun to attract institutional investors onto the Sino Gas share register.

Sino Gas is a unique opportunity for investors to participate directly in China's growing domestic natural gas market. We have the benefit of a large resource base, with the scale to grow even larger and with the added benefit that the pipeline infrastructure and local market are already in place. Most importantly, our extensive 2013 work programs are fully funded.

Q. RISC has recently completed its assessment of Sino Gas' reserves and resources. What is the significance of this assessment and how does it position Sino Gas to move into the production phase?

This assessment is a significant de-risking event for Sino Gas in that it allows us to book 327 bcf from contingent resources to 2P reserves. [1] We are very pleased that RISC has identified the efforts we have been through in forward planning and our commitment to develop the PSCs, to subsequently allow us to commence booking reserves.

RISC has also identified a higher probability of successful project development based on a larger and experienced joint venture partner in MIE joining the project, commencement of the Chinese reserve reporting process and the new wells from the 2012 work program supporting the previous analysis.

This independent and detailed assessment has crystallised all of our hard work over the past 12 months into a significant increase in both the total project resources and the expected realisable value to Sino Gas.

This is a world class project in terms of size and scale and our intention is to progress development as the economics of the domestic natural gas market in China continues to suggest attractive returns while existing pipeline infrastructure, which traverse our PSCs, present low cost access to market.

In partnership with MIE, we have a team with the expertise and experience to deliver a Tier 1 project of this nature while providing further upside with about half of the blocks yet to be explored.

[1] Refer to Resource Statement on page 26 for full disclosure.

TWO PSCs **MULTIPLE PROJECTS**

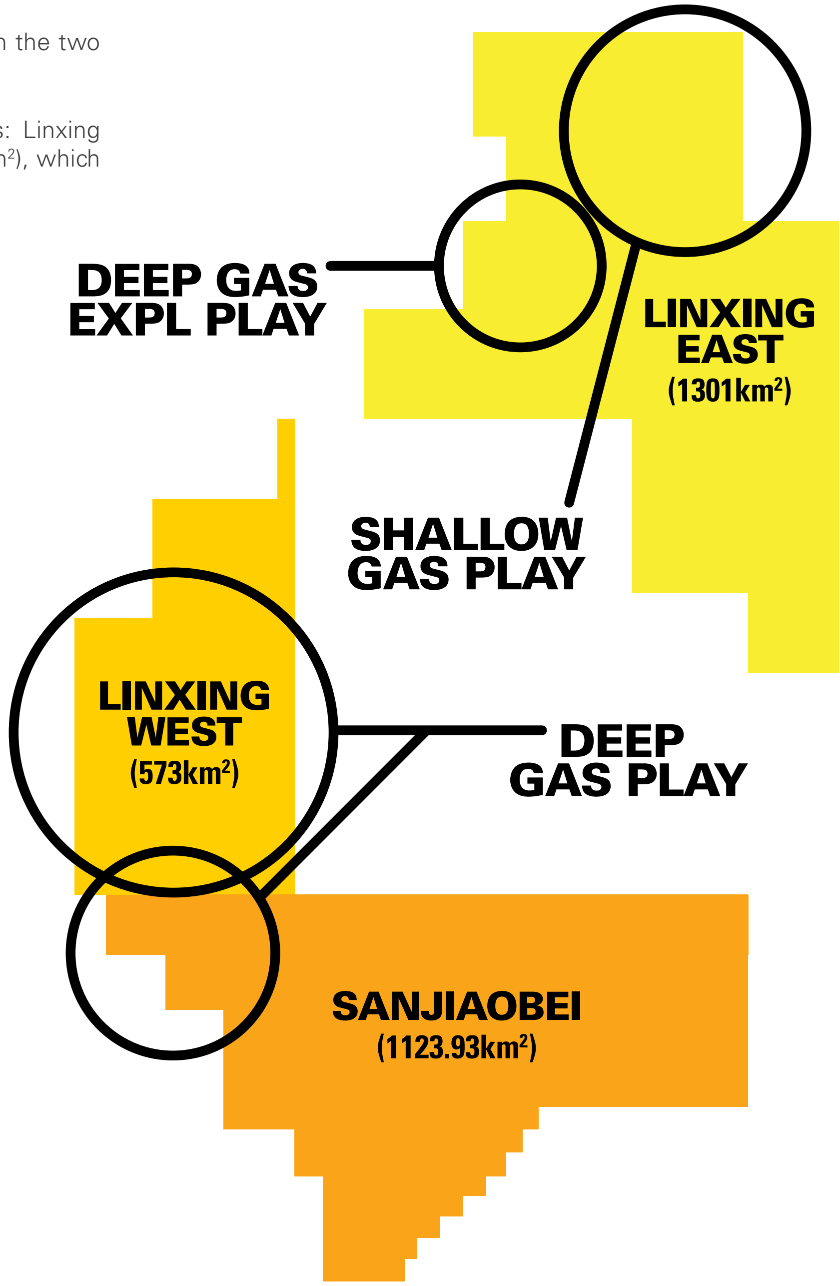
Approximately half of the total acreage in the two PSCs has yet to be explored.

