FUELLING CHINA'S CLEAN ENERGY FUTURE

SINO Gas & Energy
www.sinogasenergy.com

2017 ANNUAL REPORT

Achievements & Milestones

2006

Acquires asset from Chevron & makes maiden gas discovery

2009

Lists on the Australian Stock Exchange

2010

Commerciality of deeper gas play established

2011

First Reserves booking

2013

Significant Reserves bookings

First gas sales agreement signed

2014

First successful horizontal well

First pilot production (December)

2015

Second central gathering station brought online

2016

Average production of ~6 MMscf/d

ODP planning started

2017

Record average production of ~17 MMscf/d

Submitted first ODPs to SOE partners

CONTENTS

ABOUT US

Sino Gas & Energy Holdings Limited (ASX: SEH, "Sino Gas" or the "Company") is an Australian energy company focused on developing natural gas assets in China. Sino Gas holds a 49% interest in Sino Gas & Energy Limited ("SGE"), the operator of the Linxing and Sanjiaobei Production Sharing Contracts ("PSCs") in the Ordos Basin, China's largest gas producing basin. SGE has been established in Beijing since 2005 and is jointly owned with China New Energy Mining Limited ("CNEML") via a strategic partnership.

SGE's current interest in the Linxing PSC with China United Coalbed Methane ("CUCBM") (a CNOOC wholly-owned subsidiary) is 70% and 49% for the Sanjiaobei PSC held with PetroChina CBM ("PCCBM") (a PetroChina wholly-owned subsidiary). SGE has a 100% working interest during the exploration phase of the PSC, and SGE's PSC Partners are entitled to participate upon Overall Development Plan ("ODP") approval up to their PSC working interest by contributing their future share of costs.

Sino Gas also holds an option to acquire 7.5% of SGE's participating interest in the Linxing PSC.

The PSCs cover an area of approximately 3,000km^2 in the Ordos basin in Shanxi, a rapidly developing province. The region has mature field developments with an established pipeline infrastructure to major markets. Natural gas is a key component of clean energy supply in China, with the 13th Five-Year Plan identifying the Ordos basin as a strategic natural gas source.

Sino Gas was admitted to the Official List of ASX in 2009.

Natural gas' share in the primary energy mix currently stands at 6%, well below the global average of non-OECD economies and the Chinese government targets increasing this to 10% by 2020 and 15% by 2030. One of China's 13th 5-year energy plan objectives is to develop aggressive measures against pollution, including large scale switching from coal to gas in the power generation and industrial sectors. Sino Gas' development project is making a significant contribution to China's clean energy goals as gas emits approximately 50% less CO_2 than coal when burned. At plateau production rates, the company's assets are expected to produce between 2-4% of China domestic supply requirements.

CHAIRMAN'S REPORT

Dear Shareholder, I am pleased to present to you the Company's 2017 Annual Report.

2017 was a landmark year for Sino Gas & Energy Holdings as the Company consolidated its position as a low-cost natural gas development and production company at a time of exceptional natural gas demand growth in China.

The 13th Five Year Energy Plan and related policies have accelerated coal-to-gas switching, especially in the most polluted provinces of Northeast China. Sino Gas' proximity to these markets, home to significant industry and over 300 million people, places us in the heart of the demand and as a growing contributor to China's clean energy objectives.

This year's accomplishments have paved a strong foundation for our future as a prominent natural gas producer in China. The 13th Five Year Energy Plan has singled out the Ordos basin, China's most prolific gas basin, and specifically designated our Linxing asset as strategic as it drives to almost double natural gas in the energy mix by 2020.

Our 2017 key accomplishments include:

- A continued commitment to high safety and environmental standards resulted in another year of strong performance with over 660,000 man hours worked without incurring a lost-time injury ("LTI");
- Near tripling of average daily production over 2016, to ~17 Million standard cubic feet per day ("MMscf/d")[1];
- The submission of the first Linxing and Sanjiaobei ODPs to our Partners CUCBM and PCCBM;
- The release of the Development Plan for our assets which demonstrates their world-class nature and provides the pathway to unlocking their significant unrealised value, targeting significant free cash flow from 2020 and production of 350 - 550 MMscf/d by 2022[2];
- Purchase of an option to acquire a 7.5% interest of SGE's participating interest in the Linxing PSC;
- Finalised a 5-year senior secured $100 million debt facility with Macquarie Bank ("Macquarie") which, combined with existing cash and cash flow from operations is expected to fully fund the development plan;
- Finalising a new Gas Sales Agreement ("GSA") for all gas sold from Sanjiaobei with price increases of up to 17%; and
- Strengthening of our low-cost advantage as further identified efficiencies have enabled us to continue driving down well costs ~15% year-on-year.

We continue to take a prudent approach to balance sheet management and ended the year with a cash balance of $28 million. The near tripling of production revenue, a 60% reduction in unit operating costs and robust wellhead gas prices drove a strong increase in net margin to $3.7 per thousand standard cubic feet ("Mscf").

Building on last year's accomplishments, we have established our key priorities for 2018. Firstly, maintaining our safety and environmental track record is of paramount importance. Secondly, securing ODP approvals by mid-year, while maximising production and cashflows through existing and new facilities. Finally, we will lay the groundwork for growth towards expected plateau production in 2022 in line with our development plan by sanctioning new facilities and preparing new pad drilling sites.

We are looking forward to working with our Joint Venture ("JV") Partner CNEML and SOE Partners CUCBM and PCCBM in 2018. Strong foundations have been laid to establish Sino Gas' future as an important low-cost domestic supplier of natural gas in China, and the Sino Gas Board and Management are confident in our ability to deliver exceptional value to our shareholders.

Phil Bainbridge
Chairman

1 All production numbers are gross SGE production.
2 Please refer to full details of Development Plan released to the ASX on 30 October 2017.

EBITDA and net margin are non-IFRS financial information and have not been subject to audit by the Company's external auditor. For all non-IFRS measures referenced throughout the annual report, please refer to the information in the Review of Operations Report regarding non-IFRS financial measures. Unless otherwise specified, figures given in the report are denominated in US dollars.

2017 HIGHLIGHTS

HSE

>660,000 MAN HOURS WITHOUT AN LTI

Implemented a robust HSE management system

~17 MMSCF PER DAY

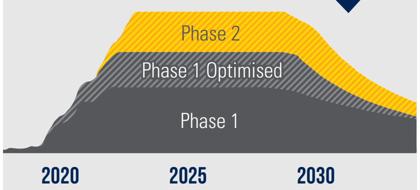
~3X 2016 PRODUCTION

Record full year production

SUBMITTED

SUBMITTED FIRST ODPS FOR LINXING AND SANJIAOBEI

350 to > 550 MMscf/d[1] at plateau with significant Free Cash Flow targeted from 2020



Existing cash
+ cash from operations
+ US$100M new debt facility

=

FUNDING SECURED FOR DEVELOPMENT PLAN

28 WELLS DRILLED

Average deviated well cost down 15% y/y

Up to 17% increase in gas price to US$8/Mscf[2]

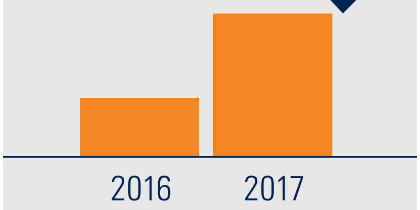
AGREED NEW GAS SALES CONTRACT IN SANJIAOBEI

2017 CHINA GAS DEMAND SURGED 15% Y/Y[3]

CHINA

PURCHASED LINXING OPTION

2017 MARGINS AT US$3.7/MSCF



ASX

ASX 300 CONSTITUENT

1 Please refer to the Development Plan released to the ASX on 30 October 2017.
2 Please refer to Review of Operations for details.
3 Source: National Development & Reform Commission.

MANAGING DIRECTOR'S REPORT

2017 was a transformational year for Sino Gas & Energy Holdings Limited.

