

## QUARTERLY ACTIVITIES REPORT

### WORK PROGRAM

- **Commissioning of Linxing Production Station underway** - Final installation of equipment and tie-in of the first phase of wells for the Linxing Central Gathering Station is complete and commissioning is underway. Heavy rains have caused some minor delays to pipeline commissioning works, with completion expected shortly ahead of first gas anticipated in August.
- **Production performance continues to be strong** - Sanjiaobei Central Gathering Station produced at a maximum of 6 MMscf/day during the quarter and recorded an uptime average of 4.3 MMscf/day.
- **2015 work program on schedule** - 13 wells drilled including 2 exploration wells, 10 vertical development wells and 1 horizontal well during the quarter.
- **Well tests continue to outperform** - TB-27 in the discovered north/east portion of the Linxing block recorded 1.8 million standard cubic feet per day from an unfracted reservoir unit at 630 psi. This is the second highest unstimulated rate achieved by a single production test in the history of the field. In addition, 5 production tests were performed during the quarter with results within the expected range.

### FINANCIAL & CORPORATE

- **Balance sheet strengthened with A\$84 million (before costs) raised through a Share Placement and Share Purchase Plan.**
- **US\$14.4 million paid to the joint venture operator in 2015.**
- **Cash balance of US\$77.9 million as at 30 June 2015.**

Commenting on the second quarter, Sino Gas' Managing Director Glenn Corrie said: "In the last quarter, we continued to make substantial progress on a number of fronts. On the corporate front, we successfully raised A\$84m which in combination with the expected future cash flows from operations and our debt facility, places us in a strong position to fund the business through to ODP in 2017. Operationally, we continue to hit our milestones with the commissioning of our Linxing production station in July ahead of commercial gas sales in August. I am very pleased with the progress the company has made since joining almost one year ago. Whilst there has been a recent softening in commodity markets and some routine start-up issues that have weighed on investor sentiment towards the sector and towards us specifically, these minor issues are expected to be resolved shortly with minimal impact to our fundamentally strong underlying business where we have a large gas resource producing at high margins into the world's fastest growing energy market."

### 2015 PRIORITIES

#### Q1- Q2 2015

- ✓ Independent Reserves & Re-sources update
- ✓ Infield development drilling and testing
- ✓ Connection of additional pilot wells

#### Q3 2015

- First gas sales from Linxing pilot program
- Tie-in of additional production from TB-26 area
- Continued exploration drilling/testing
- Testing of third horizontal (TB-3H)

#### Q4 2015

- Installation of additional processing capacity
- Anticipated production exit rate ~25 MMscf/d (gross)
- CRR approvals expected

## WORK PROGRAM

### Health, Safety and the Environment

A total of 212,000 incident free man hours were recorded during the quarter as the drilling and testing programs continued to ramp up (YTD: 248,000) across the blocks.

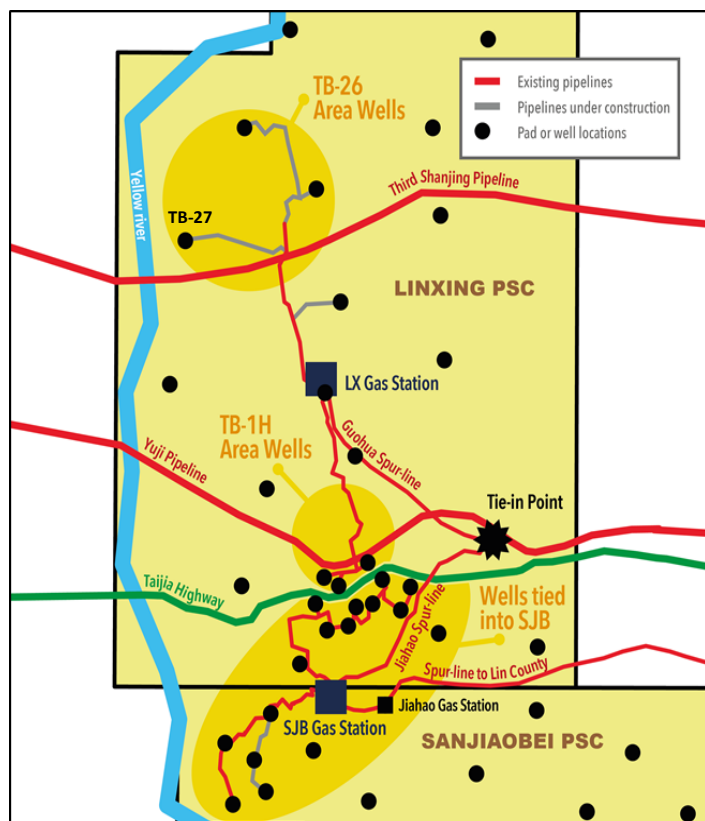
### Pilot Program

Progress of the Linxing Central Gathering Station (CGS) has continued according to plan. Construction was completed during the quarter and commissioning operations have commenced ahead of first gas expected in August. Gathering lines for the first phase of wells to be tied into the Linxing CGS have also been completed. The seven wells to be initially tied in will be from south of the Linxing CGS and include TB-1H, the first horizontal well that tested at a rate of 4.93 million standard cubic feet per day (MMscf/d) (refer to announcement 15 July 2014). Installation and hook-up of the third-party spur-line by GuoHua has been affected by recent heavy rainfall in the region and is anticipated to be completed in early August.

