

Monthly Operations Report

For the month ending 31 May 2014

2014 WORK PROGRAM — DELIVERING PIPELINE PRODUCTION

Operational Update

- ▶ *Drilling program — ten of fourteen exploration wells completed, another three drilling and two production wells spud*
- ▶ *Well testing program — testing of seven wells underway and an additional five perforated*
- ▶ *Pilot pipeline production program progressing as third party pipeline completed on Sanjiaobei and land lease negotiations are being finalised for pipeline construction on Linxing*

Significant progress continued to be made in May, as Sino Gas & Energy Holdings Limited (ASX:SEH, “Sino Gas”, “the Company”) focused on the key agreed priorities to drive towards project approvals, improve single well productivity, and maximise production.

Ten of the thirteen remaining wells required for the first round of Chinese Reserve Report (CRR) submissions for both PSCs have been drilled. Two of the remaining three wells were drilling to total depth at month end, including two wells on Sanjiaobei. In addition, exploration well LXDG-02 has been spud on existing seismic lines to gain an understanding of the significant deeper underexplored resource potential within Linxing (East).

Following optimisation of the fracking method to improve single well productivity, preliminary results from the testing of a single middle level zone are positive, with a rate of 334 thousand standard cubic feet (Mscf)/day being recorded. In addition, a single less prolific lower zone was tested at a rate of 190 Mscf/day.

Preparations have begun to frac Sino Gas’ first horizontal well on Linxing (West) in June, and a top drive drilling rig has been mobilised to the second horizontal well site to the north of the acreage and is preparing to spud. Horizontal wells are extensively used in the Ordos basin, typically achieving gas flow rates at least 2-3 times higher than of that vertical wells. RISC’s current independent economic evaluation has been modelled based on a development case employing 100% vertical wells. With the introduction of horizontal wells into the project economics there is potential to further enhance the economic evaluation with minimal downside risk. Furthermore, two wells originally tested on Sanjiaobei in late 2013 (announced on 18 December 2013) at rates of between 250—1000 Mscf/day have been reopened for extended flow testing for approximately three months as per the requirements of the CRR.

Steady progress continues to be made on preparations for the Linxing (West) pilot pipeline production program. Work has commenced on the central gathering station, and both the design and surveying work has been completed for the infield gathering and third-party spur pipelines. Land lease negotiations are being finalised in preparation for the commencement of construction of the infield gathering pipelines. The pipelines are expected to take approximately three months to complete, with seven wells initially planned to be connected into the pilot pipeline production program (including the first horizontal well). Additional equipment is being delivered to the Sanjiaobei central gathering station, and the third-party pipeline spur is about to be completed, pending commissioning of the central gathering station.

Corporate Update

As a part of the Board and management refresh currently underway, Philip Bainbridge as Non-Executive Director, toured the Shanxi field in May and met with staff in Beijing. In addition, following his appointment as Chief Operations Officer in May, Frank Fu has started work with the team in Beijing. Meanwhile, the Company continues to progress the recruitment process for a new Beijing based Chief Executive Officer.

In Q2 the Company has presented to a number of institutions, banks and conferences, including Scotiabank (refer ASX announcement 9 May 2014), and Credit Suisse and will be presenting to UBS in June.

HIGHLIGHTS

- ▶ **Linxing (West)** — Preparations underway to frac test Sino Gas’ first horizontal well.
- ▶ **Linxing (West)** — Second round of exploration drilling commenced, in addition to two production wells spud to the south. Fracking optimising program improving single zone productivity. Civil works on central gathering station underway.
- ▶ **Linxing (East)** — Exploration well LXDG-02 spud with the aim of exploring deeper resource potential.
- ▶ **Sanjiaobei** – Drilling program underway. Testing operations continue. Third-party pipeline about to be completed, pending central station commissioning.

Linxing (West) - Sino Gas 31.7% **Shanxi Province, People's Republic of China**

Processing of 285km of seismic lines has been completed and interpretation being conducted by a third party contractor is expected to be completed by the end of the quarter.

Following the completion of the first round of drilling of eight wells, ten of the eleven exploration wells to fulfil the drilling requirements for CRR submission had completed drilling by time of writing. With the majority of the exploration wells now completed on Linxing (West), two rigs were mobilised to the south of the block to commence drilling additional wells, which will be available for tie-in into the pilot production program.

More encouraging results were received in the prospective area, with preliminary electric wireline logs from two wells drilled to the west of the block, identifying 15.6–34.4 metres of total pay. In addition, preliminary results from two wells drilled within the discovered area identified 6.9 and 4.0 metres in total pay.

Testing teams continued frac testing operations across Linxing (West), with the aim of testing wells to be available for the pilot program in the south, and gathering important reservoir information in the northern portion.

Following the frac optimisation program to improve single well productivity, preliminary results from the testing of a single middle level zone are positive. TB-17 was tested in the prospective area at a rate of 330 Mscf/day for six days from a middle level zone, whilst TB-15 produced a flow rate of 190 Mscf/day from a less prolific lower level zone with lower permeability.

