SINO Gas & Energy 中澳煤层气能源

Quarterly Report

For the three months ending 31 March 2014

Q1

2014 Activities Report

FOCUSED ON THE STRATEGY— PIPELINE PRODUCTION IN 2014

- Drilling program underway —8 rigs drilling in field
- Well testing program—4 testing crews deployed
- 2014 Seismic acquisition completed for CRR
- Funding to cover 2014 cash calls in place
- Sino Gas admitted to ASX 300
- Board and management refresh process underway

Following the completion of the 2013 work program, which marked Sino Gas & Energy Holdings Limited's (ASX:SEH, Sino Gas, the Company) busiest year to date, field operations have re-commenced aimed at further CRR submissions and ramping up production on both Production Sharing Contracts (PSCs) in 2014.

The successful year of drilling and seismic operations in 2013, enabled RISC to attribute over 1 trillion cubic feet (tcf) of mid-case 2P (Proven and Probable) Reserves to the project in Q1, with Sino Gas' share at 291 billion cubic feet (bcf) announced to the ASX on 4 March 2014. The continuing upgrading and expansion of our reserves and resources resulted in a 45% increase in RISC's independent economic valuation of the Company's share of the project's Expected Monetary Value (EMV) from US$1.6 to US$2.3 billion[1].

By the end of January, 285km of seismic acquisition has been completed and interpretation by third-party contractors is underway. This seismic completes the grid required for a Chinese Reserve Report (CRR) on Linxing (West), expected to be submitted in the second half of 2014.

A total of eight rigs have been mobilised and commenced drilling towards total depth. The rigs were mobilised to Linxing West following the completion of the 2013 drilling program and are part of a 14 well exploration program designed to obtain drilling data required for the first round CRR submissions across both PSCs. The CRR's are expected to be completed and submitted in the second half of the calendar year. The majority of the remaining 45 wells planned to be drilled in 2014 are expected to be tied into the pilot pipeline production programs.

As a part of the Board and management refresh process currently underway, Philip Bainbridge, a highly regarded oil and gas industry executive was appointed to the Board as Non-Executive Director in April. In addition, the Board is looking to continue to build the management team with a high-calibre CEO and Chief Operating Officer.

The pilot program on the Sanjiaobei PSC was approved by the Joint Management Committee (JMC) in 2013, and engineering for the surface gathering facilities for the pilot program is progressing to schedule. Long lead items for the Linxing Central gathering station have been ordered and are expected to be delivered in Q2 ahead of pilot pipeline gas sales scheduled in the second half of 2014. A shorter revised route has been chosen by the third-party provider of the pipeline spur, which runs in a more direct northerly direction from the central gathering station to the provincial pipeline.

The US$137 million capital works program for 2014 (Sino Gas' share is 49%) almost doubles the number of wells to be drilled from the previous year and completes the seismic required for the first round of CRR submissions. The Company is currently in a position to fund forecasted cash calls into 2015. At that point in time, Overall Development Plans (ODPs) are anticipated to have been submitted.

S&P Dow Jones Indices announced during the quarter that Sino Gas had been admitted to the S&P/ASX 300 Index as a result of the March quarterly review. The changes which were effective after the close of trading on March 21, 2014 reflect the Company's growing market capitalization in 2013 and liquidity in the market.

After achieving a tremendous amount in 2013 the Operations team have a clear strategy in place to commence commercial gas production and are focused on the implementation of that strategy. 2014 is shaping up to be another transformational year for Sino Gas as we move into commercial production on our Ordos Basin projects. We are entering an exciting phase of developing our unconventional gas assets and remain focused on monetising the assets and increasing shareholder value.

[1]Refer to Reserves and Resources Statement on page 7 for additional disclosure.