Natural gas demand in China reached almost unparalleled levels of growth in 2017, increasing by over 15% from the previous year as the coal-to-gas transition accelerated, especially in our target markets in Northern China. The National Development & Reform Commission ("NDRC") released a policy document entitled "Recommendations to Accelerate the Use of Natural Gas" in the first half of 2017 which reiterated China's objective of increasing natural gas' share of the primary energy mix to 10% by 2020 and 15% by 2030 to combat pollution and respond to climate change. Headline demand growth of ~10% per annum is forecast until the end of the decade and an almost tripling of demand by 2030.

Key elements of this policy have been directly supportive to the natural gas industry and Sino Gas, including elimination of industrial coal and switching to natural gas in Sino Gas' target market; the expansion of natural gas pipeline networks into key demand centres, improving third party access and reducing transportation costs; accelerating use of natural gas in transportation, residential, power generation and distributed energy sectors; and increased investment in exploration and development of domestic gas resource in order to meet rising demand.

At the same time, the Ordos basin, where the Company's assets are located, was identified in the 13th Five Year Energy Plan as a key basin to provide the domestic natural gas supply necessary to meet increased demand, as was Sino Gas' Linxing asset, firmly positioning Sino Gas at the centre of a major national energy transition.

2017 was a transformational year for Sino Gas as we achieved a significant number of key milestones and made important progress operationally, commercially and financially, laying a strong foundation for further growth in 2018 and beyond.

2017 daily pilot production averaged ~17 MMscf/d, almost triple our 2016 average production rate. This was driven by a work program which saw 28 wells drilled during the year across both PSCs to support the ramp-up of production, culminating in record production levels and an exit rate of 25 MMscf/d.

The Company's record production in 2017 translated into record revenues, a 60% reduction in unit operating costs and realised net margins of $3.7/Mscf in our first year of full production. We expect that net margin per Mscf will expand as we realise the benefit of increased gas prices and fill the production facilities since a large proportion of operating costs are fixed. Layered on top of this are identified cost reduction initiatives, with the average cost of a deviated well in 2017 down by 15% from the previous year to $850,000, including fraccing and completion.

Strong well tests were recorded during the year, notably in several deviated wells in Sanjiaobei where we observed a step change in test flow rates, with flow rates as high as 2.8 MMscf/d from SJB3-13 due to improvement in well placement as well as drilling and fraccing practices.

The first horizontal well drilled in Linxing, TB-1H, surpassed 1 Billion cubic feet ("Bcf") of production in less than 22 months highlighting the quality and production deliverability of the reservoir. We were also pleased to achieve a record horizontal well drilling and completion time as TB-5H in Linxing North was completed in 33 days, 44% less than the average time for previously drilled horizontals.

During the year, SGE submitted the first ODPs for the Linxing and Sanjiaobei PSCs, the field development building blocks that will drive year-on-year production growth. The submissions had full SOE Partner support, and Linxing directly benefited from being a strategic project under the 13th Five Year plan, resulting in an earlier than expected submission. These submissions represent a significant regulatory milestone for the PSCs and we continue to see streamlining and acceleration of the approval process. Reviews are underway, and approvals are on track for the first half of 2018, paving the way for full field development.

The ODP compilation and submission underpinned the release of our Development Plan to the market which highlights the industry-leading nature of our assets and unlocks world-class returns driven by significant scale, thereby solidifying the Company's position in one of the world's largest and fastest growing gas markets.

The Development Plan was prepared with the benefit of full 2D seismic coverage, over 150 wells drilled, significant appraisal and production data, and invaluable knowledge transfer from analogous Ordos fields contributed by specialist upstream technical firm J-Energy mandated as a consultant to Sino Gas. The Development Plan underscores the world-class nature of our resource and targets to deliver substantial production of 350 – 550 MMscf/d by 2022 as well as significant free cash flow from 2020, with further built-in upside. Plateau production is forecast to represent circa 2 – 4% of China domestic supply in 2022[1].

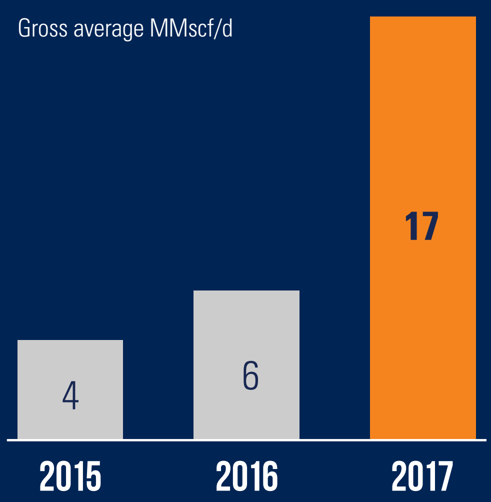
Existing cash, cash flow from operations and our newly secured $100 million debt facility with Macquarie is expected to fully fund field development. We leveraged our long-standing banking relationship with Macquarie and their in-depth knowledge of the assets and continuous due diligence to drive out attractive terms while retaining significant flexibility.

The Development Plan and the ODP submissions coincide with strong domestic natural gas demand growth with continued upwards pressure on prices. It was against this backdrop that the Sanjiaobei GSA was extended by one year to December 2018 for all produced gas, reaching average winter prices of RMB1.792/m^3 currently translating to ~$8/Mscf.

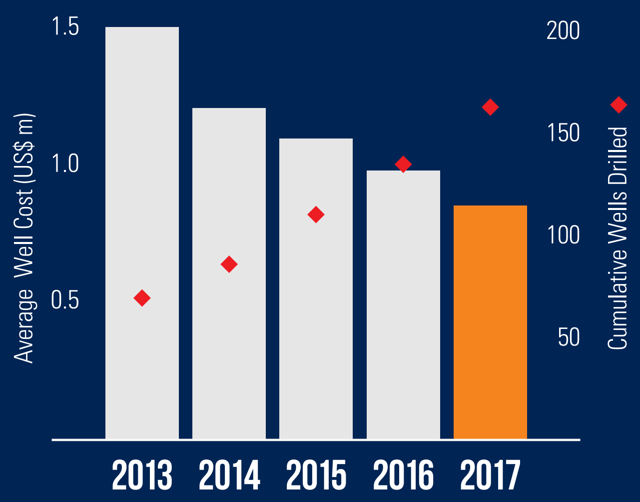
Operational and development momentum drove positive 2017 financial results and established a solid foundation for future growth.

1 Please refer to full details of the Development Plan released to the ASX on 30 October 2017.

PRODUCTION DELIVERY



DEVIATED WELL COST IMPROVEMENTS



A significant increase in average production and increasing gas prices underpinned an almost tripling of gross sales revenue to $39 million and positive EBITDA at the SGE level of $18 million. The cash flow was reinvested into the project, reducing SGE cash call requirements. The Company ended the year in a strong financial position, holding $28 million in cash.

To reinforce our commitment to our assets, increase our influence over critical decisions and to access for low-cost significant underlying value, Sino Gas purchased an option to acquire a 7.5% interest of SGE's participating interest in the Linxing PSC.

Sino Gas continues to work closely with our JV Partner, CNEML. We look forward to further collaboration at such an exciting juncture for Sino Gas and SGE. Together we have established a solid path for 2018, setting out the following 2018 work priorities:

- Maintain strong and committed focus on Health, Safety and Environment ("HSE");
- Secure first ODP approvals for the Linxing and Sanjiaobei PSCs in the first half of 2018;
- Maximise production and revenue through existing and new facilities; and
- Prepare for continued production growth post ODP approvals in line with the Development Plan.

Average gross production for 2018 is expected to be 22 – 27 MMscf/d with an exit rate of 38 – 42 MMscf/d. The SGE capital expenditure budget for 2018 has been set at $60 – 70 million which will be allocated to drilling 40 to 50 mainly development wells, installation and hook-up of the Linxing North Central Gathering Station ("CGS") and activities to position for growth post ODP.

The Linxing North CGS commissioning is an integral part of the 2018 work program. Due to acceleration of the ODP submission, a new site has been identified to accommodate future expansion, closer to gas export pipelines. We are targeting to end the year with total installed capacity of 42 MMscf/d across three CGSs.

An essential component of the 2018 work program is preparing for production ramp-up post ODP, and the team is focused on the sanctioning of new gas processing capacity projects in Linxing East and Sanjiaobei following ODP approvals to drive production growth beyond 2018.

