Unconventional Gas

China moves towards fulfilling its potential

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Stephen Lyons – Managing Director
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Resource Statements

The statements of resources in this Release have been independently determined to Society of Petroleum Engineers (SPE) Petroleum Resource Management Systems (SPE PRMS) standards by internationally recognized oil and gas consultants RISC Pty Ltd, except as otherwise noted. All resource figures quoted are mid case - 100%.
Sino Gas is building a Significant Gas Business in China

- ASX listed company with our heart in China
- Large scale gas assets in China’s Ordos Basin (2nd largest gas basin)
- Exploration success has driven large scale resources: 2P Reserves 19Bcf, Contingent + Prospective Resources of 1.9Tcf
- 6 years of successful exploration & appraisal has significantly de-risked the assets – now focusing on Development
- Sino Gas is leveraged to the world’s fastest growing energy market - China
UNCONVENTIONAL GAS IN CHINA – CURRENT STATE OF PLAY
A bright future for China’s Unconventional Gas

- 2011+ expected to deliver increasing commercial production\(^1\)
- The 12\(^{th}\) 5-year plan expected to provide the breakthrough\(^2\)
- Chinese Government – reliant on the unconventional gas sector\(^3\)

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1. Gavin Thompson, Wood Mackenzie, Challenges hamper China’s near-term unconventional development, Jan 2011
2. Duties lifted on imports of equipment for CBM, ChinaDaily September 1, 2011
3. Early days for China’s CBM sector, Unconventional Oil & Gas Monitor, Newsbase, Sep 2011
The CBM Industry in China is evolving

<table>
<thead>
<tr>
<th>Gradual development due to some unique challenges(^1)</th>
<th>Significant potential as <strong>geological conditions</strong> and resources are understood</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Accessibility</strong> to technology, infrastructure and markets is improving</td>
</tr>
<tr>
<td></td>
<td>Additional <strong>investment is expected to propel the industry</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Service sector capability improving</strong></td>
</tr>
</tbody>
</table>

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1. Gavin Thompson, Wood Mackenzie, Challenges hamper China’s near-term unconventional development, Jan 2011
Significant potential as Geological conditions are understood

- China's geological conditions differ from USA and Australia\(^1\)
- Coals variable in quality among different basins\(^2\)
- Some operators now on ‘cusp’ of commercial production
- China’s CBM resource base is huge\(^3\)

1. Neil Beverige, China Coal Bed Methane X Factor, BernsteinResearch, Jul 2011
2. Ibid
3. Early days for China’s CBM sector, Unconventional Oil & Gas Monitor, Newsbase, Sep 2011
Accessibility to technology, infrastructure and markets is improving

- The key is to **transfer** proven technologies & project management experience
- Industry re-structure expected to **provide platform** for increased cooperation\(^1\)
- **Pipelines** being constructed to connect fields to markets\(^2\)

1- Gavin Thompson, Wood Mackenzie, Challenges hamper China’s near-term unconventional development, Jan 2011
2 - Ibid
Additional investment is expected to propel the industry

- Increasing CBM investment driving commercialization
- Historically – most funds from foreign companies
- Steady progress achieved through PSC cooperation
- Chinese CBM companies also underway

1- Demand surge driving gas imports, ChinaDaily Aug 2011
2 - Early days for China’s CBM sector, Unconventional Oil & Gas Monitor, Newsbase, Sep 2011
Significant development in the service sector is occurring

- Unconventional gas – large number of wells drilled fast at low cost\(^1\)
- Over past 5 years ~ significant improvement in capability & safety performance
- Supply chain for complex equipment is improving\(^2\)

1- Gavin Thompson, Wood Mackenzie, Challenges hamper China’s near-term unconventional development, Jan 2011
2 - Ibid
Production must increase to meet demand

China’s Growing Natural Gas Gap

- Consumption
- Production

China’s opportunity to fill the growing shortfall

2010
2015
2020
2025
2030

Trillion Cubic Feet

SINO Gas & Energy
Unconventional Gas – China moves towards fulfilling its potential

1 – EIA-International Energy Outlook, 2010, Natural Gas forecast
## China is overcoming its unconventional gas challenges

<table>
<thead>
<tr>
<th>Key Points</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pilot testing as “proof of concept”</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Pipeline construction to deliver gas to markets</strong></td>
<td>1 - China to build 13 CBM pipelines, China Oil, Newsbase, Sep 2011</td>
</tr>
<tr>
<td><strong>Increased foreign player involvement</strong></td>
<td>2 - Duties lifted on imports of equipment for CBM, ChinaDaily September 1, 2011</td>
</tr>
<tr>
<td><strong>Supportive government policies</strong></td>
<td>3 - Ibid.</td>
</tr>
</tbody>
</table>

*Unconventional Gas – China moves towards fulfilling its potential*

1. China to build 13 CBM pipelines, China Oil, Newsbase, Sep 2011
2. Duties lifted on imports of equipment for CBM, ChinaDaily September 1, 2011
3. Ibid.
Improving returns for producers driving the development of CBM in China

China’s Favorable Policies

- Duties lifted on CBM equipment imports – China Daily 1 Sep 11
- Full VAT rebate + no resource tax on CBM
- CBM priority pipeline connection over conventional gas
- Higher prices for electricity generated from CBM

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Duties lifted on imports of equipment for CBM

Move will reduce costs, improve profits for domestic producers

By ZHOU YAN

BEIJING – China will waive import duties for the fast-growing imports of equipment for coalbed methane (CBM) exploration and development projects during the 12th Five-Year Plan (2011-2015), making it the country’s first exemption in the sector. The move aims to support the development of the gas, the Ministry of Finance said on its website recently.