The Linxing PSC is split into two areas: Linxing East (1,301km²) and Linxing West (573km²), which together cover a total of ~1,874km² (463,076 acres). The PSC is operated by SGE, with CBM Energy and China United Coalbed Methane (CUCBM) being entitled to back-in upon Overall Development Plan (ODP) approval, by contributing their share of development and operating costs.

Linxing West is on the up-dip extension of existing deep gas fields, while Linxing East's gas has been found in shallow coals to date, where a north-south fault separates the acreage. The western portion of Linxing East remains underexplored but appears to have similar geological characteristics to Linxing West and Sanjiaobei.

The Sanjiaobei PSC has a total area of ~1,124km² (277,746 acres). It is operated by SGE, with China National Petroleum Corporation (CNPC), being entitled to back-in upon ODP approval.

Sanjiaobei's gas accumulation along the western boundary of the PSC represents an up-dip extension of an established gas field, similar to Linxing West. Meanwhile, the central and eastern portions of Sanjiaobei remain underexplored.



LINXING WEST **(SINO GAS 31.7%)**

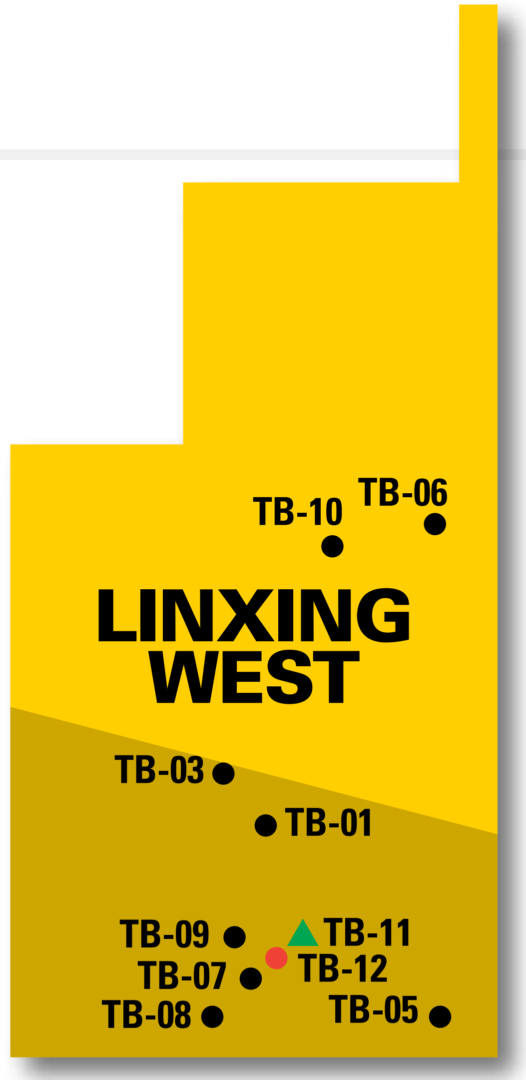
Substantial progress was made on seismic and drilling programs on Linxing West, to support key requirements for Chinese Reserve Report submission and to boost capacity ahead of pilot production.

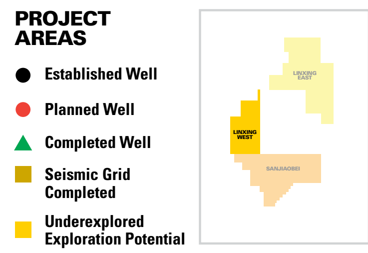
KEY 2012 OUTCOMES

- The first of the two-well program on Linxing West was completed at TB-11 in late 2012, with initial mud and electronic wire line log results identifying significant pay intervals across multiple pay zones during drilling. The structure of the pay zones identified indicate similar geological properties to TB-07, located less than 3km southwest, which was flowed tested well above commercial rates from a single zone during the 2010 work program.
- Seismic teams completed data acquisition for 350km of the 650km seismic planned for 2013 on the southern portion of Linxing West, to enable further resource assessment and support the drilling and flow testing results required for a separate Chinese Reserve Report on Linxing West.
- Surveying commenced for the remaining 300km of seismic which is to further define the resource potential on the northern portion.

