

# Quarterly Report

For the three months ending 30 September 2014

# Q3

2014 Activities Report

## FOCUSED ON THE STRATEGY — PIPELINE PRODUCTION IN 2014

- ▶ 2014 work program — 32 wells drilled, 28 wells tested
- ▶ Significant improvement in single well productivity
- ▶ Second horizontal well successfully tested
- ▶ Pipeline pilot program on track for commencement in Q4
- ▶ Macquarie debt facility executed — US\$10M drawn down
- ▶ Board and management changes completed

Sino Gas & Energy Holdings Limited's (ASX:SEH, Sino Gas, the Company) continued to make significant progress during the third quarter on each of the Company's key strategic priorities of securing project approvals, improving single well productivity and maximising production as we move into the development phase.

We are making great strides towards achieving first gas from the pilot program. Commencement of the pilot program is an important milestone for Sino Gas as it will complete the value chain, validate sustainable reservoir productivity and most importantly demonstrate the commercial viability of the development.

The Sanjiaobei pilot project is now nearing completion with very good progress made during the quarter. First gas is on-track to commence as early as November, with gas production ramping-up to the end of the year. A total of 16 wells, including 14 wells from Linxing West and 2 wells from Sanjiaobei are initially planned to be tied-in. Drilling is complete and testing of these well is underway with some excellent results having been achieved thus far. Of particular note are three development wells on Linxing (West), which tested at rates in the range of 0.7-1 million standard cubic feet per day (MMscf/day). Gas sales agreements are also being finalized with the potential for higher prices applying as the recent National Development & Reform Commission (NDRC) price increases for non-residential users flow through to the wellhead. Construction on the Linxing pilot project continues, with major works on the central gathering station underway to install and connect the production equipment. The Linxing central gathering station is expected to be commissioned mid-2015. The initial installed capacity of the two central gathering stations is designed to be approximately 25 MMscf/day, with further area available to install expansion capacity.

A continued focus on the optimisation of drilling, completion and fracture stimulation has resulted in a significant improvement in single well productivity in 2014. Most notably, our second horizontal well, TB-2H, achieved an excellent sustained flow rate of 3.7 MMscf/d and further de-risks the potential application of horizontal well technology on the overall field development plan. The two excellent horizontal well results provide increasing confidence that the number of wells required during development can potentially be reduced, thereby improving project economics.

Following the approval for the Chinese Reserve Report (CRR) submitted on Linxing (East), preparation has commenced on the Overall Development Plan (ODP), with submission expected mid-2015. This is the final approval requirement under the regulatory process prior to commencing full field development of this area. The 2014 exploration program was also completed during the third quarter. A total of 285 km of 2D seismic was acquired and thirteen wells explorations were drilled. We have also brought forward the 2015 2D seismic acquisition program and the drilling of an additional exploration well into this year. This will enable the seismic to be acquired and interpreted during winter and allow the operations team to target further exploration drilling in the early 2015.

The Company has continued to build on its strong funding position, with the completion of a structured term debt facility of up to US\$50 million executed with Macquarie Bank in August. The first US\$10 million of the facility has now been drawn-down and will be used to fund future cash calls from the joint venture operator.

Finally, I am very fortunate to have joined Sino Gas at this exciting time and in the short period that I have been with the company we have made significant progress on many fronts. Looking ahead, corporately we will focus on delivering results and gaining fuller recognition for the underlying value of the company. Operationally we are focused on demonstrating the commercial viability of our gas resource by delivering first pipeline gas and maximizing production. I have been very impressed with the quality of the leadership within the operating company and their commitment to the project. We have a very exciting 12 months ahead and Sino Gas is strongly positioned to outperform. We have a very large, cost competitive resource base with proven deliverability and ready access to the rapidly expanding China gas market. Coupled with our strategic partnerships and very supportive government policy, we have all the components in-place for success. We have a full team now and I look forward to working with Philip and the board to maximise value from the terrific Ordos basin assets.