I would like to thank the team for their hard work and acknowledge the continued support of our PSC Partners, JV Partner, the Governments of Australia and China, and of course the local communities, our customers and shareholders, all of whom have made a significant contribution to the excellent progress we have made at this exciting time.

I look forward to 2018 after an achievement-rich 2017 and continuing to work to develop the full potential of our assets to deliver shareholder value.

Glenn Corrie
Managing Director

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

OPERATIONAL PERFORMANCE

Health, Safety and Environment

Sino Gas maintained its top-tier safety record during 2017. A total of 661,371 LTI free hours were recorded related to drilling, production testing, gathering pipeline installation, new site works and operations at the two CGSs (456,188 hours in 2016). There were no recorded environmental incidents throughout the year.

First ODP Submissions

The first Linxing and Sanjiaobei ODPs were submitted in the second half of the year to SGE's PSC Partners CUCBM and PCCBM for approval, respectively. The ODPs were compiled in collaboration with the PSC Partners and the submissions represent key regulatory milestones in the development of the PSCs.

The first Linxing ODP focuses on core development and pilot production areas accounting for ~20% of the current aggregate discovered area of Linxing. Linxing has been designated as a strategic project for prioritisation under the 13th Five Year Plan and is a priority for CUCBM who support a staged approval approach. The Sanjiaobei ODP accounts for ~60% of the current discovered area of Sanjiaobei.

Review of both ODP submissions is proceeding well, and the Company expects both ODPs to be approved in the first half of 2018. Activities are ongoing to continue the ramp-up of production in parallel with approvals.

Future ODP submissions to support the development of the remaining discovered and prospective areas will be appended to the initial ODPs and are of an administrative nature.

Work Program

During the year, SGE drilled 28 wells including 26 development wells and two exploration wells, bringing the cumulative total number of wells drilled on both assets to 160. Total SGE capital expenditure was $28 million (~$14 million net to Sino Gas), less than the original budget of $40 – 50 million resulting from continued cost reductions, the deferral of non-essential exploration wells and the re-phasing of Linxing North related activities.

SGE continues to achieve significant cost savings in its drilling program. The 2017 average cost of drilling, fraccing and completing a deviated well was $850,000, down ~15% versus the previous year's average.

With the benefit of 150 wells drilled across both PSCs and extensive subsurface data, including 2D seismic, well test data, production history and a well progressed reservoir model, Sino Gas during the year published its type curve with an Expected Ultimate Recovery ("EUR") per well of 1.2 Bcf.[1] By applying proven technologies, Sino Gas expects to increase the EUR and accelerate production from each well. The overall gross reservoir thickness is ~1,000 metres, consisting of five main reservoir units and over 16 producible zones. Technical studies are ongoing to increase completions across multiple reservoir zones, which could significantly increase comingled flow rates and EURs. For example, recent positive appraisal results in the deeper Benxi formation confirm good quality reservoir and relatively high productivity, expanding the producible horizons.

Pilot Production

Gross pilot production averaged approximately 17 MMscf/d in 2017, almost tripling the 2016 average rate of 6 MMscf/d. Fourth quarter production averaged a record 21 MMscf/d and the 2017 exit rate was 25 MMscf/d, at installed nameplate capacity.

During the year, the first horizontal well drilled on the Linxing PSC (TB-1H) surpassed 1 Bcf of production within 22 months of being brought online. Also, to support production levels through the Linxing South CGS, nine wells previously produced through the Sanjiaobei CGS were redirected to Linxing.

The 2017 annual production average was impacted by lower than expected gas offtake nominations from the Chinalco plant downstream of Sanjiaobei that mainly affected third quarter production. This curtailment was fully remedied by redirecting natural gas to Guohua, capitalising on multiple off-take routes from each CGS.

The Sanjiaobei facility operated throughout the year with one compressor at full capacity until resumption of the second compressor in Q4 following the tie-in of wells that were drilled during Q2 and Q3.

Linxing PSC

Linxing (West)

In 2017, a total of 14 wells were drilled on Linxing (West) focused on increasing production in Linxing South, providing future well stock to maintain Linxing South CGS production at near full capacity and supporting the commissioning of the Linxing North CGS by Q3 2018.

In Linxing South, nine deviated pilot wells were drilled in 2017, all of which are currently well stock to be tied into Linxing South CGS. Six of these wells have been fracced and are expected to be brought online in the first half of 2018.

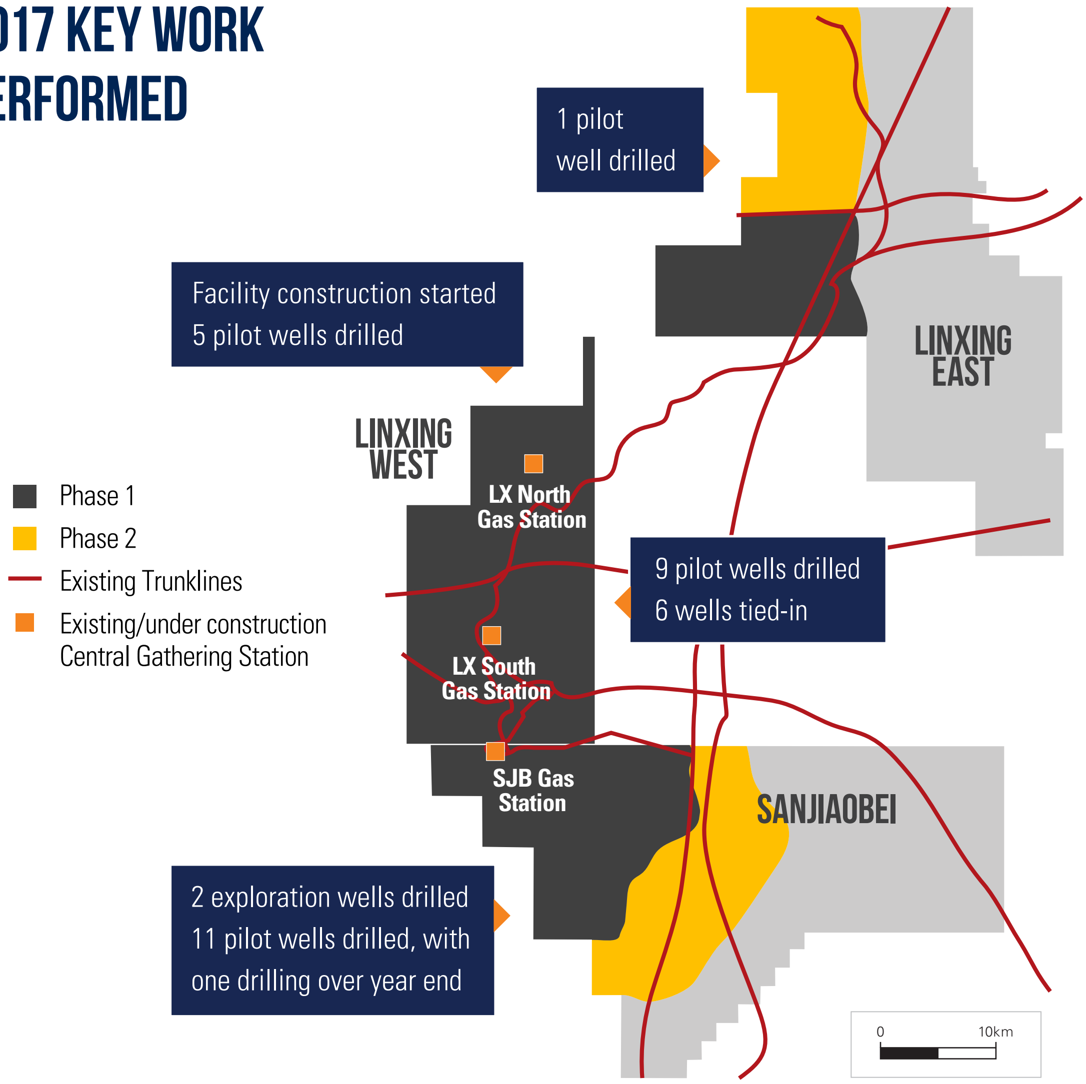
In the Linxing North area, four deviated wells and horizontal well TB-5H were drilled during the year. Two of the deviated wells (LXX49-33 and LXX7-16) were drilled in record times of 11 and 12 days and completed in five and four days, respectively. Horizontal well TB-5H was drilled and completed in a record 33 days, 26 days below the average drilling time to date as a result of drilling and completion process improvements. The well was drilled into the same reservoir section as TB-2H with ~1,150 meters of lateral section and high-quality reservoir with 93% of net to gross pay. There were a total of eight wells in Linxing North at the end of the year.