LOOKING AHEAD

The pre-development phase on Linxing West will continue throughout 2013, including the drilling of further exploration and appraisal wells. Batch flow testing of existing wells in 2013 will provide key data for preparation of the Chinese Reserve Report.





LINXING EAST (SINO GAS 31.7%)

Seismic data was provided to RISC to be included in the Reserves and Resources assessment and as required for Chinese Reserve Report preparation.

KEY 2012 OUTCOMES

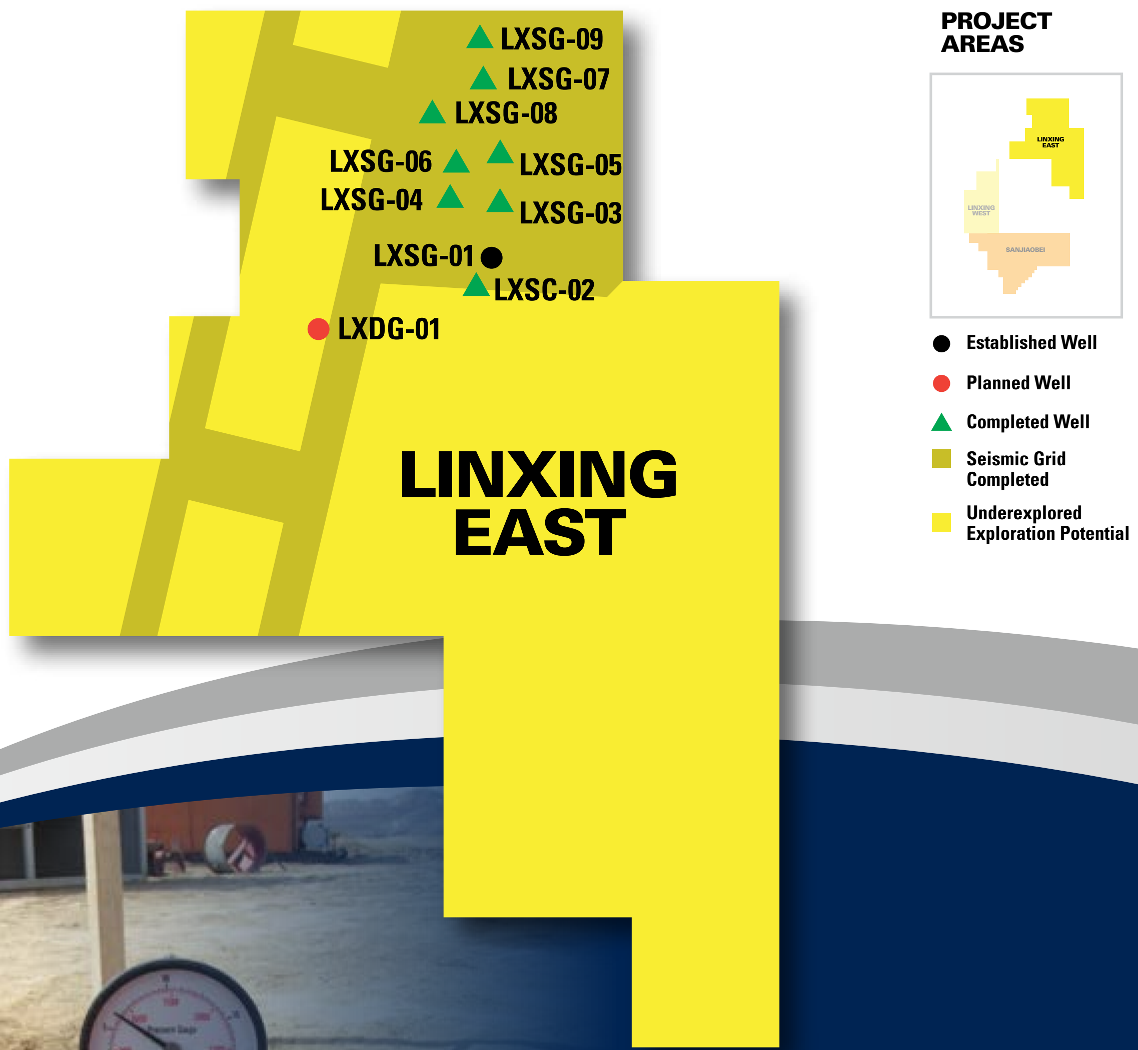
- Seismic data was successfully acquired in Q3 covering the infield drilling area in the north-eastern corner of Linxing East.
- The Linxing East 2012 drilling work program, consisting of eight coal bed methane shallow wells on the north-eastern portion of the PSC was successfully completed.
- Initial mud and electronic wire line log results confirming expectations of coal seams in the area provided confidence to commence the dewatering program.