Glenn Corrie, CEO

## FINANCIAL

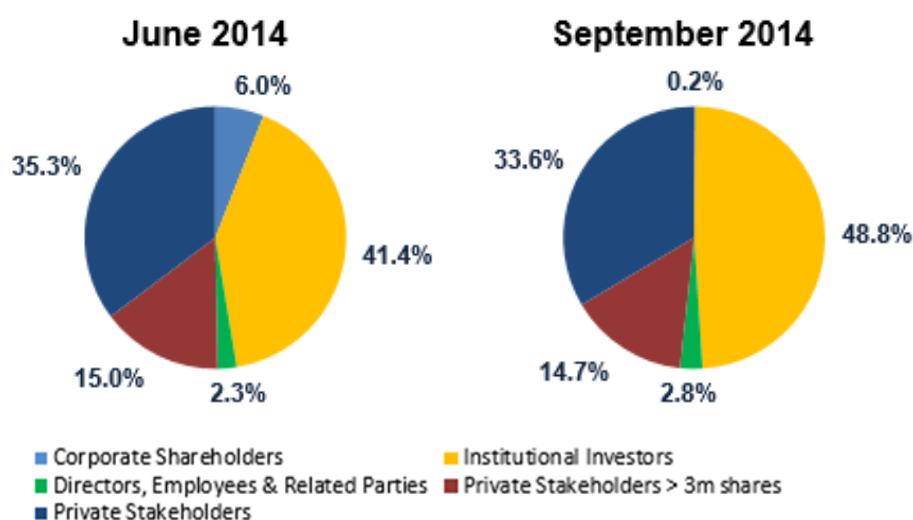
### Financial Position

Sino Gas' cash position at the end of the quarter was approximately US\$57.7 million. Following completion of the US\$90 million funding commitment by MIE during the second quarter, SGEH was cashed called for US\$4.6 million dollars in relation to qualifying PSC expenditure. In addition, SGEH contributed \$19,600 (US\$572,000 year to date) to non-qualifying expenditure of to the head office general and administration costs of Sino Gas & Energy Limited's (SGE).

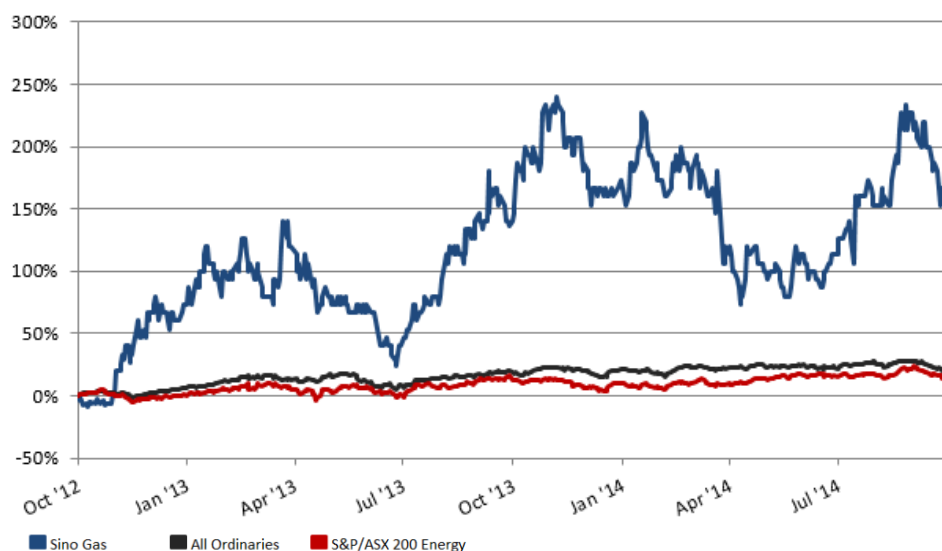
In August, the Company executed facility documentation with Macquarie Bank Limited (Macquarie) for a structured term debt facility of up to US\$50 million. In early September, the Company drew down the first US\$10 million of the facility. Refer to the ASX announcement released on 29th August 2014 for the final terms of the facility agreement.

### Share Register

In the second half of 2014, the register continued to evolve, with a number of new and existing institutional shareholders increasing their holdings during the period. As a result the percentage of institutional shareholders increased to 48.8%, compared with 41.4% at the end of the second quarter.



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



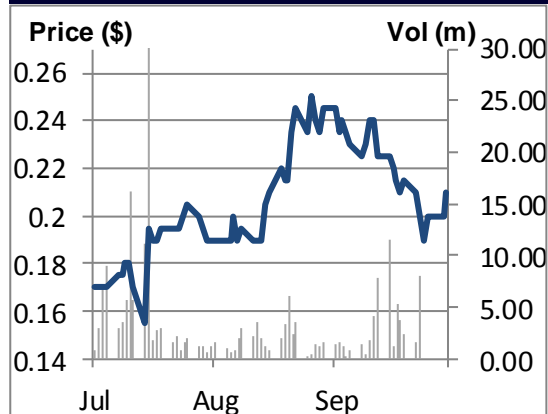
### Q3 2014 Highlights

- ▶ 2014 drilling program — 16 exploration and development wells drilled in Q3 (YTD: 32).
- ▶ 2014 testing program—Successful testing of the second horizontal well on Linxing (West) and significant improvement of single well productivity on pilot wells.
- ▶ Pilot program – Sanjiaobei nearing completion and on-track for first gas as early as November. Installation and connection of production equipment underway on the Linxing project.
- ▶ Commencement of Mr Glenn Corrie as Chief Executive Officer and Phillip Bainbridge transitions to Chairman.
- ▶ \$50m Macquarie debt facility executed.