FINANCIAL

Financial Position

Sino Gas' cash position at the end of the quarter was approximately US$57.3 million ($A64 million). As at 31 March 2014, MIE had been cash called for US$55.35 million of the US$90 million for qualifying PSC expenditure. On a commitments basis, US$106 million has been incurred since the signing of the strategic partnership with MIE in July 2012 (unaudited). SGEH is expected to receive its first cash call for 49% of qualifying PSC expenditure in 2H 2014, once MIE completed its initial contribution of $US90 million. In addition to Sino Gas' current cash balance, the Company is reviewing options for obtaining bridge financing to be drawn down as required.

In Q2 2014, SGEH is expected to contribute its first cash to non-qualifying PSC expenditure to the head office general and administration costs of SGE. Sino Gas' 49% share of the non-qualifying PSC expenditure of SGE for 2014 is forecast to be approximately US$750,000.

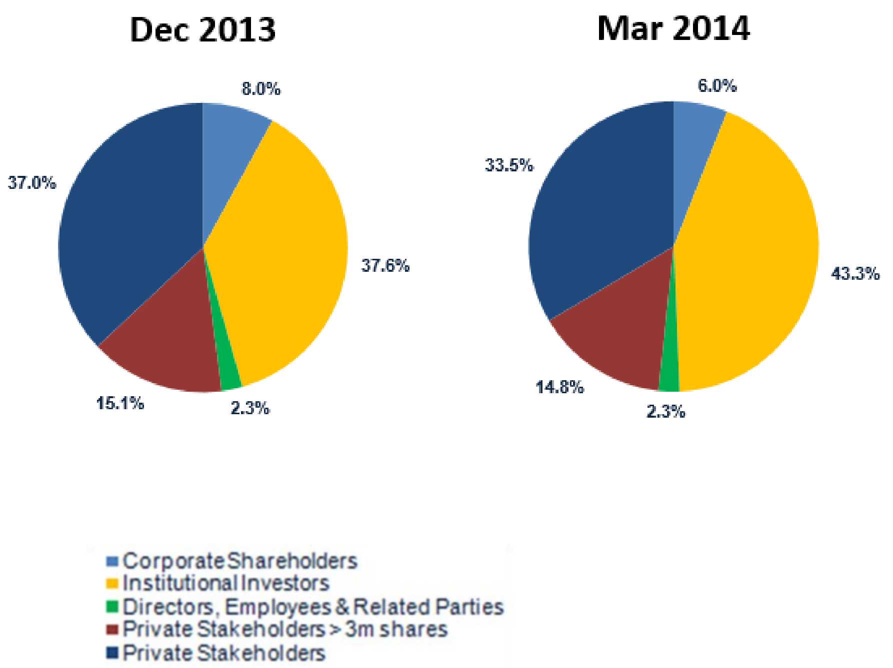
Change in Presentation Currency

The Company has decided to change its presentation currency from Australian dollars to United States dollars (USD).

As a result of this change, all future financial information in the Company's quarterly ASX reports and its half-year and full-year statutory financial reports for reporting periods commencing on or after 1 January 2014 will be presented in USD.

Transitioning Share Register

Moving into Q2 2014, the Company continues to evolve the register, with the proportion of institutional investors now at 44.3%, compared to 37.6% at the beginning of the year. This reflects the continuing transitioning of the share register as the company moves from exploration into the development phase.



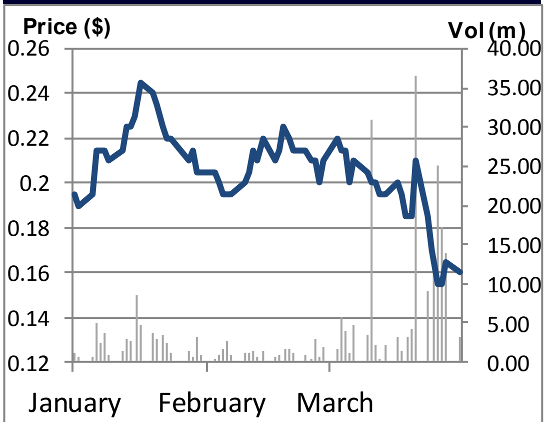
Q1 2014 Highlights

- 2014 Seismic Program completed in preparation for CRR submissions
- 2014 Drilling program commenced— 8 wells spud on Linxing (West).
- 2014 Testing Program Commences—Four testing teams onsite on Linxing (West).
- Pilot – Engineering of surface gathering facilities progressing to schedule on Sanjiaobei. Design and land lease completed on Linxing (West) and pipeline ordered.
- Sino Gas admitted to the S&P/ASX 300 Index .
- Philip Bainbridge appointed to Board as Non-Executive Director in April.