LOOKING AHEAD

A dewatering program had commenced by year end on four of the eight wells, with the final four scheduled to be perforated in early 2013.

Flow rate data from these wells is expected to be available by mid-2013 and will be incorporated into the Chinese Reserve Report submission, expected later in the year.

Spudding of the exploration well on Linxing East, LXDG-01 (formally named TB-13), will be included in a second round of exploration drilling of four deep wells, scheduled to begin mid-2013.



SANJIAOBEI (SINO GAS 24%)

Due to adverse weather conditions, which prevented operations crews from accessing drill locations, the focus of the 2012 work programs had been to acquire seismic data for the remaining north/south running lines to complete the grid required for Chinese Reserve Report (CRR) submission on the western portion of the block. In addition, outfield seismic was shot to further define the previously underexplored resource potential to the east of the block.

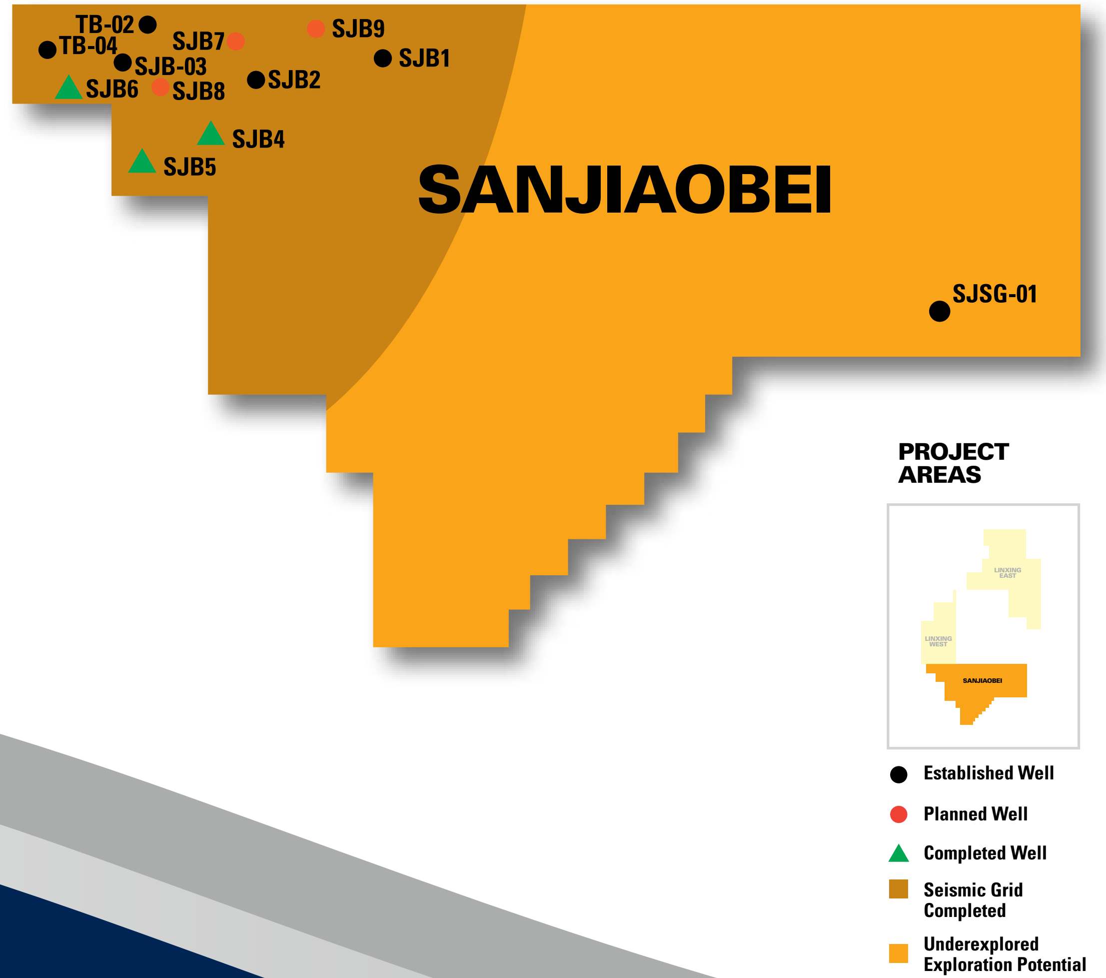
The 100km of north/south running seismic lines acquired in 2012, which supplements existing seismic data and drilling results from all three completed wells was provided to RISC to be included in the Reserves and Resources assessment.