### SHARE PRICE ACTIVITY FOR THE THIRD QUARTER 2014

High	\$0.25
Low	\$0.15
Last	\$0.21
Average Daily Volume	5,360,563 (2013 Average 3,174,470)

### ROLLING 3 MONTH SHARE PRICE PERFORMANCE (ASX:SEH)



### Board and Management

Glenn Corrie commenced with the Company as Chief Executive Officer on 15 August. Mr Corrie's technical and commercial capabilities as well as his senior management experience are an ideal fit with Sino Gas' requirements as the Company moves through the exploration phase and into development and production of the Ordos Basin assets.

In August 2014, Non-Executive Director Philip Bainbridge was appointed to the role of Chairman and former Chairman, Gavin Harper, transitioned to a Non-Executive Director role.

This completes the recent changes to the board and management team which has also included the addition of the COO, Frank Fu, who was extensive operating experience in the Ordos Basin.

### Health, Safety and the Environment

846,000 incident free man hours were recorded during the quarter. This is exceptional HSE performance during a very busy operational period across both of Sino Gas' PSCs.

### Investor Relations and Marketing

Following the recent changes to the board and management team, the Company has increased its engagement with the Australian and Asia-Pacific investment community.

Macquarie Securities initiated research on Sino Gas in August, which brings the total number of analysts covering the Company to five.

The Company is also planning a field trip for analysts and investors in November.

### 2014 Outlook - Key Milestones

- ▶ Execute additional gas sales agreements
- ▶ Commencement of pipeline gas production and ramp-up
- ▶ Submit remaining CRR reports
- ▶ Overall Development Plan compilation and preparation for submission
- ▶ Additional wells continue to be brought online as drilling is completed

### **Linxing (West) - Sino Gas 31.7%<sup>1</sup>** **Shanxi Province, People's Republic of China**

Seismic processing and interpretation of the 2013 2D survey is ongoing and is being used to target exploration and development drilling. The updated interpretation and maps will also be provided to RISC as input into the reserves & resources update which will commence year-end and conclude in Q1 2015.

Development drilling continued during the quarter with a total of twelve wells completed (YTD:14). All wells have intersected thick, good quality gas bearing sand packages with an average net pay of 21.3m. Whilst the Linxing production facilities are being completed, many of the development wells will be initially tied into the Qiaojishan central gathering station to accelerate production. Two follow-up wells were also drilled during the quarter to appraise the north-west corner of the block following the good results received from TB-26. Both wells intersected good quality reservoir with average net pay of approximately 15 metres.

A busy program of fracing and testing continued across the block during the quarter, in preparation for the pilot project startup. A total of six wells were fraced with four tests conducted. Results have been better than expected with the highlight being the exceptional flow rate recorded from the nine-stage fracture of the first horizontal well (announced 15 July 2014). Very good initial test results are also coming back from three development wells with rates being recorded in the range of 0.7-1 MMscf/day.

The exploration and appraisal program continues to be successful. Drilling of the second horizontal well, TB-2H, was completed and has now been successfully tested. The objective of the well was to demonstrate the horizontal well deliverability of the reservoir in the northern area of the Linxing (West) block. After successfully drilling a 1,200 metre horizontal section, a seven-stage frac job was conducted in a 7.8 metre vertical pay zone. The test achieved a sustained flow rate of 3.7MMscf/day at a relatively stable flowing tubing head pressure of 1,494psi. This rate was surface constrained and based on the expected field operating conditions at 200psi, the well is estimated to be able to deliver a production rate of over 5.1 MMscf/day. The well will now be shut-in and suspended as a future producer. A small volume of liquid condensate was recovered during the test. Refer to announcement on 27 October 2014 for further details.

The testing of exploration well TB-23, located in the north western portion of the acreage, also surprised to the upside, recording the highest measured flow-rate from a single fractured zone of 2.0 MMscf/day over 5 days. In September, TB-27 was tested in the central western portion of the block at a rate of 630Mscf/day (calculated at a standard field pressure of 200psi) over four days from comingled middle and middle-lower zones.

