

Pure China Energy

Continuing to move towards development of substantial gas assets in China

Q2

2011 - Activities Report



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

Photo: Flare testing on TB03 Pilot Well

“Q2, 2011 represented another significant marker on the way to the Development of our Chinese Gas Assets”.



Commercial Gas

rates achieved on Sino Gas's: TB09, TB03, TB08 and TB06 Gas Discovery Wells

1st Pilot Gas

compressed into a CNG tanker on the SJB03 Gas Discovery Well

Seismic Program

commenced to provide additional data for the Chinese Reserves Report and expand the potential Reserves Area

Dear Shareholders

I am pleased to advise that Q2, 2011 represented another significant marker on the way to the development of our Chinese Gas Assets.

During Q2 Sino Gas delivered:

- 3 successful flow tests;
- loaded first gas on its Pilot Program; and
- commenced an extensive seismic program.

Pleasingly, in line with our obligations as a responsible operator in China, we have now worked over 200,000 man hours since the start of the year and have maintained our Zero Accident, Zero Incident and Zero Environmental Impact targets.

Q2 also saw Sino Gas taking significant steps toward the delivery of its Chinese reserves report with the appointment of the National Centre of Coal Bed Methane (NCCBM), a Chinese consultancy specialising in such matters.

We have a clear view of our promising future in China. Our Q2 achievements validate our strategy to focus on moving to development, in a climate where China's push towards gas is gaining momentum.

Our progress would not have been possible without the contribution from our dedicated China Team and Board.

I would also like to thank our shareholder group for the continued support to your company.

Stephen Lyons
Managing Director

DRIVING OPERATIONAL SUCCESS

Sino Gas has delivered commercial gas flow rates during its 2011 testing program:

- TB09: **(1,150,500 scf/day)** significant commercial gas flow rate with additional potential through fracture stimulation (frac) and additional prospective zones;
- TB03: **(326,500 scf/day)** without a frac being carried out;
- TB08: **(706,000 scf/day)** achieved following frac with an additional prospective zone currently being tested; and
- TB06: **(~ 1,000,000 scf/day)** as estimated by site personnel).

It is intended that the wells that have been tested will be added to the Company's Pilot development.

The excellent results achieved on these tests add significantly to the understanding of the field and reinforce our confidence to move towards development of our gas assets in China.

The tests also establish that there appears to exist 'high potential' pay zones North of the TB07/TB09 well area where significant gas flow rates have been observed.

“Our Q2 achievements validate our strategy of moving towards Development”

The Pilot Development is a “stepping stone” to Development:

During Q2, Sino Gas successfully compressed 1st gas into a CNG tanker during Pilot commissioning.

The commissioning was part of a program that followed the signing of a Joint Gas Marketing Agreement with PetroChina in late February 2011.

During the Quarter, Sino Gas also put in place the various site supervisors and operators required to conduct the Pilot.

Sino Gas is currently concluding gas sales arrangements with China United Coal Bed Methane (CUCBM) and PetroChina Coal Bed Methane (PCCBM) in order to continuously deliver gas for sales in Shanxi Province.

Strong Progress continues on the Seismic Program

Q2 also saw the signing of the contract with BGP Seismic Cooperation Company (BGP) to deliver ~ 400km's of seismic on the Sanjiaobei Block.

The additional seismic is designed to provide additional data to support the Chinese Reserves report, enable better well location selection and planning for potential horizontal wells.

In a success case, the high density seismic program is expected to expand Sino Gas's potential reserves area from 70km² to more than 400km² on the Sanjiaobei Block.

Strong progress continues on this program with BGP having completed ~ 77% of the work program with ~316 kms of seismic lines having been shot.

DELIVERING DEVELOPMENT APPROVALS

Appointment of Chinese Reserves Consultant is a key milestone towards development

At the end of Q2, Sino Gas announced the appointment of a Chinese Reserves Consultancy to deliver the Chinese Reserves report and provide other services.

The appointment was implemented by the signing of a Strategic Cooperation Agreement with the National Centre of Coal Bed Methane (NCCBM) in a ceremony attended by the head of PCCBM and other project representatives.

The Chinese Reserves report is a precursor to Development approval in China. Sino Gas is now working with NCCBM to implement this program.

The delivery of the Chinese Reserves report is a key milestone as this, along with further development progress is expected to allow Sino Gas to upgrade a significant portion of its 2.2Tcf of Contingent and Prospective resource to reserves.

A responsible operator in China



204,120 hours

worked to the end of Q2 in the Company's seismic, well testing and Pilot programs

Nil

Accidents, Incidents and Environmental Impact



Photo: Reviewing the Company's Seismic Program

CONTINUING TO STRENGTHEN THE ORGANISATION

Sino Gas has continued to strengthen the organisation through Q2 of 2011.

Sino Gas appointed a highly qualified Senior Reservoir Engineer, a Senior Well Integrity Engineer and a Technical Assistant. This brings to 25 the number of staff working for Sino Gas in its Beijing office and on site.

Sino Gas also recently announced the appointment of Mr Colin Heseltine as a Strategic Consultant to the Board.

Colin has a 40 year career with distinguished service as Australian Ambassador to the Republic of Korea from 2001 and 2005, director of the Australian Commerce and Industry Office in Taiwan from 1992 to 1997 and two extensive periods, between 1982 and 1992, as Deputy Head of Mission at the Australian Embassy in Beijing.

His many senior positions include heading the Asia Pacific Economic Cooperation (APEC) Secretariat in Singapore during Australia's host APEC year in 2007.

Mr Heseltine will assist the Company at Board level as it moves towards ODP approvals.

KEY TARGETS FOR Q3, 2011

Looking forward through Q3, 2011, Sino Gas is expecting another period of significant progress, including:

- the continuation of the Company's testing program with further tests planned for TB08 and other wells as they are confirmed;
- gas sales agreements being struck on the Pilot program with those sales commencing;
- the completion of the seismic acquisition program and analysis of the data collected;
- the Company refining well location selection and commencing the drilling of new wells;
- continued active work towards the reserves reports.

These activities are all expected to contribute strongly to Sino Gas's target of moving towards development of its Chinese Gas Assets.

Sino Gas & Energy

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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. Unless otherwise noted, quoted well flow rates are calculated at a flowing tubing head pressure (FTHP) of 200 psi.

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