

Implementing our RESERVES UPGRADE Program

Q3

2010 - Activities Report



TB08 well inspection

Managing Director - Stephen Lyons (left)

COO - Frank Fu (right)

Well Supervisor - Larry Yuan (centre)

Sino Gas & Energy Holdings Limited (Sino Gas, ASX:SEH)

Sino Gas - upgrading our Resources to Reserves

Our 2010 work program goal is to upgrade a portion of Sino Gas's 2.7Tcf of contingent and prospective resources to reserves on the Linxing & Sanjiaobei Production Sharing Contracts (PSCs) in Shanxi Province, China.

The reserves upgrade program has progressed strongly during Q3 and has three main components:

- (1) Flow testing existing wells to confirm their commerciality;
- (2) Drilling and flow testing a series of additional wells to define the extent of the gas bearing reservoir sands; and
- (3) Undertaking a Pilot program.

In the previous quarter Sino Gas completed its highly successful flow test of the TB07 well confirming an estimated gas flow rate of 2,900,000 scf/day. This was followed in early Q3 by the successful testing of TB05. On TB05 gas flowed at an estimated rate of 500,000 scf/day. These results exceed Sino Gas's commerciality hurdles and contribute strongly to the Company's reserves upgrade program.

To assist in defining the geological extent of the reserves to be upgraded in the current campaign, Sino

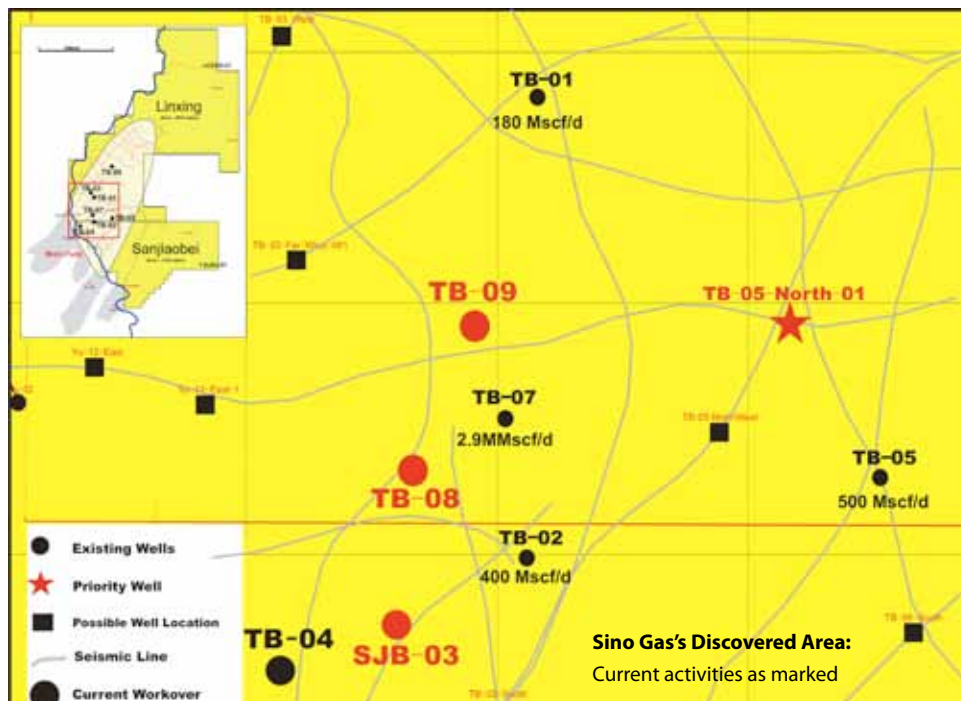
Gas is drilling a series of additional wells.

The TB08 and TB09 wells are designed to target the same gas bearing reservoirs found in the very successful TB07 well.

Drilling is underway on TB08 and about to commence on TB09.

In addition, Sino Gas is about to commence drilling the SJB03 well as an 'in-fill' well between TB02 and TB04.

Sino Gas recently commenced the flow test on the TB04 well.