### **Linxing PSC (East) - Sino Gas 31.7%<sup>1</sup>** **Shanxi Province, People's Republic of China**

Following recent subsurface studies, additional 2D seismic and exploration drilling will be carried out to gain a greater understanding of underexplored deeper resource potential in the south/western portion of the block. Originally planned in 2015, 450km of 2D seismic will now be acquired this year in order to complete processing and interpretation prior to spring 2015 when the drilling window re-opens. The second exploration well, LXDG-02, was completed in July, and is scheduled to be tested once the pilot program drilling program is complete. A third exploration well, LXDG-03, was spud further to the south and had reached total depth by time of writing.

Following the receipt of official notification that the CRR submitted on Linxing (East) for the coalbed methane resource has been approved by the Ministry of Land & Resources (MOLAR), preparation for the ODP has commenced and is on schedule. The CRR forms the basis of the ODP which, once approved, allows the commencement of commercial development for that specified resource. De-watering operations are continuing on six wells.

### **Sanjiaobei PSC - Sino Gas 24%<sup>1</sup>** **Shanxi Province, People's Republic of China**

Exploration wells required for Chinese Reserve Report submission were completed during the second quarter. Well locations and land lease negotiations have commenced for two additional wells to be drilled in the north north-west portion of the block during the quarter.

A total of seven zones were fraced during the quarter and were flow tested. All zones tested demonstrated commercial rates and will be incorporated in to the Chinese Reserve Report submission.



### Pilot Program Update

The pilot project continues to move forward with very good progress made during the quarter on all fronts. First gas from the initial Sanjiaobei phase is on track for this year. All wells to be tied in during 2014 have now been drilled and testing in preparation for production is now underway. At the central gathering station at Qiaojiashan, the final stages of connection is ongoing and construction of the infield gathering pipelines to is also approaching completion.

At Linxing, site preparations were completed on the central gathering station during the quarter and major components have been transferred to site and are now being installed. Progress has been good with the compressors and the flare tower now installed. Initial installed capacity will be will 17 MMscf/day, with available space for expansion. Drilling of the Linxing development wells is ongoing. Initially some Linxing wells will be tied back to Sanjiaobei to accelerate production. In addition, design work is underway to construct an infield pipeline from the gathering station to a new pilot area planned around TB-26 to the north/west of the acreage.



*Connection of equipment on the Qiaojiashan central gathering station*



*Installation and connection of the production equipment on the Linxing central gathering station*



## PSC WORK PROGRAM UPDATE

### *Historical testing results by zone (2006—Q3 2014)*

Zone	No. of Well Test	Average Thickness (m)	Average Test Length (Days)	Average Flow Rate (Mscf/d)	Max. Flow Rate (Mscf/d)
<i>Upper Zone</i>	9	4.6	13.3	796	2901
<i>Mid-Upper Zone</i>	21	6.8	17.9	353	969
<i>Middle Zone</i>	13	5.9	27.3	184	708
<i>Mid-Lower Zone</i>	6	5.0	30.4	518	2542
<i>Lower Zone</i>	3	4.0	19.0	621	1663
<i>Comingled Tests</i>	6	27.0	50.0	212	542

Sino Gas & Energy Limited's (SGE) 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 US\$10 million. In addition, MIE progressively invested a further US\$90 million into SGE to secure 51% of its issued capital. This amount comprised of US\$23.7 million in loan notes and US\$66.3 million towards cumulative redeemable preference shared (CRPS) which have been converted into ordinary shares 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.



The PSCs are located in the Ordos Basin and cover an area of approximately 3,000km<sup>2</sup>. 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.

## CONTACTS

### Sino Gas & Energy Holdings Limited

Glenn Corrie  
CEO  
+86 10 8458 3001  
1300 746 642 (local call within Australia)  
[gcorrie@sinogasenergy.com](mailto:gcorrie@sinogasenergy.com)

Our latest announcements and presentations can be found on our website:  
[www.sinogasenergy.com](http://www.sinogasenergy.com)





## 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 <sub>10</sub> (\$US\$m)
31 December 2013 (Announced 4 March 2014)	129	291	480	850	1,023	2,258
31 December 2012 (Announced 20 March 2013)	32	94	199	653	885	1,556
CHANGE (+/-)%	+211% (2P Reserves)			+30%	+16%	+45%
Total Project 31 December 2013	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 ECONOMIC VALUE	NPV <sub>10</sub> (\$US\$m)	EMV <sub>10</sub> (\$US\$m)
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<sub>10</sub> 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 unrisks 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.