SINO Gas & Energy 中澳煤层气能源

ASX Announcement

19 January 2016

OPERATIONS AND COMMERCIAL UPDATE

- NDRC announced a 9.7% increase in gas demand in November compared to the prior year.
- Wellhead gas prices of ~US$7.04-US$7.10/Mscf agreed with gas buyers, post NDRC price revision.
- December 2015 production averaged 7.0 MMscf/day, impacted by commercial issues at Sanjiaobei and the deferral of bringing additional horizontal wells online at Linxing.
- CRR and ODP approvals for Sanjiaobei and Linxing are progressing with the CRR for Sanjiaobei expected mid-2016 and for Linxing West in the fourth quarter 2016.
- All regulatory approvals now in place for Sanjiaobei. The restart of Sanjiaobei CGS and future production expenditure driven by progress on the receipt of gas proceeds.
- Linxing currently producing 7.3 MMscf/d with constructive progress being made on Chinese partner and regulatory approvals required to enable payment of gas sales proceeds. With receipt of payment, intend to ramp-up to full capacity during 2016.
- 2015 year-end cash balance of US$63 million. The 2016 provisional budget reflects reduced capital expenditures, delivers year-end production of 25 MMscf/d and ensures the Company remains on track to materially fund itself through to ODP.
- Conference call to be held at 9.30am Sydney time to discuss this announcement.

Sino Gas & Energy Holdings Limited (ASX: SEH, "**Sino Gas**" or the "**Company**") provides an update on operations and commercial matters.

Gas Market Update

In line with Government polices to stimulate gas demand to support its environmental objectives, the National Development and Reform Commission (**"NDRC"**) announced that China gas demand in November 2015 grew 9.7% compared to the same month in the prior year, driven largely by increased demand for heating and delays in the arrival of LNG imports. The recent reduction in city gate gas prices is expected to further boost gas demand as supply contracts are renegotiated.

Sanjiaobei Update

Following the NDRC city gate price revision announced in November 2015, a revised wellhead gas sales price of RMB1.63 per cubic meter or approximately US$7.10 per thousand standard cubic feet (**"Mscf"**) has been agreed with a new local gas buyer, Shanxi Guoxin Energy ("**Guoxin**"), for Sanjiaobei gas production. The agreement is now being formalised with the PSC Partner, PetroChina Coalbed Methane Company Ltd. ("**PCCBM**"). Guoxin is owned by the Shanxi Provincial Government and operates a 5,376 kilometre pipeline network and 127 CNG/LNG filling stations, covering a significant portion of Shanxi Province.

The Company continues to make good progress towards Overall Development Plan ("**ODP**") approval and has been informed that the Sanjiaobei Chinese Reserves Report ("**CRR**") is progressing through technical reviews and approval is expected mid-year. Once approved, ODP preparation will commence and approval remains on-track for 2017.

The Sanjiaobei PSC, which commenced pilot gas production in December 2014, obtained all regulatory approvals in November 2015 to enable the PSC partner, PCCBM to pay the joint venture company, Sino Gas & Energy Limited ("**SGE**") for gas sales. PCCBM recently proposed a revenue sharing mechanism for pilot production that does not justify further investment in production activities until a satisfactory outcome is achieved. The restart of the Sanjiaobei CGS will be driven by progress on the receipt of gas sales proceeds. Discussions are ongoing with the PSC partner.

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Linxing Update
A revised wellhead price for Linxing gas has been agreed at RMB1.615 per cubic meter or ~US$7.04/Mscf with Shanxi GuoHua Energy Limited Company following the NDRC price revision in November and is expected to be applied retrospectively from 20 November 2015.

By the end of 2015 a total of 14 wells had been tied into the Linxing CGS, including 6 wells from the TB-26 area to the north of the CGS as well as horizontal well, TB-1H. Since commissioning, ~10 wells have been on-stream, producing up to 7.3 Million standard cubic feet per day (**"MMscf/d"**). Subject to the receipt of gas sales proceeds by SGE, the Company currently expects to tie-in two horizontal wells drilled in 2015 and drill additional wells to support the ramp-up and maintain plateau at full capacity of ~17 MMscf/d in 2016.