Linxing (East)

On Linxing East, detailed feasibility studies indicated that a more permanent SGE-owned and controlled CGS to accommodate much higher production volumes from the greater Linxing East area is preferred over a tie-back to third party infrastructure. Design and engineering work for a production facility with capacity of 17 to 34 MMscf/d is underway. A single well was drilled in Linxing East during 2017.

1 Please refer to full details of the Development Plan released to the ASX on 30 October 2017.

2017 KEY WORK PERFORMED



Sanjiaobei PSC

Eleven development wells and two exploration wells were drilled in 2017, including exploration well SJB29 which was drilled into the prospective resource area and discovered gas pay of 32.1 meters. Upon successful testing, this well would expand the Sanjiaobei discovered area and be included in the next ODP submission.

Ten wells were tied into the Sanjiaobei CGS in 2017, which enabled the CGS to produce at nameplate capacity by the end of the year.

Twenty-one well tests were conducted this year, with some of the highest single well test rates observed at Sanjiaobei with SJB2-11 and SJB3-13 recording rates of 1.6 and 2.8 MMscf/d respectively[1] as a result of improved well placement, drilling and fraccing practices. These wells were brought onto production through the Sanjiaobei CGS early in 2018.

Gas Sales Agreements

SGE in conjunction with PCCBM agreed to extend the Sanjiaobei GSA by one year to December 2018 for all gas produced from the PSC.

The average sales price increased ~17% to 1.792 RMB/m^3 (~$8.0/Mscf) for January to March and ~7% to 1.635 RMB/m^3 (~$7.3/Mscf) for the summer period of April to October. Prices for the remaining winter portion contract period will be finalised in 2018.[2]

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

2 GSA denominated in RMB, assuming RMB/US$ exchange rate of 6.31 (as of 25 March 2018). Gross 2017 gas price: 1.53 RMB/m^3 ($6.87/Mscf), Jan-Mar 2018 prices: 1.761 RMB/m^3 ($7.90/Mscf) for the first 4 MMscf/d and 1.823 RMB/m^3 ($8.18/Mscf) for volumes above 4 MMscf/d, Apr-Oct 2018 price: 1.635 RMB/m^3 ($7.34/Mscf) for all volumes.

FINANCIAL PERFORMANCE

Operating Results for the Year

The Consolidated Entity made a loss for the year ended 31 December 2017 of $4,496,876 (31 December 2016: loss of $7,783,098) and had net assets of $144,449,031 (2016: $145,839,989).

Year-on-year SGE gross sales revenue increased ~160% from $12.1 million to $31.4 million driven by a near tripling of production and strengthening gas prices which averaged $6.5/Mscf (2016: $6.2/Mscf). Unit operating expenses decreased 60% to $1.5/Mscf underpinning an increase in net margin to $3.7/Mscf.[1]

SGE EBITDA in 2017 increased to $18 million from $5 million in 2016. Cash flow generated from operations was reinvested in field development expenditures.

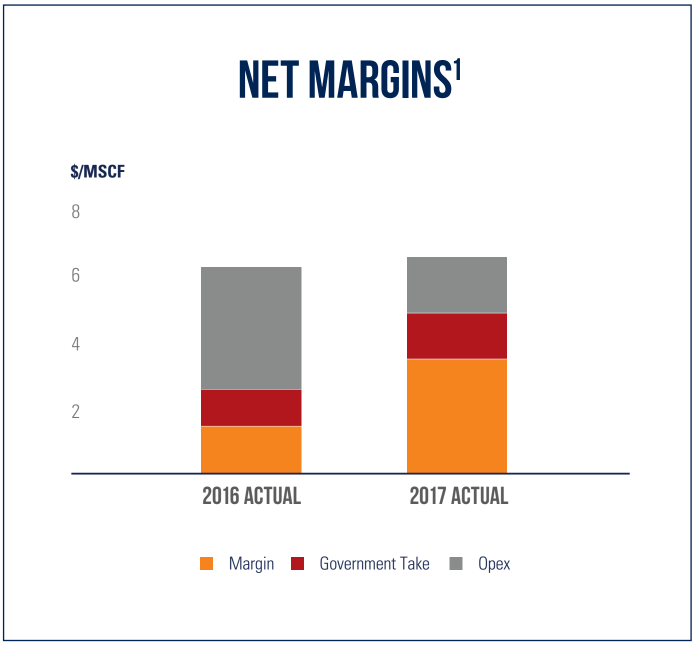
Total SGE capital expenditures in 2017 were $28 million (2016: $23 million). In keeping with the Company's focus on continuous improvement and capital discipline, SGE continued to realise cost reductions, deferred non-essential exploration wells and rephased the Linxing North facility and related activities to capitalise on an opportunity to move the new facility to a location that allows for future expansion of processing capacity and is closer to pipeline infrastructure.

As at 31 December 2017, SGE had current assets of $15.1 million up from $4.2 million at the end of 2016 due principally to increased natural gas production. The $15.1 million is comprised of $13.2 million of accounts receivable from natural gas sales and prepayments of $1.9 million. Approximately $7.8 million ($3.8 million net to Sino Gas) of accounts receivable were overdue, the majority of which was less than 60 days overdue. SGE is working closely with CUCBM to finalise development phase cost allocation principles and remains confident that these payments will be made. SGE has received assurances from CUCBM to that effect.

Sino Gas owns a 49% interest in SGE, a jointly controlled corporation with CNEML which owns 51%. As a result of SGE being an incorporated joint venture and key strategic and operating decisions requiring approval of both shareholders, Sino Gas is required under Australian Accounting Standards ("AAS") and International Financial Standards ("IFRS") to account for its interest in SGE using the equity method as set out in the Company's accounting policy

At the Company's 2017 Annual General Meeting and in investor discussions, the company has received requests to provide financial information to supplement equity accounting disclosures set out in the Annual Financial Report and specifically note A2, to more clearly illustrate the summary of the financial position and performance of the JV and its contribution to Sino Gas.

The following tables illustrate the proforma consolidated Sino Gas performance for the years ended 31 December 2017 and 2016 had SGE been accounted for on a presentation basis consistent with an unincorporated joint operation along with reconciliations showing how this has been determined from the audited Consolidated Statement of Loss and Other Comprehensive Loss based on equity accounting principles. We note the measurement and recognition principles of SGE's performance below is in compliance with AAS and IFRS as they align with Sino Gas' accounting policies. Furthermore, this presentation is not in compliance with AAS or IFRS and should not detract from the information set out in the audited Financial Report.



1 Net margin is calculated as the SGE sales revenue after VAT and partner share less operating expenses per Mscf of sales. Please refer to non-IFRS supplemental disclosure at the end of the Review of Operations.