SHARE PRICE ACTIVITY FOR THE FIRST QUARTER 2014

High	$0.245
Low	$0.145
Last	$0.16
Average Daily Volume	4,280,531 (2013 Average 3,174,470)

ROLLING 3 MONTH SHARE PRICE PERFORMANCE (ASX:SEH)



CORPORATE

Independent Reserves and Resources Assessment

During the quarter, RISC completed its Reserves and Resources assessment as at 31 December 2013, using the SPE (Society of Petroleum Engineers) PRMS (Petroleum Resource Management System) Guidelines. Results from the 31 wells drilled in 2013 (58 cumulative wells) and the interpretation of 1,235km of seismic lines (cumulative 1,935km) were reviewed for the updated Reserves and Resources assessment as at 31 December 2013.

RISC identified a 168% increase in total Project 2P Reserves over course of the year to one trillion cubic feet (tcf), with Sino Gas' share at 291bcf. Furthermore, Project Contingent Resources increased 32%, while Project Prospective Resources increased 25%. As a result, Sino Gas' share of Project EMV increased by a 45% to US$2.3 billion.

Refer to *Sino Gas' Reserves and Resources* on page 7 for details and additional disclosure and Sino Gas' ASX announcement on 4th March 2014.

Occupational Health & Safety

During Q1 2014 approximately 60,000 OH&S incident free man-hours were recorded commencing the seismic, drilling and testing programs planned for 2014 (2013 total: 2,000,000).

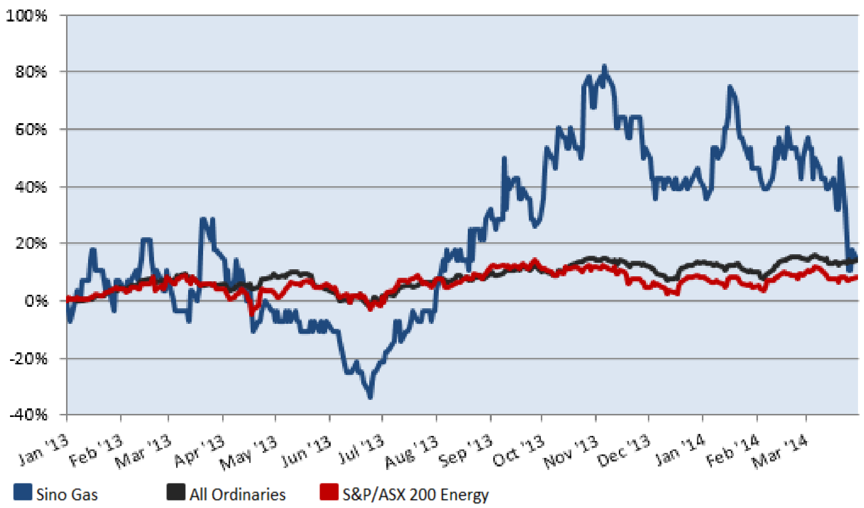
Investor Relations and Marketing

During the quarter, the Company continued to engage the Australian and Asia-Pacific investment communities with presentations made at the Deutsche Bank dbAccess China Conference in Beijing, Euroz Rottnest Conference in Perth and the Mines & Money Conference in Hong Kong. The Company plans further investor relations activities within Australia in Q2 2014 and to hold site visits based in Beijing.