Constructive progress continues to be made with the PSC partner, China United Coalbed Methane Corporation Ltd. **("CUCBM")**, on the regulatory approvals to allow SGE to receive payment for Linxing gas sales proceeds in accordance with the Linxing PSC allocation provision.

2016 Guidance
The priorities for 2016 are:

- Continued focus on securing CRR and ODP approvals for both Sanjiaobei and Linxing to enable the Company to move to full field development and realise the full value of the assets:
    - CRR approvals are expected mid-year for Sanjiaobei and 4Q for Linxing West.
    - ODP approvals remain on-track for 2017.
- Continue to progress with the pilot production project to provide reservoir deliverability data and resolve commercial issues as quickly as possible:
    - The restart of the Sanjiaobei CGS will be driven by progress on resolution of the payment issue with PCCBM.
    - Leverage the current constructive efforts with CUCBM to resolve the payment issue and ramp-up Linxing production to full capacity of 17 MMscf/d in 2016.
    - Progress technical and commercial plans for additional Central Gathering Stations to allow for further significant ramp-up in production in 2017 and beyond.
- Complete remaining exploration commitments on Linxing, namely the drilling of six to 12 appraisal wells in Linxing-East to define the development area for CRR preparation.

Work program and budget discussions with our Joint Venture Partner are being finalised and the Company currently expects the 2016 gross SGE expenditure to be in the range US$30-60 million depending on the timing of gas sales payment resolution.

These objectives enable the Company to maintain its original plan of ODP approval in 2017 to unlock the full potential of the assets. With a reduced budget in 2016 and revenue receipts from a target production rate of 25 MMscf/d by the end of 2016, the Company is well placed to maintain a strong liquidity position through to ODP.

Financial Update
At 2015 year-end, the Company held a cash balance of US$63 million. The Macquarie debt facility has been renegotiated as follows:

- A repayment of 15% of the outstanding loan balance of US$10 million due at the end of 2015 has been deferred to 31 December 2016 and
- The availability of the uncommitted Tranche B facility of US$40 million has been extended from December 2015 to 30 June 2016.

Sino Gas' Managing Director, Glenn Corrie said: "The fundamentals of a growing China gas market remain intact and we are pleased to have renegotiated robust gas prices that continue to highlight the attractiveness of our business. The focus for 2016 will be on securing CRR approval for both Sanjiaobei and Linxing West, and making material progress towards ODP approval in 2017, enabling the full value of these assets to be realised. The pilot project remains an important pre-cursor by providing valuable reservoir deliverability information and clearing commercial issues ahead of full-field development. We are disappointed that we did not achieve our target of receiving gas sales proceeds from PSC partners by the end of last year and this remains our immediate priority.

Whilst good progress was made securing the regulatory approvals for Sanjiaobei, it is prudent to reduce our spending commitments until we receive gas sales proceeds. Once received, we expect to ramp-up production to full capacity of 25 MMscf/d during 2016. We remain committed to maintaining financial flexibility and materially funding ourselves through to ODP."

Sino Gas will host a conference call to discuss this announcement today at 9.30am Sydney time (AEDST), 6.30am Perth (AWST) and Beijing time (CST).

Investors and media are invited to listen to the call on the following numbers:

Australia: 1800 268 560
New Zealand: 0800 466 125
Hong Kong Toll Free: 800 900 431
International: +61 2 8047 9300

Singapore Toll Free: 800 616 2330
United Kingdom Toll Free: 0808 234 7273
United States Toll Free: 1855 717 2650

Participant Pin Code: 462503#

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About Sino Gas & Energy Holdings Limited

Sino Gas & Energy Holdings Limited ("Sino Gas" ASX: SEH) is an Australian energy company focused on developing unconventional gas assets in China. 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 provinces in which Sino Gas' PSCs are located and natural gas is seen as a key component of clean energy supply in China.

Sino Gas & Energy Holdings Limited (ASX: SEH) was admitted to the Official List of ASX in 2009.

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