Commissioning operations consist of pressure testing all connections and major components such as generators, separators and compressors to ensure a safe and steady commencement of gas sales.



Drilling of horizontal well at TB-3H



Map of Key Infrastructure in Linxing and Sanjiaobei PSCs

Work is ongoing on the gathering lines that will connect the second phase of wells to be tied into the Linxing CGS to drive the ramp up of production in the second half of 2015 towards total installed capacity across the two PSCs of 25 MMscf/d. This includes the TB-26 well, TB-23 well and surrounding wells. Initial testing of these wells has been excellent and reconfirms the strong well capacity and deliverability. These northern wells are expected to be brought on-stream later in the third quarter.

Pilot production at the Sanjiaobei CGS continues to progress well with limited facility downtime and strong well performance. Production increased up to peak rates of ~6 MMscf/d and had an uptime average of ~4.3 MMcf/d during the quarter. Initial start-up and commercial issues downstream of Sino Gas' operations has meant that gas offtake volumes have lagged behind installed processing capacity. However, it is anticipated these issues should be resolved shortly, allowing production to increase towards processing capacity at the Sanjiaobei CGS. With almost 7 months of production data, individual well results continue to show strong performance, providing ongoing reinforcement of the geological model and well deliverability expectations.



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

Nine development wells were drilled during the quarter, which are planned to be connected into the Linxing CGS over the course of 2015. Three of the wells drilled to the north/west of the block in the vicinity of TB-26 (refer to testing announcement on 19 June 2014), encountered 8.2 to 13.3 metres of net pay. The remaining six wells in the southern pilot region, recorded between 8.6 to 20.4 metres of net pay.

Five production tests concluded during the quarter in the discovered area, while another six are ongoing. Test results are in line with expectations, ranging from ~240 thousand cubic feet per day (Mscf/d) to ~1,000 Mscf/d (including one co-mingled test). Furthermore TB-27 recorded a flow rate of 1.8 MMscf/day in July from an unfracted upper zone at a wellhead pressure of 630 psi in the discovered north/east portion of the block. This is an exceptionally strong well test from a single zone and is the second highest unstimulated rate achieved by a single production test in the history of the field.

Drilling of the third horizontal well on Linxing West, TB-3H, was successfully completed during the quarter in the TB-26 area (refer to map on page 2). A 1,080 metre lateral section was drilled with excellent net to gross sands being recorded. Results of the well are currently being evaluated while the fracing and completion program is being designed. Testing is expected in the third quarter with exact timing subject to testing equipment sequencing across the blocks. The rig is now being mobilised to the nearby TB-4H drill site, where the drilling of the 4th horizontal well will commence shortly.

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

Drilling on the first two of five exploration wells planned for 2015 was completed during the quarter. The two exploration wells, LXDG-4 and LXDG-5, were both drilled in the prospective area of Linxing East and discovered 32 metres and 10 metres of net gas pay, respectively.

Testing is ongoing in the prospective area in Linxing East on LXDG-3. Nominal flow rates were recorded from the first zone tested with two additional zones yet to be tested.

Well locations for the new wells have been selected using the acquisition and interpretation of 280km of seismic brought forward into 2014 work program.

Preparation for the Overall Development Plan (ODP) continued for the shallow area in the north/east of the block during the quarter, with additional wells planned to be drilled later in the year to provide further data to support the submission. Following the outcome of the economic assessment to be conducted as a part of the plan, a final investment decision will be made on further development of the area.

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

A rig was deployed to Sanjiaobei during March to commence the ten well drilling program for 2015, consisting of two exploration wells and eight development wells. Two pilot wells completed drilling during the quarter and are planned to be tied into the pilot program once fracing operations have been completed and gathering pipelines connected. Processing of approximately 120km of seismic lines acquired during 2014 has been completed and interpretation is almost finalised, which will allow the data to be used for optimizing the exploration well locations.