2017 YE In US$ million	Sino Gas[1] (per audited financial report) (IFRS)	SGE[1] (per audited financial report) (IFRS)	Eliminate non-Sino Gas - 51% interest of SGE[2]	Sino Gas interest in SGE (49%)	Other Illustrative adjustments	Proforma Consolidated Sino Gas
Revenue						
Sales	-	31.4	(15.9)	15.5	-	15.5
Interest income and other income	0.4	0.1	(0.1)	-	-	0.4
Interest income from loans to joint venture	6.0	-	-	-	(6.0)[3]	-
Share of loss of joint venture accounted for using the equity method	(2.3)	-	-	-	2.3[4]	-
Expenses						
Operating	-	9.1	(4.6)	4.5	-	4.5
General and administration	6.4	3.6	(1.9)	1.7	-	8.1
Share-based compensation	0.9	-	-	-	-	0.9
Foreign exchange (gain)/loss	(0.1)	0.9	(0.5)	0.4	-	0.3
EBITDA	**(3.1)**	**17.9**	**(9.0)**	**8.9**	**(3.7)**	**2.1**
Other Expenses						
Depreciation and amortisation	0.2	10.6	(5.4)	5.2	-	5.4
Interest	1.1	12.1	(6.1)	6.0	(6.0)[3]	1.1
Income tax	0.1	-	-	-	-	0.1
Loss for the year	**(4.5)**	**(4.8)**	**2.5**	**(2.3)**	**2.3**	**(4.5)**
Total comprehensive loss for the year	**(4.5)**	**(4.8)**	**2.5**	**(2.3)**	**2.3**	**(4.5)**

2016 YE In US$ million	Sino Gas[1] (per audited financial report) (IFRS)	SGE[1] (per audited financial report) (IFRS)	Eliminate non-Sino Gas - 51% interest of SGE[2]	Sino Gas interest in SGE (49%)	Other Illustrative adjustments	Proforma Consolidated Sino Gas
Revenue						
Sales	-	12.1	(6.1)	6.0	-	6.0
Interest income and other income	0.3	0.1	(0.1)	-	-	0.3
Interest income from loans to joint venture	2.4	-	-	-	(2.4)[3]	-
Share of loss of joint venture accounted for using the equity method	(2.3)	-	-	-	2.3[4]	-
Expenses						
Operating	-	7.7	(3.9)	3.8	-	3.8
General and administration	5.3	2.9	(1.5)	1.4	-	6.7
Share-based compensation	0.6	-	-	-	-	0.6
Foreign exchange (gain)/loss	-	(3.1)	1.6	(1.5)	-	(1.5)
EBITDA	**(5.5)**	**4.7**	**(2.4)**	**2.3**	**(0.1)**	**(3.3)**
Other Expenses						
Depreciation and amortisation	0.2	4.4	(2.2)	2.2	-	2.4
Interest	1.7	5.0	(2.6)	2.4	(2.4)[3]	1.7
Income tax	0.4	-	-	-	-	0.4
Loss for the year	**(7.8)**	**(4.7)**	**2.4**	**(2.3)**	**2.3**	**(7.8)**
Total comprehensive loss for the year	**(7.8)**	**(4.7)**	**2.4**	**(2.3)**	**2.3**	**(7.8)**

Note The above tables are categorised as non-IFRS financial information provided to assist readers to better understand the financial performance of the underlying operating business. They have not been subject to audit or review by Sino Gas' external auditors. Please refer to non-IFRS supplemental disclosure at the end of the Review of Operations.

1 This financial information is extracted from the audited Financial Reports of these companies. Both apply the recognition and measurement principles of AAS which are compliant with IFRS.

2 Sino Gas owns a 49% interest in the incorporated joint venture of SGE, accordingly the 51% owned by CNEML is eliminated from the pro-forma consolidated financial performance of Sino Gas where the performance is being presented as if the joint venture were accounted for as a joint operation.

3 The elimination of the interest income and interest expense charged between Sino Gas and SGE is eliminated when it's not presented on a basis consistent with the equity accounting method.

4 This eliminates Sino Gas' share of the equity accounted loss for the change in the format of the performance presentation.

Financing

In 2017, Sino Gas paid cash calls of $5.4 million for its 49% share of joint venture cash calls. At year-end the Company had cash and cash equivalents of $27,972,052 (2016: $44,233,179).

Sino Gas secured a five-year senior secured $100 million debt facility with Macquarie which was finalised early in 2018, with due diligence and conditions precedent satisfied.

Key terms of the facility include:

- 5-year senior non-revolving facility secured against the Company's assets, including the shares in SGE;
- $68 million fully committed and, subject to Macquarie credit approval, an additional $32 million to potentially further accelerate project development;
- Phased availability of $50 million to fund repayment of the previous Macquarie debt facility ($10 million) and project development, and $18 million to exercise the Linxing Option;
- Interest rate of LIBOR +8.2% prior to ODP approval, stepping down to LIBOR +6.5% with ODP approvals;
- 60% of the amount outstanding at the end of the third year to be repaid in equal quarterly instalments over years four and five, with the remainder due at end of year five; and
- The facility may be repaid at any time at the full discretion of the Company without penalty.

In January 2018, $10 million was drawn to repay the corresponding drawn amount under the previous $50 million Macquarie debt facility.

Sino Gas expects that cash on hand, anticipated cash flow from operations and the new debt facility should be adequate to fund full field development.

Dividends

No dividends were paid or declared by the Company during the year ended 31 December 2017.

FUTURE GROWTH OPTIONS

Linxing Option Purchase

In April, Sino Gas purchased an option to acquire a 7.5% interest of SGE's participating interest in the Linxing PSC from CBM Energy Associates L.C. ("CBME").

The purchase of the Option results in the following key Linxing PSC strategic advantages for Sino Gas:

- Low cost, value accretive option to acquire additional equity in the PSC;
- Direct seat on the PSC Joint Management Committee with the ability to exercise increased influence over decision making;
- Option or post-exercise participating interest is fully transferable; and
- Continues to broaden and deepen our working relationship with our PSC Partner, CUCBM.

CBME was paid total consideration of approximately $4.2 million, including the issue of 12 million ordinary shares in Sino Gas (equivalent to ~ $0.85 million), ~0.6% of Sino Gas' issued capital. To exercise the Option, Sino Gas is required to reimburse SGE 7.5% of all historical costs and expenses incurred (~$18 million at year-end 2017) under the Linxing PSC at the time of exercise.

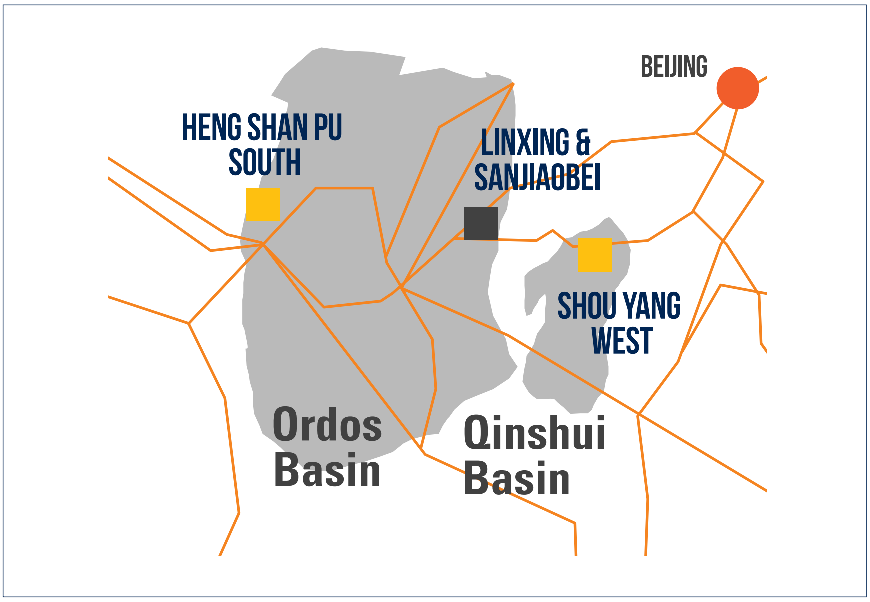
New Onshore Blocks Awarded

Sino Gas signed a Joint Study Agreement ("JSA") for two onshore exploration blocks with CUCBM in early 2018. Both blocks are located in proven hydrocarbon basins with natural gas potential and are close to natural gas infrastructure. The first block, Shou Yang West, is located in the Qinshui basin in Shanxi and covers an area of ~250km^2. The second, Heng Shan Pu South has existing seismic and well data, covers 400km^2 and is situated on the western flank of the Ordos basin.

Sino Gas will be the operator initially on a 100% basis and have the exclusive right to progress the blocks into PSCs if prospectivity is demonstrated.

J-Energy, a specialist upstream technical firm with extensive experience in analogous fields in the Ordos and surrounding basins, has been engaged by Sino Gas to undertake the extendable three-month studies. J-Energy will incur the majority of technical study costs and have the option to acquire a 5% working interest upon ODP approval in exchange for reimbursement of related historical costs. This arrangement ensures Sino Gas remains technically focused on Linxing and Sanjiaobei and costs for Sino Gas are minimised with total expenditures estimated at under $100,000.