S&P Dow Jones Indices announced during the quarter that Sino Gas had been admitted to the S&P/ASX 300 Index as a result of the March quarterly review. The changes which were effective after the close of trading on March 21, 2014 reflect the Company's growing market capitalization in 2013 and liquidity in the market.

With the commencement of the 2014 Work Program, the Company will update the market on a monthly basis on the progression of its seismic, drilling, testing and pilot programs.

Share Price Performance (ASX:SEH)
Relative to All Ordinaries Index and S&P/ASX 200 Energy Indices



2014 Outlook - Key Milestones

Q1

- Well frac testing commenced
- RISC Reserves & Resources Assessment completed
- Negotiations on additional Gas Sales Agreements continuing

Q2

- Vertical and first horizontal well testing results
- Approval of Linxing (East) Chinese Reserve Report

Q3

- Commence submission of additional Chinese Reserve Reports
- Pipeline gas production begins on both PSCs
- Overall Development Plan preparation

Q4

- Additional wells continue to be brought online as drilling is completed

Sanjiaobei PSC - Sino Gas 24%[1]
Shanxi Province, People's Republic of China

Currently, 85% of the 1,123km^2 block is considered to be discovered (including reserves and contingent resources) or prospective under the Society of Petroleum Engineers Petroleum Resource Management Systems (SPE PRMS). At this stage, as sufficient seismic has been acquired for the western portion of Sanjiaobei to enable CRR submission, no further seismic is scheduled for 2014.

A small number of delineation wells are planned to be drilled within the seismic grid in 2014, which are to be frac tested along with existing wells. A pool of ten existing and planned wells is expected to be initially available for hooking up into the pilot program scheduled to commence in the third quarter. Testing teams have arrived onsite to commence the frac program for 2014.

Linxing PSC (West) - Sino Gas 31.7%[1]
Shanxi Province, People's Republic of China

Seismic surveying planned for the 2014 work program commenced during Q4 2013, and during the quarter the 285km of seismic acquisition was completed. Currently, two thirds of the Linxing (West) acreage is now considered to be discovered, with the remaining third being prospective. Processing and interpretation is underway and will be completed over the coming months.

Following the completion of the 2013 drilling program, a total of eight rigs were mobilised in Linxing (West) in preparation for the recommencement of drilling operations in 2014. The first well of the drilling program was spud in March and currently all 8 rigs have commenced drilling operations. By mid-April three wells had reached total depth and electric wireline logs are being run to determine the total pay encountered during drilling. Eleven wells are expected to be drilled and tested with average spacing of approximately 5km in the northern portion to complete the CRR drilling requirements.

Three testing teams have been deployed on Linxing (West) as testing operations continued to test wells drilled in the 2012 and 2013 work programs. Testing is planned to be conducted over both the northern and southern areas of the acreage to enable to pilot program to be expanded in the south, while allowing important reservoir information to be gathered to the north. Preliminary testing results are positive and are inline with average production rates achieved in past testing. Sino Gas' first horizontal well is planned to be tested in May to allow fraccing equipment to be fine-tuned initially on vertical wells after being held in storage during the winter break vacation.

Photo: Drilling operations commencing on Linxing (West).

[1]*Refer to page 8 for additional disclosure on Sino Gas' Production Sharing Contracts.*

Linxing PSC (East) - Sino Gas 31.7%[1]
Shanxi Province, People's Republic of China

RISC has assigned a discovered area of 265km^2 for the shallow resources on the eastern portion of the block, and a prospective area of 295km^2 for the deeper resources on the western portion.

The dewatering program continued during the month on six wells and gas to surface has been achieved on five of the shallow wells to date. Sufficient data was gathered from these six wells to enable CRR submission at the end of August 2013. Following preliminary approval by the National Reservoir Committee, the CRR has been reviewed by the Chinese Ministry of Land & Resources ("MOLAR"). Modifications inline with feedback provided by MOLAR have been made and the CRR submitted for final approval.