The preparation work for fracing TB-1H is underway, with frac fluid and required chemicals being delivered to site as the frac/testing procedure is being finalized. A frac testing crew will be deployed once they have completed testing procedures on a vertical well also on Linxing (West), with preliminary results expected late July (weather permitting).

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

The second exploration well LXDG-02 has been spud on existing seismic lines on Linxing (East). The well was spud further to the south of LXDG-01 (in which preliminary electric wireline logs identified 33.1 metres of pay across 8 pay intervals in 2013), with the aim of gaining a further understanding of the significant underexplored deeper resource potential within Linxing (East).

While the dewatering operations continue on Linxing (East), the modified CRR submitted to the Chinese Ministry of Land & Resources (MOLAR) in Q1 2014 is pending final approval.



Site visit inspects drilling operations on Linxing (West)

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

During May, two exploration wells were spud on the eastern edge of the fine seismic grid.

Fracturing and well testing continued in May. Flow testing of two existing wells originally fraced in 2013 is in progress, providing parameters for the compilation of the CRR. Fracturing and well testing operations are also underway on another two existing wells. In addition, two wells have been perforated.

Pilot Program Update

Work has commenced on the Linxing (West) central gathering station, with site preparations underway and major components ready to be transferred to site. Both the design and surveying work has been completed for the infield gathering and third-party spur pipelines. Land lease negotiations are being finalised in preparation for the commencement of construction of the infield gathering pipelines. The pipelines are expected to take approximately three months to complete from the commencement of construction, with seven wells initially planned to be connected into the pilot pipeline production program (including the first horizontal well).

Engineering for the Qiaojiaoshan pilot program (named after a nearby village) is progressing in accordance with the approval of the Sanjiaobei Joint Management Committee, with equipment such as the flare stack being delivered to site at the end of May. Construction of the third party pipeline is about to be completed, and will be connected upon commissioning of the central gathering station.



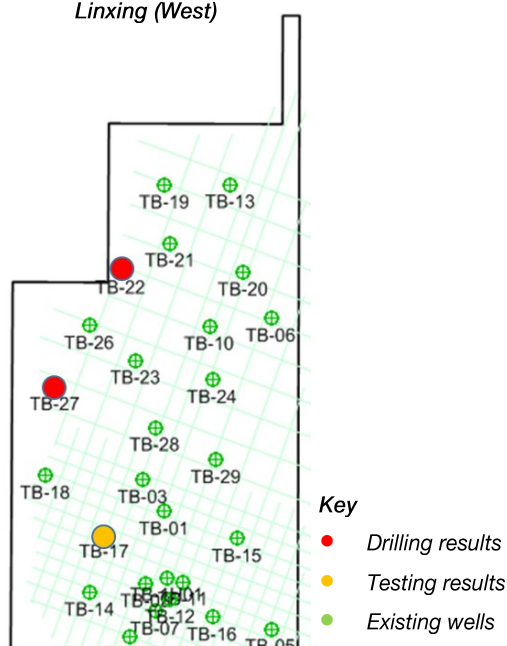
Site preparations commence for the Linxing central gathering station

PSC WORK PROGRAM UPDATE



Exploration Disclosure	Drilling Result	Drilling Result	Testing Result
(a) The name and type of well.	TB-22 (Deviated Well)	TB-27 (Deviated Well)	TB-17 (Vertical Well)
(b) The location of the well and the details of the permit or lease in which the well is located.	Linxing Production Sharing Contract (PSC). Refer to map below.		
(c) The +entity's working interest in the well.	31.70%		
(d) If the gross pay thickness is reported for an interval of conventional resources, the	Electric wireline logs identified 15.6m of net pay	Electric wireline logs identified 34.4m of net pay	Electric wireline logs identified 19.6m of net pay
(e) The geological rock type	Coal bearing formations from the Permian to Carboniferous System.		
(f) The depth of the zones tested.	N/A—One zone scheduled for testing scheduled in 2014.		Test target payzone was at a depth of 1,753-1,758m
(g) The types of test(s) undertaken and the duration of the test(s).			Fractured and gas flow tested for 6 days.
(h) The hydrocarbon phases recovered in the test(s).			Gas
(i) Any other recovery, such as, formation water and water, associated with the test(s) and their respective proportions.			None
(j) The choke size used, the flow rates and, if measured, the volumes of the hydrocar-			Needle valve used. Post-frac test gas rate was 330,000 scf/d with well head pressure of ~2.9MPa.
(k) If applicable, the number of fracture stimulation stages and the size and nature of			One stage
(l) Any material volumes of non-hydrocarbon gases, such as, carbon dioxide, nitrogen, hydrogen sulphide and sulphur.			Adjacent well TB-14 gas sample from same zone shows CH ₄ 95.723%, C ₂ -C ₆ 0.950%, CO ₂ 0.277%, N ₂ 3.05%.
(m) Any other information that is material to understanding the reported re-			None

Linxing (West)



ABOUT SINO GAS & ENERGY HOLDINGS LIMITED

Sino Gas & Energy Holdings Limited ("Sino Gas" ASX: SEH) is an Australian energy company focused on developing Chinese unconventional gas assets. 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 3,000km². 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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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 (\$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 ₁₀ (\$US\$m)	EMV ₁₀ (\$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 NPV₁₀ 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.