The JSA demonstrates Sino Gas' continued commitment to the region, represents a low-cost entry into prospective acreage and highlights the strength of the Company's partnership with CUCBM as collaboration expands beyond Linxing.



CORPORATE ACTIVITY

Investor Relations

Sino Gas regularly engaged the investment community throughout the year, meeting with potential and existing investors as well as the sell-side (research analysts, research sales teams, trading desks, investment advisors) in Australia, Asia and Europe. The team hosted multiple site visits in Beijing and Shanxi province. The Company participated in several tours and conferences organised most notably by the Oil Council, Citibank, Euroz, Deutsche Bank, J.P. Morgan, Goldman Sachs, Macquarie and RBC.

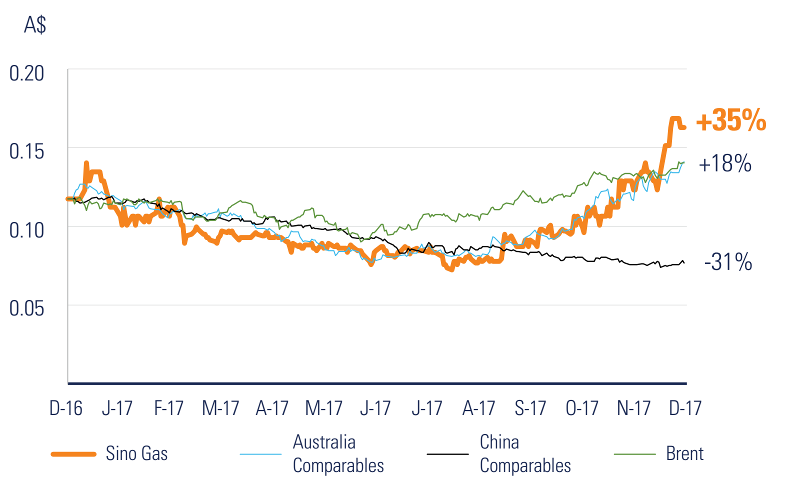
The share price gained 35% in 2017, ending the year at A$0.155, outperforming Australia and China comparable companies by 17% and 66%, respectively.

In 2017, Sino Gas maintained its position in the S&P/ASX 300. During the same period, the index gained 7%.

Daily average liquidity in the fourth quarter stood at ~$450,000, with December averages at over $700,000 with 7 million shares traded on a daily average, 56% more than the 2016 average of ~4.5 million shares.

Institutional ownership has substantially increased over 2017 and now represents 56% of the register from circa 50% at the end of 2016. There is also increased interest from Asia and Europe-based funds, further diversifying the Company's shareholder base geographically.

2017 SHARE PRICE PERFORMANCE[1]



Corporate Social Responsibility

Sino Gas is committed to being a responsible energy company. Our operations are carried out with high standards and we continue to focus on building sustainable relationships with our stakeholders. In 2017, Sino Gas supported a number of initiatives in the communities where we operate focused specifically on education and development.

In Beijing, we supported a migrant children's school in its initiative of utilising food residues to produce fertilizers to help grow vegetables for the community and reduce waste.

We also purchased warm clothes for a suburban primary school to help teachers and children through the cold winter.

In Shanxi, Sino Gas worked with local governments of impoverished counties to provide school supplies including school bags and other school supplies. An activity room for the elderly was set up with our support as part of our commitment to work harmoniously with and support the local communities of Shanxi province.

Non-IFRS Financial Information

This Annual Report contains certain non-IFRS financial measures of historical financial performance. Non-IFRS financial measures are financial measures other than those defined or specified under relevant accounting standards. Therefore, while many of the measures used are common practice in the industry in which Sino Gas operates, the measures may not be directly comparable with other companies' disclosures. Non-IFRS financial information should be considered in addition to, and is not intended to be a substitute for, or more important than, IFRS measures. The presentation of non-IFRS measures is in line with Regulatory Guide 230 issued by Australian Security and Investments Commission ("ASIC") to promote full and clear disclosure for investors and other users of financial information, and minimise the possibility of those users being misled by such information.

The Company believes that these non-IFRS measures assist in providing additional meaningful information on the underlying drivers of the business and performance.

The key non-IFRS measures used in describing business performance include:

- Financial Performance of JV;
- Net margin; and
- Earnings before interest, tax, depreciation and amortisation at SGE level ("EBITDA").

The above non-IFRS measures have not been subject to audit or review.

The tables on the next page reconcile these non-IFRS measures to the most appropriate IFRS measure, while the JV Financial Performance is reconciled in the Financial Performance section of the Review of Operations report.

1 Australia comparables include AWE, Beach Energy, Horizon Oil, Karoon Gas, Senex Energy and Sundance Resources. China comparables include AAG Energy, G3 Exploration (previously Green Dragon Gas), MIE Holdings and Sino Oil and Gas. Prices indexed to Sino Gas trading in 2017. Prior performance is not a reliable indicator of future performance

Reconciliation of Net Margin

Net Margin is calculated as the JV's net revenue after VAT and partner share less operating expenses per Mscf of sales. The measure provides shareholders and potential investors with additional information to evaluate SGE's financial performance per unit of production.

	For the year ended	
In US$, unless otherwise noted	**2017**	**2016**
SGE net revenue	31,420,381	10,498,802[1]
Less operating expense	(9,073,457)	(7,725,466)
	22,346,924	2,773,336
Divided by gross production (Mscf)	6,034,125	2,042,419
Net Margin per Mscf	**$3.7 / Mscf**	**$1.4/Mscf**

1 Refer to Note A2 in the Annual Financial Report, SGE net revenue in 2016 ($12,131,048) included Sanjiaobei revenue recognised during the year for prior years' gas sales ($1,632,246) which was excluded in the above table for the purpose of Net Margin calculation.

Reconciliation of JV Statutory loss to JV EBITDA

JV EBITDA is reported by the Company to provide greater understanding of the underlying financial performance of SGE and the Group. Statutory loss represents loss after tax attributable to SGE.

	For the year ended	
In US$	**2017**	**2016**
Statutory loss	(4,765,343)	(4,692,684)
Add back		
Depreciation and amortisation expense	10,591,273	4,391,518
Interest expense	12,101,495	4,956,965
Income tax expense	-	-
EBITDA	**17,927,425**	**4,655,799**

RESERVES AND RESOURCES STATEMENT

Overview

RISC Advisory Pty Ltd ("RISC") conducted an independent Reserves and Resources assessment of the Company's Linxing and Sanjiaobei natural gas PSCs. The Reserves and Resources have been determined to Society of Petroleum Engineers ("SPE") Petroleum Resource Management System ("PRMS") standards using probabilistic and deterministic estimation methods.

After reviewing new data acquired during 2017, RISC determined that such data was in line with prior data and, as a result, 2016 year-end SGE Reserves and Resources estimates remain valid. Twenty-eight wells were drilled during the year, of which 26 were drilled as pilot production wells within the already determined discovered resource area. As a result, Proved plus Probable ("2P") Reserves are substantially unchanged from 2016 except for adjustments for 2017 gas sales. Two Sanjiaobei exploration wells were drilled intersecting gas pay; testing of these wells is scheduled during 2018, the results of which will be incorporated into future reserves updates.

The acquisition of the Linxing Option in 2017 provides Sino Gas with the opportunity to acquire 7.5% of SGE's participating interest in the Linxing PSC .

Key Results

Total project reserves remain unchanged except for adjustments for 2017 gas sales.