KEY 2012 OUTCOMES

- Seismic teams have completed surveying work on the 585km of seismic lines planned for 2013 and commenced data acquisition.
- Following restoration of road access early in the fourth quarter of 2012, drilling operations were able to recommence with three wells of the six-well 2012 program spudded and completed.
- Initial mud and electronic wire line log results were in line with previous gas discovery wells on Sanjiaobei, which have flow tested at commercial rates.

LOOKING AHEAD

The remaining three wells of the program were scheduled to commence spudding in early 2013 (three drilling rigs were already in the PSC area at year end).



PSC
OWNERSHIP STRUCTURE

Foreign enterprises seeking to invest in upstream oil and gas exploration and production activities in China are required to partner with Chinese State Owned Enterprises ("SOE"). Currently the gas and petroleum industries in China are dominated by three SOEs, namely CNPC, Sinopec and CNOOC.

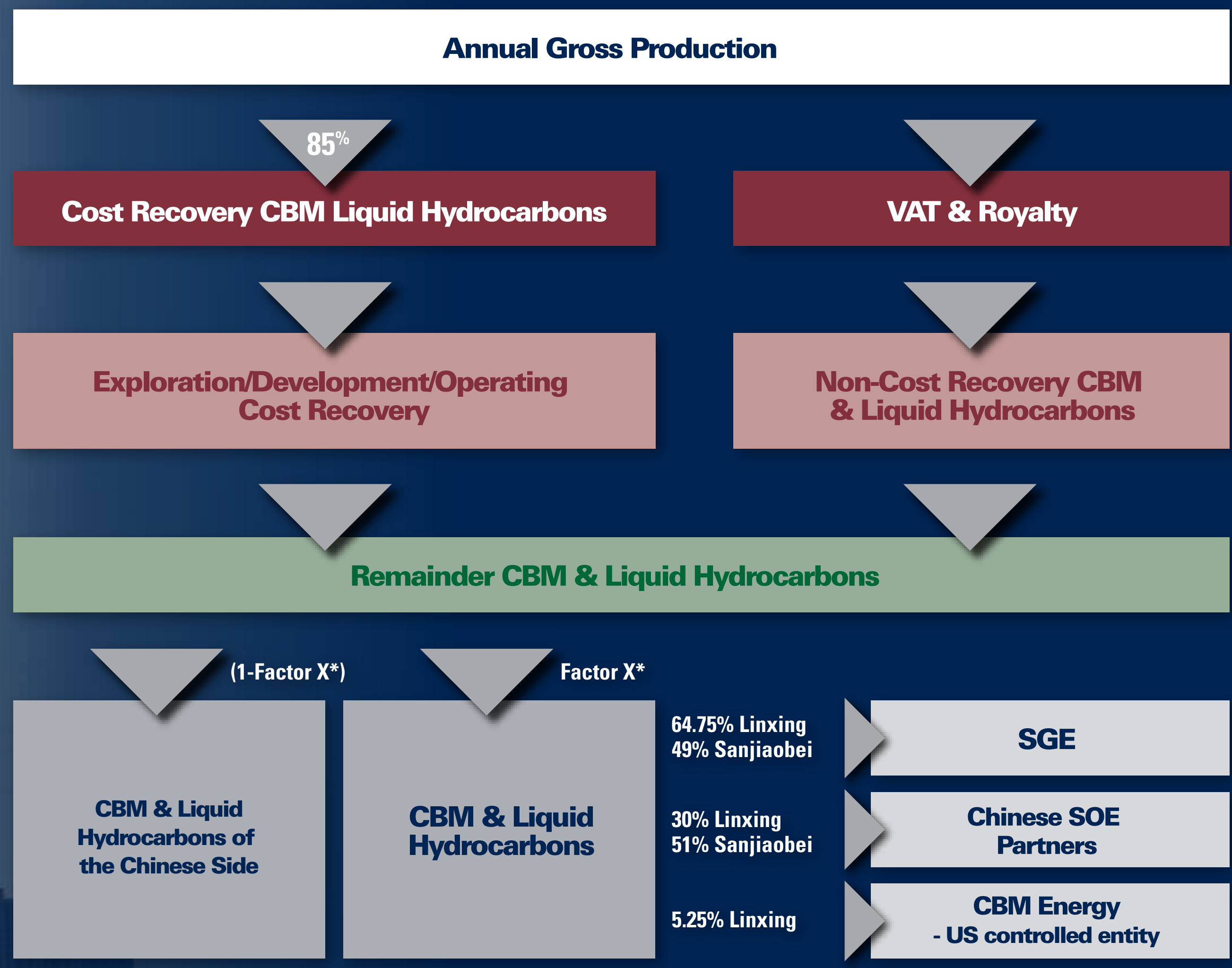
Contractually, foreign enterprises engaging in exploration and production activities in China are required to enter a PSC for a defined geographic area referred to as a 'block'. PSCs are awarded to the foreign enterprise either through negotiation or with an invitation to bid from one of the SOEs, followed by approval from the Ministry of Commerce.