Further exploration step-out drilling and testing is scheduled mid-year on the deeper resources. The first exploration well to the north–west of the acreage was drilled and tested in 2013. An additional well will be drilled and tested on existing seismic lines to gain a deeper understanding of the exploration potential within Linxing (East). The potential for further seismic on Linxing (East) will be determined following the analysis of drilling and testing results from the exploration wells and previous seismic analysis.

Pilot Program Update

Engineering for the surface gathering facilities is progressing on the Sanjiaobei central gathering station, with additional equipment expected to be delivered early Q2 to complete the facility, while the third-party pipeline spur is approaching 90% completion. A pipeline gas sales agreement is currently under negotiation.

Long lead items for the Linxing central gathering station have been ordered and are expected to be delivered in Q2 ahead of pilot pipeline gas sales scheduled in the second half of 2014. Surveying and design has been completed on the third-party pipeline spur. Following additional design and surveying for the internal gathering pipelines, land lease negotiations and construction is expected to commence on both the internal and external pipelines in early Q2 and take approximately three months. A pipeline gas sales agreement has been signed for the Linxing PSC (announced 26 June 2013).

The pilot programs will initially be connected to existing wells (including the first horizontal well), and will be supplemented by additional wells as they are drilled and brought online. Gas pricing is expected to be revised in line with prevailing provincial rates (approximately ~$US8.5 per thousand standard cubic feet) on an annual basis once production commences. Key terms have been agreed with a local purchaser for a second pipeline gas sales agreement, with finalization expected in 2H 2014.

Photo: Frac testing teams commence operations on Linxing (West).

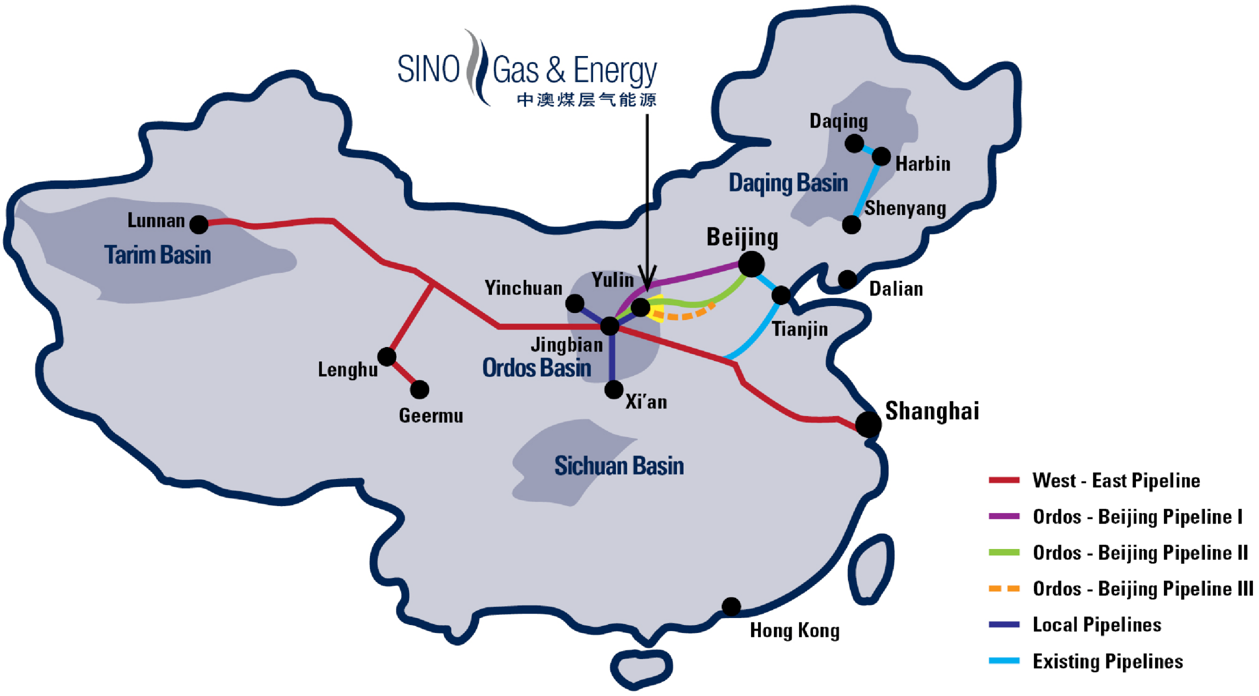
[1]*Refer to page 8 for additional disclosure on Sino Gas' Production Sharing Contracts.*

[1] SINO GAS' PRODUCTION SHARING CONTRACTS as at 31 March 2014

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.