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Additional information

1	The Linxing PSC is divided into Linxing (West) and Linxing (East). Linxing (West) is considered to be fully discovered, with Reserves and Contingent Resources assigned. The Linxing (East) resource area is divided into deep gas discovered and prospective areas to the west of a major fault and a shallow CBM area east of the fault.
2	Similarly, the Sanjiaobei Resource area is divided into a discovered area in the northwest supported by well and well test data, and a prospective area to the south and east where mobile gas has yet to be demonstrated. A series of faults separate the prospective area from an area further east where the formations are shallow and no Resources are assigned.
3	The discovered areas contain Reserves and Contingent Resources. The prospective area contains Prospective Resources.
4	The PSCs contain gas in both sandstones and the coal seams which are interbedded within the sandstones. The coals are largely too deep (800 to 2,000m) for economic CBM development but gas resources are contained in the adjacent sandstone beds. The coals are shallower to the east of the fault in Linxing (East) and resources are being evaluated in a shallow CBM pilot.
5	Total discovered area across both PSCs is 1,073km^2, with Linxing (West) and Linxing (East) contributing 703km^2 and Sanjiaobei 370km^2. In addition, the discovered shallow CBM area in Linxing East is 265km^2.
6	Reserves are assigned to an area of 13km^2 (two adjacent well spacings) surrounding each successful well, with a total reserve area of 694km^2. Other Resources in the discovered area and production beyond the PSC expiry dates are classified as Contingent Resources - contingent upon further appraisal, firm development plan and PSC extension.
7	Sino Gas' net 2P Reserves are 578 Bcf (96 Million barrels of oil equivalent ("mmboe")) and Proved Reserves ("1P") are 384 Bcf (64 mmboe). Total project 2P Reserves are now 2,136 Bcf and 1P Reserves are now 1,371 Bcf. These totals are largely unchanged from 2016 values except for the adjustment for 2017 gas sales.
8	Developed producing 2P Reserves net to Sino Gas increased from 28 Bcf at year-end 2016 to 35 Bcf due to the increase in the number of wells tied into the Sanjiaobei and Linxing CGS. Total production over the year from the two CGSs totalled ~6.0 Bcf gross.
9	The shallow CBM pilot test in the north-east of Linxing (East) has continued to produce gas at an average gas rate of approximately 1,300 m^3/d (44 Mscf/d) per well. Development would be marginal at this gas rate. RISC modelling indicates that the gas rates may increase to economic rates with continued de-watering, although this remains uncertain. 109 to 431 Bcf of gross Contingent Resources are estimated, contingent upon economic gas rates being demonstrated.
10	PSC expiry is 2028 for Linxing and 2033 for Sanjiaobei, although PSC extensions may be possible. The PSCs are currently in the exploration phase which has been extended several times. Extensions to the exploration phase do not affect the PSC expiry date.

The Company's attributable net unconventional gas Reserves and Resources in Shanxi Province, People's Republic of China are summarised below:

Sino Gas' Attributable Net Reserves and Resources

Sino Gas' Attributable Net Reserves and Resources	1P Reserves[1] (Bcf)	2P Reserves[1] (Bcf)	3P Reserves[1] (Bcf)	2C Contingent Resources (Bcf)	P50 Prospective Resources[2] (Bcf)
31 December 2017	384	578	776	899	821
31 December 2016	385	579	778	899	821
100% Total Project Reserves and Resources					
31 December 2017	**1,371**	**2,136**	**2,945**	**3,171**	**3,499**

Sino Gas' Net Developed Producing Reserves	1P Reserves[1] (Bcf)	2P Reserves[1] (Bcf)	3P Reserves[1] (Bcf)
Developed Producing Reserves	22	35	48
Undeveloped Reserves	362	543	728
Total Reserves	**384**	**578**	**776**

Note 1 RISC has separately assessed the Reserves and Resources for each of the PSCs by probabilistic methods and added the resultant estimates arithmetically. RISC and Sino Gas caution that the aggregate 1P estimate may be conservative and the aggregate 3P estimate may be optimistic as a result of the portfolio effects of arithmetic addition.

Note 2 Prospective resources are 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.

For the purposes of determining SGE's Reserves and Resources, RISC assumes the Linxing Option has been exercised resulting in SGE having a 64.75% interest in the Linxing PSC. SGE's interest in the Sanjiaobei PSC is 49%. Sino Gas owns 49% of the issued capital of SGE and CNEML owns the remaining 51%. SGE has a 100% working interest during the exploration phase of the PSCs. The impact of the Linxing Option has not been included in Sino Gas Reserves and Resources. Refer to Note A - Joint Ventures in the notes to the consolidated financial statements for more information.

Reconciliation of Sino Gas' Attributable Net Reserves and Resources	1P Reserves (Bcf)	2P Reserves (Bcf)	3P Reserves (Bcf)	2C Contingent Resources (Bcf)
31 December 2016	385	579	778	899
Revisions*	2	2	1	-
Production	(3)	(3)	(3)	-
Acquisitions/(Divestment)	-	-	-	-
31 December 2017	**384**	**578**	**776**	**899**

* Due to higher entitlement to pilot gas sales prior to PSC Partner back-in.

Reserves and Resources Methodology

The statements of Reserves and Resources in this annual report have been independently determined to SPE PRMS standards by internationally recognised oil and gas consultants RISC using probabilistic and deterministic estimation methods. These statements (announced on 29 March 2018) 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. SGE entitlement reserves assumes the Linxing Option has been exercised resulting in SGE having a 64.75% interest in the Linxing PSC, and is based on a mid-case wellhead gas price of US$6.98/Mscf with both prices and costs inflated at 2.5% per annum and average lifting costs (opex+capex) of US$~1.08/Mscf (inclusive of inflation) for mid-case Reserves, Contingent & Prospective Resources. All Resource figures quoted are unrisked mid-case unless otherwise noted. Sino Gas' attributable net Reserves & Resources assumes PSC Partner back-in upon ODP approval but not the impact of the potential exercise of its Linxing option to acquire 7.5% of SGE's interest in the Linxing PSC (by paying 7.5% of back costs). 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.

Qualified Reserves and Resources Evaluator

Information on the Reserves and Resources in this annual report is based on an independent evaluation conducted 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 MIChemE and consents to the inclusion of this information in this release. RISC believes that the Reserves 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 requirements. RISC is independent with respect to Sino Gas in accordance with the Valmin Code, ASX listing rules and ASIC requirements.

Reserves and Resources Governance

Exploration and appraisal data is prepared by third-party contractors before being reviewed and signed-off by the Operations team. Independent consultants RISC are engaged to prepare all publicly released Reserves and Resources assessments to SPE PRMS standards. Under Sino Gas' disclosure policies all statements of Reserves and Resources are approved by the Board of Directors of Sino Gas prior to release. Public reporting of Reserves or Resources estimates are prepared in accordance with the requirements set out in Chapter 5 of the ASX Listing Rules and the Company's continuous disclosure policy.

DIRECTORS' REPORT

Directors' Report

Your directors present their report on the Consolidated Entity (the "Company" or the "Group" or "Sino Gas") consisting of Sino Gas & Energy Holdings Limited and the entities it controlled at the end of, or during, the year ended 31 December 2017. Sino Gas is a limited liability company that is incorporated and domiciled in Australia.

All amounts are presented in United States Dollars (US$), unless otherwise stated.

(a) Directors

The following persons were directors of Sino Gas & Energy Holdings Limited during the financial year and up to the date of this report, unless otherwise indicated:

P Bainbridge	(Chairman)
G Corrie	(Managing Director)
M Ginsburg	(Non-Executive Director)
G Harper	(Non-Executive Director)
B Ridgeway	(Non-Executive Director)

(b) Principal activities

The Company's principal continuing activities during the course of the year were exploring, appraising, developing and producing onshore natural gas resources in China through its investment in Sino Gas & Energy Limited ("SGE").

(c) Dividends

No dividends were paid or declared to shareholders during the financial year (2016: Nil).

(d) Review of Operations

The review of operations of the Group is contained in the Chairman's and Managing Director's Reports on pages 2 and 4 respectively, and the Review of Operations on pages 6 to 17 of the Annual Report and forms part of this report.

(e) Operating Results for the year

The Consolidated Entity made a loss for the year ended 31 December 2017 of $4,496,876 (31 December 2016: loss of $7,783,098). As at 31 December 2017, the Consolidated Entity had cash and cash equivalents of $27,972,052 (2016: $44,233,179) and net assets of $144,449,031 (2016: $145,839,989).

Refer to the management discussion and analysis contained in the Chairman's and Managing Director's Reports on pages 2 and 4, and the Review of Operations on pages 6 and 17 of the Annual Report for a review of the result and operations, which forms part of this Directors' Report. The financial information in the Chairman's and Managing Director's Reports, and the Review of Operations includes non-IFRS financial information. Explanations and reconciliations of non-IFRS financial information to the financial statements are included in the Review of Operations.