To date Sino Gas has perforated one prospective zone and is in the process of completing a Drill Stem Test (DST) to measure downhole pressure and relevant reservoir parameters. Following analysis of the data from the DST, Sino Gas will determine whether to hydraulically fracture stimulate the zone and/or to perforate and test an additional zone. It is anticipated that TB04 will be a candidate for the Company's Pilot Development Program (Pilot) on the Sanjiaobei PSC.

It is planned that further flow tests will be conducted on the TB08, TB09 and SJB03 wells once gas pay is confirmed. The Company's flow testing contractor, Chongqing Downhole Drilling Company (CCDC) will complete these undertakings.

Sino Gas's recent successful flow tests underpin significant activity towards a Pilot program (Pilot).

The Pilot is expected to involve facilities on selected sites to purify and compress the gas (CNG), with loading to CNG trucks for distribution to end users. Sino Gas has been working extensively with its partners China United Coal Bed Methane (CUCBM) and Petrochina Coal Bed Methane (PCCBM) on the Pilot program and technical designs are being finalised.

The gas produced is expected to be sold into local markets, initially as CNG for transport use. As part of the gas marketing push, Sino Gas has signed a Memorandum of Understanding (MOU) with CUCBM forming the gas marketing team to handle Pilot sales. Sino Gas expects to sign a similar MOU with PCCBM shortly.

Over Q3, Sino Gas has strengthened its Pilot team. Gavin Harper has stepped up into an Executive Director role to strengthen the focus on development activities for the Linxing and Sanjiaobei gas fields. The initial target is to get the Pilot and associated marketing agreements up and running.

The focus will then shift to preparation of a Reserves report followed by planning for full field development. The focus on development will continue as Gavin moves into the Chairman role effective 1 January 2011.

The Pilot is a high priority for the Company and an important step in Sino Gas's reserves upgrade program: it provides additional technical reservoir information and is expected to generate net cash flow for the Company.

The Successful Flow Tests underpin the commencement of the Pilot program which will generate additional reservoir information and is expected to generate net cash flow



Pilot Production Facility inspection
COO - Frank Fu

Sino Gas - Substantial Gas Asset holdings in China

Ordos Basin, China - Production Sharing Contracts in the 2nd largest oil & gas basin onshore China

5 Year - track record of exploration success in China

2.7 Tcf - Contingent & Prospective independently verified gas resources

70 million people - potential customer base on our doorstep

Clean Energy Focus - Clean Energy solutions for the Government and people of Shanxi Province.

Expanding our presence in China

Sino Gas has taken significant steps during Q3 to continue to build its operating capability in China.

In addition to Mr Gavin Harper transitioning to manage the Pilot and the appointment of a dedicated Pilot Facilities Engineer, in early August 2010, Sino Gas appointed Mr Frank Fu to the position of Chief Operating Officer (COO).

Frank has an 18 year career in oil, gas and Coal Bed Methane (CBM) the last 14 years has seen him hold positions of responsibility with Phillips and ConocoPhillips both in China and the USA. Immediately prior to joining Sino Gas, Frank was in charge of offshore rig operations, including drilling, completion and production, for ConocoPhillips in China's Bohai Bay. Frank has smoothly transitioned into Sino Gas to effectively implement the forward work program. Sino Gas intends to make additional appointments as the forward program proceeds.

To accommodate the growing Company, Sino Gas has moved to new office premises in Beijing and also opened a site based office.

The new Beijing office has ample space for Sino Gas's current team and will allow for planned expansion.

The new site based office is located in Linxian County, Shanxi Province, approximately 60km from the field and close to the local Government headquarters.

Sino Gas is working in partnership with the Linxian County (Shanxi Province) Coal Bed Methane Group which has two permanent representatives based in the new office. This office will coordinate local affairs, road access and community consultation.

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The statements of resources in this report have been independently determined to Society of Petroleum Engineers (SPE) Petroleum Resource Management Systems standards by internationally recognized oil and gas consultants RISC Pty Ltd. They are based on the Technical Report prepared by RISC Pty Ltd and included in full in the Company's prospectus dated 29 July 2009.

Quoted well flow rates are calculated at a tubing head pressure of 200 psi.