In the formation of the strategic partnership, MIE acquired 39 million ordinary shares in SGE from Sino Gas for a consideration of $9.7 million (US$10 million). In addition, MIE is progressively investing a further US$90 million of qualifying expenditure into SGE to secure an interest of 51% in the issued capital of SGE. Refer to Note 23 Interests in joint ventures of the notes to the consolidated financial statements of the 31 December 2013 year end accounts for more information.

As at 31 March 2014, US$55.35 million dollars had been cash called relating to qualifying expenditure, representing US$14.55 million in loan notes and US$40.80 million towards cumulative redeemable preference shared (CRPS) to be converted into ordinary shares. Sino Gas' economic interest in SGE as at 31 March was 71.71%, pending conversion of US$9.2 million CRPS, which will bring Sino Gas' economic interest to 58.68%.



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 provinces in which Sino Gas' PSCs are located and natural gas is seen as a key component of clean energy supply in China.

No petroleum tenements were acquired or disposed of during the quarter.

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Our latest announcements and presentations can be found on our website:
www.sinogasenergy.com

SINO Gas & Energy 中澳煤层气能源

SINO GAS' RESERVES & RESOURCES

Sino Gas' Attributable Net Reserves & Resources are summarised below:

Sino Gas' Attributable Net Reserves & Resources	1P RESERVES (Bcf)	2P RESERVES (Bcf)	3P RESERVES (Bcf)	2C CONTINGENT RESOURCES* (Bcf)	P50 PROSPECTIVE RESOURCES* (Bcf)	EMV_{10} (USm)
31 December 2013	129	291	480	850	1,023	2,258
31 December 2012	32	94	199	653	885	1,556
CHANGE (+/-)%	+211% (2P Reserves)			+30%	+16%	+45%
Total Project	466	1,068	1,786	2,941	3,978	N/A

*Note: Contingent and Prospective Resources have not been risked for the risk of development and discovery. The estimated quantities of petroleum may potentially be recovered by the application of future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration and appraisal is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Sino Gas' share of the project's success case Net Present Value ("NPV") and risk weighted EMV are summarised below:

SINO GAS' ATTRIBUTABLE	NPV_{10} (USm)	EMV_{10} (USm)
Reserves	625	653
Contingent Resources	828	754
Prospective Resources	1,350	851
TOTAL		2,258

RESOURCES STATEMENT & DISCLAIMER

The statements of resources in this release have been independently determined to Society of Petroleum Engineers (SPE) Petroleum Resource Management Systems (PRMS) standards by internationally recognized oil and gas consultants RISC (Announced 4 March 2014) using probabilistic estimation methods. 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. EMV is the probability weighted net present value (NPV), including the range of project NPVs and the risk of the project not progressing. Project NPV_{10} is based on a mid-case wellhead gas price of $US8.79/Mscf and lifting costs (opex+capex) of ~ US$1.5/Mscf for mid-case Reserves, Contingent & Prospective Resources. 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 fulfil funding obligations under the strategic partnership agreement. Reserves & Resources are net of 4% in-field fuel for field compression and field operations. Reference point is defined to be at the field gate. No material changes have occurred in the assumptions and subsequent work program exploration and appraisal results have been in line with expectations.

Certain statements included in this release constitute forward looking information. This information is based upon a number of estimates and assumptions made on a reasonable basis 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 release 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.

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 consents to the inclusion of this information in this release.