*Production facilities at the Linxing Central Gathering Station.*

## CORPORATE

### Placement and Share Purchase Plan

On 23 April 2015, the Company announced a capital raising of A\$80 million through a Share Placement of 500 million shares at A\$0.16/share for institutional and other investors and the opening of a Share Purchase Plan (SPP) for eligible retail investors at the same price. Subscriptions were received for approximately 26 million shares via the SPP at A\$0.16 per share, raising a total of A\$4.165 million before costs. At the General Meeting held on 4 June 2015, all resolutions put to the shareholders regarding the Share Placement, including directors' participation, were duly passed and final settlement was completed on 9 June 2015.

Proceeds from the Placement and SPP will be used to fund the Company's expenditure requirements towards Overall Development Plan (ODP) including the aggressive build out of production through drilling, and adding new central gathering stations, and continued exploration activity. The proceeds will also provide additional working capital, the flexibility to repay debt, and a position of financial strength for the Company in its commercial dealings as well as general corporate purposes.

### Investor Relations and Marketing

During the quarter, the Company met with numerous shareholders and potential shareholders, including marketing as part of the Share Placement. A presentation was also provided for all shareholders at our Annual General Meeting held in May. The Company participated in several China energy focused events in Beijing, including the JP Morgan Energy Summit and the Jefferies Natural Gas Tour and also hosted site visits to the assets. The latest investor presentations and conference calls can be accessed at [www.sinogasenergy.com](http://www.sinogasenergy.com).

### Share Register

In addition to strong support from existing institutional shareholders, the Company was pleased to welcome numerous new shareholders onto the register via the Share Placement. As a result, the share of institu-

tional shareholders has increased from approximately 46% to 57% during the quarter.

## FINANCIAL

### Financial Position

Sino Gas' cash position at the end of the quarter was US\$77.9 million. The Company has drawn down US\$10 million of the \$50 million Macquarie debt facility.

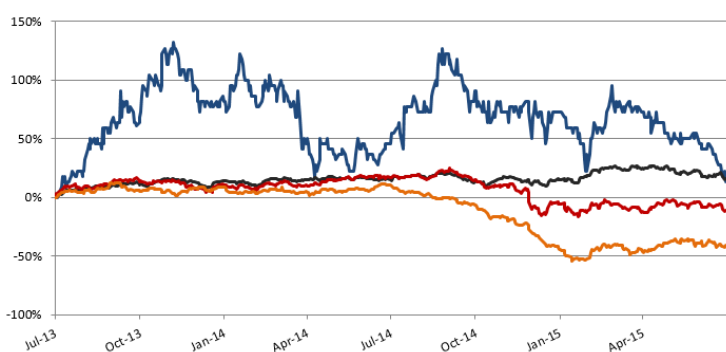
### Project Funding

Sino Gas has been cash called US\$14.4 million year to date in relation to its 49% share of the PSC and administrative expenditure of Sino Gas & Energy Limited (SGE).

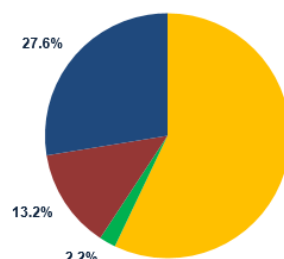
### Project Revenue

Significant progress has been made towards resolving the outstanding commercial matters to complete the final steps of the payment process for gas sales proceeds to flow through to the joint venture operator. During this start-up phase, various governmental approvals are required in the People's Republic of China (PRC) to allow for transfer of funds from the Chinese PSC Partners to SGE as the foreign joint venture operator. Sino Gas is actively working with all relevant stakeholders pursuing these approvals and it is expected that a lump sum settlement for gas supplied since the start-up of pilot production will be received once resolved. Once in steady-state operations, in accordance with the Gas Sales Agreements, gas proceeds will be paid monthly based on the volume of gas nominated to the gas buyers. Total production sold to local buyers for the year to 30 June was 745 million standard cubic feet, equating to US\$6.17 million (net of VAT). It has been determined that revenue can be recognised by SGE in the half-year financial statements in accordance with international accounting standards, the PSCs and gas sales contracts in place. Proceeds have started to be received by PSC partners (CUCBM and PCCBM) in relation to existing pilot production, with distributions to be made to SGE once relevant approvals have been received.

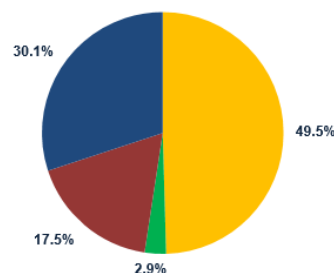
### Sino Gas Share Price Performance (ASX:SEH) Share Register Composition



#### June 2015 Register



#### March 2015 Register



## CHINA GAS INDUSTRY UPDATE

Despite recent instability in global energy markets, the Company is well positioned in China as a low cost natural gas supplier where the Government is showing continued support for policies to promote the development of local gas supply. Contracted gas sale prices have remained steady to increased slightly in the first half of 2015. China is widely expected to maintain robust gas pricing in support of the continued development of domestic supply, and while a moderate decrease in gas prices in the short to medium term to help stimulate natural gas demand growth remains a possibility, it is not anticipated changes to regulated gas prices in China would have a material impact on the budgeted or operational plans of the Company.