The duty-free list mainly targets equipment, instruments, components and parts imported by China United Coalbed Methane Corp and its partners, the ministry’s statement said. China United is the country’s major CBM explorer and developer.

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(1) As quoted in Bernstein Research on CBM Sector citing the 12th 5 Year Plan – 20 July 11
(2) As quoted in UBS Investment Research “China Oil and Gas Sector” – Dec 11
Robust & Increasing Gas Prices

Well head gas prices ~ US $6.5Mscf – US$7Mscf under longer term contract

- Subsidies on gas prices currently RMB 0.2/m³ (US $0.83/Mscf) – *set to double*

- Lifting costs between US $2Mscf - US$3Mscf

- CBM prices guided by natural gas prices

- NDRC raised gas prices by 25% (May 2010)

Sources:
1. & 4. UBS Investment Research – China Oil and Gas Sector Published on December 16, 2010
2. Natural Gas Price Rise to Stimulate China CBM Industry, Published by AsiaPulseNews Jun 7, 2010
3. China raises gas prices 25%, cuts gasoline rates, China Daily, June 1, 2010
SINO GAS IS BUILDING A SIGNIFICANT GAS BUSINESS IN CHINA
Our strategy benefits from China’s 12\textsuperscript{th} 5-year plan (12-5)

China’s 12-5 Plans
- Natural Gas to grow to 8.3% of China’s Energy Mix\textsuperscript{1}
- Unconventional gas sources growing to 1/3 of gas supply\textsuperscript{2}
- Shanxi Province plans to have a gas powered future

Sino Gas’s Opportunity
- Demonstrated exploration success
- Large scale gas assets on the door-step of major markets
- Moving to development in ‘sweet spot’ of 12-5
- Potential opportunities for cooperation on additional Unconventional Gas acreage

\textsuperscript{1} International Energy Agency, June 2011
\textsuperscript{2} Bernstein Research, Dec 2010
Large Gas Assets & Markets in the Ordos Basin, China

**Ordos Basin China**
- China’s 2nd largest gas basin
- Key gas transport hub
- Substantial unconventional gas resources
- Growing pipeline network

**Sino Gas & Energy**
- Operator on 2 PSC’s
- Partners with CNPC (PetroChina CBM) and CUCBM (50% owned by CNOOC)
- 3,000 km² – one of the largest foreign company holdings
- Substantial gas demand on our doorstep in Shanxi Province
Ordos - a World Scale Unconventional Gas Basin

Unconventional Gas
- Large resource potential
- Comparable to proven US assets
- Potentially highly profitable
  ~ US$6.80/Mscf gas prices
- Technology application expected to increase economics & production

Sources:
Successfully working with Chinese Oil & Gas Majors

Linxing PSC (~ 65% following partner back-in from CUCBM)

- Partner for 6 years with CUCBM (now 50% owned by CNOOC)
- CNOOC recently announced strong strategic focus on unconventional gas opportunities in China
- PSC’s exploration period recently extended to Aug 2013
- Potential future cooperation with CUCBM on additional Unconventional Gas opportunities

Sanjiaobei PSC (49% following partner back-in from CNPC/PetroChina)

- Following China industry restructure, partner for 3 years with CNPC with the PSC implemented by PetroChina CBM
- PetroChina CBM are a key part of China’s 5 year plan for unconventional gas development

Stated Reserves and Resources are mid case and 100% - refer Resource Statements
PASSIONATE ABOUT UNLOCKING OUR POTENTIAL IN CHINA
A world class team based in China

490,000
Incident free hours worked during 2011

30
Employees in Beijing and site locations… and growing

All key subsurface and operations functions now internalised

Leadership
Managing Director & key staff all based in Beijing

Significant Board involvement + China Strategic Consultant in place
### 2011 & 2012 Work Programs

- **Focused on Pilot production and delivering Reserves & Development approvals**

### Key Activities

<table>
<thead>
<tr>
<th>New Wells, Tests and Seismic Data</th>
<th>Pilot Program &amp; Chinese Reserve Report</th>
<th>ODP &amp; Phase 1 pre-development</th>
</tr>
</thead>
</table>

**Unconventional Gas – China moves towards fulfilling its potential**
Sino Gas is building a Significant Gas Business in China: Key Investment Highlights

- Large scale gas assets in China’s Ordos Basin
- Exploration success has driven large scale resources: 2P Reserves 19Bcf, Contingent + Prospective Resources of 1.9Tcf
- 6 years of successful exploration & appraisal has significantly de-risked the assets – now focusing on Development
- Moving to commercialize large gas assets in high demand markets with attractive gas prices
- Further upside on large PSC holdings + potential additional co-operation with Chinese partners
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