PSC
ALLOCATION STRUCTURE

Sino Gas & Energy Limited ("SGE") will be able to recover the exploration, development and operating costs from the first 85% of the revenue generated from the PSC. The exploration investment sunk by SGE will be repaid before the accumulated development costs.

The remainder of the revenue will be used to pay the Value Added Tax ("VAT") and Royalties. The remainder after recoverable costs and taxes will go into the 'green pool', as shown below.

Depending on the rate of production, 90-100% of the 'green pool' will be paid to SGE and the Chinese partners according to each share of interest in the PSCs.



[1] CBM Energy has an option to aqcuire 5.25% of Linxing by paying 7.5% of back costs

* Factor X = 0.90 - 1.00 depending on production volumet

SHANXI PROVINCE
CHINA'S INDUSTRIAL HEART

Key Facts

- **Population of circa 35 million people spread across 11 cities and 119 counties and districts**
- **Taiyuan is the capital of the province with a population of 4.2 million and there are eight cities in the province with a population above 3 million people**
- **The province is resource rich and is the home of heavy industry, meanwhile the population size and demand for energy is significant**
- **Urbanisation is an unstoppable trend and the infrastructure build out is significant**
- **The high level of economic and population growth combined with coal to fuel electricity generation has negatively impacted air quality**

Sino Gas' acreage is located in Shanxi province which lies along the middle reaches of the Yellow River, to the west of the Taihang Mountains, in central China, covering 156,000km^2.

The province is rich in minerals with a great variety spread across a wide area. It has 120 known minerals, 62 with proven reserves; 34 of these ranking among the top 10 in the country by reserves. It ranks first in the country in coal, coal bed methane, bauxite, coal clay, laterite and potassium reserves and has the second largest rutile, pearlite, gallium, vermiculite and glass-oriented limestone reserves.

The province has been called the "home of coal", because of its 260 billion tons of proven reserves, or a third of the country's total. Industry in Shanxi is centred around heavy industries such as coal and chemical production, power generation, and metal refining.

The population size and demand for energy in the Shanxi province is significant. Urbanisation is an unstoppable trend and the infrastructure build out is significant.

As a result of this growth and the high usage of coal, air quality is low in the province. China's 12th Five-Year Plan focuses on energy efficiency and the use of cleaner energy sources such as natural gas as the fuel of choice for power generation, for use in bus and truck fleets and for powering the boiler network which provides heat for the cities.

For China, building a thriving economy based on low carbon growth is not just an environmental imperative but a route to further prosperity and the means by which the country will meet rising aspirations for improved standards of living in terms of food, housing, transport and employment.

RISC RESERVES AND RESOURCES **INDEPENDENT ASSESSMENT**

RISC has completed its independent Reserves and Resources assessment, using the SPE (Society of Petroleum Engineers) PRMS (Petroleum Resource Management System) Guidelines.