## SUPPLEMENTARY INFORMATION

Historical testing results by zone (2006–Q2 2015)

| Zone                           | Well Tests | Average Thickness (m) | Average Test Length (Days) | Average Flow Rate (Mscf/day) | Max Flow Rate (Mscf/day) |
|--------------------------------|------------|-----------------------|----------------------------|------------------------------|--------------------------|
| Upper Zone                     | 9          | 4.6                   | 13                         | 717                          | 2,901                    |
| Mid-Upper Zone                 | 22         | 7.5                   | 16                         | 353                          | 969                      |
| Middle Zone                    | 13         | 6.4                   | 25                         | 241                          | 708                      |
| Mid-Lower Zone                 | 8          | 5.2                   | 21                         | 486                          | 2,542                    |
| Lower Zone                     | 5          | 5.4                   | 19                         | 583                          | 1,663                    |
| Comingled                      | 18         | 20.2                  | 20                         | 694                          | 2,569                    |
| Horizontal Wells (Middle Zone) | 2          | N/A                   | 2                          | 7,442                        | 9,775                    |

Note: Results have been standardised to a standard field pressure of 200psi.

## 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<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.

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



### *Sino Gas & Energy Holdings Limited*

#### *Investor Relations*

+86 10 8458 3001

1300 746 642 (local call within Australia)

[ir@sinogasenergy.com](mailto:ir@sinogasenergy.com)

*Our latest announcements and presentations can be found on our website:*

[www.sinogasenergy.com](http://www.sinogasenergy.com)



## RESERVES AND RESOURCES

Sino Gas' Attributable Net Reserves & Resources are summarised below:

| SINO GAS' ATTRIBUTABLE NET RESERVES AND RESOURCES   | 1P<br>RESERVES<br>(Bcf) | 2P<br>RESERVES<br>(Bcf) | 3P<br>RESERVES<br>(Bcf) | 2C<br>CONTINGENT<br>RESOURCES<br>(Bcf) | P50<br>PROSPEC-<br>TIVE RE-<br>SOURCE <sup>1</sup><br>(Bcf) | EMV <sub>10</sub><br>(US\$m) |
|---|-------------------------|-------------------------|-------------------------|--|---|------------------------------|
| <b>31 December 2014</b><br>(Announced 3 March 2015) | 350                     | 448                     | 557                     | 739                                    | 649   | 3,076                        |
| <b>31 December 2013</b><br>(Announced 4 March 2014) | 129                     | 291                     | 480                     | 850                                    | 1,023   | 2,258                        |
| CHANGE (+/-)%                                       | +54% (2P Reserves)      |                         |                         | -13%                                   | -37%  | +36%                         |
| <b>Total Project</b><br>31 December 2014            | <b>1,238</b>            | <b>1,608</b>            | <b>2,022</b>            | <b>2,560</b>                           | <b>2,568</b>  | <b>N/A</b>                   |

Note 1: The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) related to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation 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 and risk weighted EMV are summarised below:

| SINO GAS' ATTRIBUTABLE ECONOMIC VALUE | NPV <sub>10</sub> (US\$m) | EMV <sub>10</sub> (US\$m) <sup>2</sup> |
|---------------------------------------|---------------------------|--|
| Reserves                              | 1,500                     | 1,505                                  |
| Contingent Resources                  | 911                       | 822                                    |
| Prospective Resources                 | 1,251                     | 749                                    |
| <b>TOTAL</b>                          |                           | <b>3,076</b>                           |

Note 2: EMV is based on NPV<sub>10</sub> with a mid-case gas price of US\$9.76/Mscf and lifting costs (opex+capex) of ~US\$1.3/Mscf for mid-case Reserves, Contingent & Prospective Resources.

### Resources Statement & Disclaimer

The statements of Reserves and Resources in this annual report have been independently determined to Society of Petroleum Engineers (SPE) Petroleum Resource Management System (PRMS) standards by internationally recognised oil and gas consultants RISC (Announced 3 March 2015) 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. 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 (i.e CUCBM take their entitlement of 30% interest in Linxing PSC and CNPC take their entitlement to 51% in the Sanjiaobei PSC), 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 Reserves and Resources in this annual report 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. Mr Stephenson is a member of the SPE and MChemE and consents to the inclusion of this information in this release. RISC believes that the reserve and resource assessment fairly represents the available data. RISC is an independent advisory firm that evaluates resources and projects in the oil and gas industry. RISC offers the highest level of technical, commercial and strategic advice to clients around the world. RISC services include the preparation of independent reports for listed companies in accordance with regulatory