Results were reviewed from the twelve wells drilled in 2012, 70km of seismic data from the infield drilling area in the north-eastern corner of Linxing East along with 100km of data from a previously unexplored portion to the southwest of the block, and 100km of north/south running seismic at Sanjiaobei.

The Project (100%) current Reserves & Resources are summarised below:

PROJECT (100%) RESERVES & RESOURCES		BEST ESTIMATE GAS IN PLACE (GIP) (BCF)	1P RESERVES (BCF)	2P RESERVES (BCF)	3P RESERVES (BCF)	2C (MID CASE) CONTINGENT RESOURCES (BCF)	P50 MID CASE PROSPECTIVE (BCF)	TOTAL UNRISKED MID-CASE RESERVES / RESOURCES (MID CASE) (BCF)
LINXING PSC		12,343	66	193	412	1,569	2,129	3,891
SANJIAOBEI PSC		5,684	46	134	287	654	1,047	1,835
TOTAL	2013	18,027	112	327	699	2,223	3,176	5,726
TOTAL	2012	11,931	7	22	47	1,799	1,861	3,682
CHANGE		**+51%**		**+1386% (2P)**		**+24%**	**+71%**	**+56%**

The Company's attributable net Reserves & Resources and Economic Evaluations are summarised below.

SINO GAS' ATTRIBUTABLE NET RESERVES & RESOURCES	1P RESERVES (BCF)	2P RESERVES (BCF)	3P RESERVES (BCF)	2C (MID CASE) CONTINGENT RESOURCES (BCF)	P50 MID CASE PROSPECTIVE (BCF)	TOTAL UNRISKED MID-CASE RESERVES / RESOURCES (MID CASE) (BCF)	NPV 10 MID CASE (US$M)	EMV (US$M)
2013								
LINXING PSC	21	61	131	498	675	1,235	1,307	1,078
SANJIAOBEI PSC	11	32	69	157	251	441	556	478
TOTAL	32	93	200	655	927	1,675	1,863	1,556

COMPETENT PERSONS STATEMENT

Information on the Resources in this release is based on an independent evaluation conducted by RISC Operations Pty Ltd (RISC), a leading independent petroleum advisory firm. The evaluation was carried out by RISC under the supervision of Mr Peter Stephenson, RISC Partner, in accordance with the SPE-PRMS guidelines. Mr Stephenson has a M.Eng in Petroleum Engineering and 30 years of experience in the oil and gas industry. RISC consent to the inclusion of this information in this release.

ABOUT RISC

RISC is an independent advisory firm that evaluates resources and projects in the oil and gas industry. RISC offers the highest level of technical, commercial and strategic advice to clients around the world. RISC services include the preparation of independent reports for listed companies in accordance with regulatory requirements. RISC is independent with respect to Sino Gas in accordance with the Valmin Code, ASX listing rules and ASIC requirements.

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Robert Bearden
MANAGING DIRECTOR & CEO

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RESOURCES STATEMENT & DISCLAIMER

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 (March 2013). 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. Project NPV10 is based on a mid-case gas price of $US 8.54/mscf, lifting costs (opex+capex) ~ US$1.3/ msf mid-case. All resource figures quoted are unrisked mid-case unless otherwise noted. Sino Gas' attributable net reserves & resources assumes PSC partner back-in upon ODP approval, CBM Energy's option to acquire an interest of 5.25% in the Linxing PSC (by paying 7.5% of back costs) is exercised, and MIE fulfill funding obligations under the strategic partnership agreement.

Certain statements included in this announcement constitute forward looking information. This information is based upon a number of estimates and assumptions made by the Company in light of its experience, current conditions and expectations of future developments, as well as other factors that the Company believes are appropriate in the circumstances. While these estimates and assumptions are considered reasonable, they are inherently subject to business, economic, competitive, political and social uncertainties and contingencies.

Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking information provided by the Company, or on behalf of, the Company. Such factors include, among other things, risks relating to additional funding requirements, gas prices, exploration, acquisition, development and operating risks, competition, production risks, regulatory restrictions, including environmental regulation and liability and potential title disputes. Forward-looking information is no guarantee of future performance and, accordingly, investors are cautioned not to put undue reliance on forward-looking information due to the inherent uncertainty therein. Forward-looking information is made as at the date of this announcement and the Company disclaims any intent or obligation to update publicly such forward-looking information, whether as a result of new information, future events or results or otherwise.

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