(f) Significant changes in the state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Group which have not been disclosed elsewhere in the Annual Report.

(g) Matters subsequent to the end of the financial year

Subsequent to year end the following key events have occurred:

- On 23 January 2018, the Company announced the finalisation of its five-year senior secured $100 million debt facility with Macquarie and the drawing down of $10 million of the facility to repay and cancel the previous debt facility.

- On 31 January 2018, the Company issued 3,209,866 ordinary shares upon the partial conversion of Performance Rights ("PRs") and award of deferred shares to senior executives as part of the Company's 2016 STI plan.
- In January 2018, the Company awarded a total of 1,744,744 deferred shares (the issue of which is deferred to after 31 December 2018) to senior executives in accordance with the Company's 2017 STI Scheme (refer to the remuneration report on pages 27 to 38 for further details).
- On 29 March 2018, the Company made an announcement relating to the first Linxing ODP approval and an operational update.

(h) Future Developments

Business strategy

Sino Gas' strategy is to increase shareholder value by maximising the value of its assets in the Shanxi Province, People's Republic of China through the safe and efficient development, production and monetisation of SGE's large discovered reserves and resources base, selective exploration to expand the discovered resources area to potentially increase exploitable reserves, and over time diversification of its asset portfolio to capitalise on the company's incumbent advantage in the growing China gas market.

Sino Gas aims to maximise the value of its assets whilst adhering to international occupational health & safety standards in all its operations, operating in a sustainable and environmentally responsible manner, engaging the communities in which we operate and building the capabilities of the local workforce.

In 2018, the Company's strategic priorities are as follows:

- Secure ODP approvals for the Linxing and Sanjiaobei Production Sharing PSCs
- Maximise production and revenue through existing and new facilities
- Position for continued production growth post ODP approval in line with the Development Plan

Material business risks

The Company has adopted a comprehensive risk management and governance framework of policies, standards and procedures to manage the Company and the risks. These are reflective of the Company's current status, its major activities being the exploration for and development and production of natural gas in China. The Company's corporate governance statement for the period can be found on our Company website at http://sinogasenergy.com/about-seh/corporate-governance/.

Management have identified the following business risks which have the potential to impact Sino Gas' operational and financial performance and have provided the following summary of how these risks are managed:

Material Business Risk	Risk Management Analysis
Health, safety and environment ("HSE")	Natural gas exploration, development and production operations are exposed to a number of industry operational safety risks including fire, explosions, blow outs, pipe failures, as well as transport and occupational safety incidents. Also, the Company could be subject to claims due to environmental damage arising out of current or former activities at sites that the Company owns or operates. The occurrence of any of these risks could result in injury or loss of life, damage to or destruction of property, natural resources or equipment, environmental damage, clean-up responsibilities, regulatory investigation, suspension of operations, which could subject the Company to potential liability and have an adverse effect on the Company's financial and operational performance. A comprehensive HSE system is maintained by SGE. Training to international standards is provided on safe work practices to all levels of staff. SGE has systems and processes in place to ensure ongoing compliance and periodically audits its own compliance with HSE procedures.

Material Business Risk	Risk Management Analysis
Social and business sustainability	The Company manages its social sustainability risks by seeking to maintain good relationships with communities, joint venture partners and relevant government departments. A branch office has been established and designated community liaison officers are responsible for engaging community stakeholders. Social impact assessments are conducted as a part of development approvals. The Company continues to support Corporate Social Responsibility projects in the regions that it operates in.
Significant changes in reserves and resources estimates	Estimating Gas Reserves and Resources is a subjective process and the accuracy of any Gas Reserve or Resource estimate is a function of the interpretation and extrapolation of a limited amount of geological data (including seismic). There can be no assurance that these estimates will be accurate or will not be affected by events after the date of this report. An independent review of Reserves and Resources estimates by internationally recognised oil and gas consultants is conducted on an annual basis in accordance with SPEPRMS standards. Ah-hoc assessments are conducted to review new exploration, appraisal and production data.
Project development and operating risks	The Company's operations may be adversely affected by various factors, including failing to locate sufficient gas, failure to achieve predicted well production flow rates, shutdowns or delays due to government actions, unforeseen geological operating difficulties and mechanical failure or plant breakdown. The Company proactively identifies and monitors operating risks, and gathers technical data to continually refine its understanding and development plans to optimise operations. Vertical wells can access multiple reservoirs mitigating the impact of poor performance from any one reservoir.
Appropriate organisation capabilities to deliver the development plan	SGE and the Company closely monitor organisational capability and individual competencies to ensure the appropriate team is in place to deliver the development plan. Over the past year, core SGE management team members, including the CEO, CFO and COO, were replaced with individuals with significant natural gas project and basin development experience. Consultants are used to access specialised areas of technical expertise. Staff members are provided the opportunity for personal development and training.
Delays in leasing required land to advance in line with the development plan	SGE has established processes and procedures to attempt to obtain all required land leases on a timely basis. To provide flexibility to manage potential issues, SGE has established plans to increase the lead time for obtaining such leases.
Inability to sell produced natural gas	Currently, SGE is selling natural gas on an approximately one-year term basis with established minimum production volumes and fixed prices. As production increases, the Company anticipates that a portion of gas sales will be marketed under long-term contracts to assure the sale of established levels of natural gas production. SGE and the Company work closely together to develop gas marketing strategies to sell all natural gas production. SGE forecasts future production levels and seeks to enter into new contracts on a proactive basis to secure gas sales.
Currency and commodity price fluctuations	The Company continuously monitors its currency exposures and employs hedging techniques as appropriate. SGE's natural gas proceeds and the majority of payments to suppliers are denominated in CNY. The Company monitors government policies, pricing trends and continuously refines its gas marketing strategy to optimise the value of gas sales.

Material Business Risk	Risk Management Analysis
Regulatory approvals	During 2017, the first ODPs for both the Linxing PSC (over approximately 20% of the discovered area) and Sanjiaobei PSC (over approximately 60% of the discovered area) were submitted by SGE to the respective Chinese PSC partners for approval. ODPs can take different forms and in applying for the first ODPs, the Company was guided as to its form and scope by its SOE partners. The Company continues to expect to obtain approvals for the submitted ODPs in the first half of 2018. Further ODPs will be required as field development progresses. There is a risk that the grant, obtaining, renewal or extension of the first (and any subsequent) ODPs or other key regulatory approvals may not occur, or may be delayed or granted on different terms. SGE works closely with regulatory bodies and Chinese PSC partners to ensure key regulatory requirements are well understand and proactively addressed.
Changes in the fiscal, tax, regulatory laws or policy in China, Hong Kong and Australia	Sino Gas' activities are principally conducted in Australia, Hong Kong and China. The Company and its partners' operations are subject to government laws, regulations and policies governing (among other things) taxation, PSC arrangements, exploration, development, production occupational health and safety, environmental protection, foreign investment and foreign contractor participation in production sharing contracts. Any future changes in laws, regulations or policies or their interpretation may adversely affect the Company's operations. The Company monitors changes in the political, regulatory, fiscal and tax environments and the impact on its business operations and seeks to maintain close relationships with PSC partners and government agencies. Regular engagement is maintained with professional advisors to provide an early warning to capitalise on opportunities or mitigate potential challenges.
PSC interests, licence and title	Exploration licence periods are generally two to three years in duration. In some instances, the exploration period may expire and SGE will continue to operate further to Joint Management Committee approvals while working closely with the respective PSC partner to finalise and formalise the terms of the exploration license extension. Sino Gas may be required to from time-to-time relinquish acreage as it moves to development. The Company's participating interest in the PSCs, unless otherwise agreed, may be affected by the timing and extent to which SOE partners exercise their back in rights in respect of the PSCs and Sino Gas exercises its option to acquire an additional 7.5% of SGE's participating interest in the Linxing PSC.
Credit risk and payment delay for suppliers, customers and partners	The Company is exposed to credit risk of banks, suppliers, gas buyers and partners and there may be delay in payment under key contracts. Any material default or payment delay may impact the Company's cash flows and financial condition. The Company and SGE have systems and processes in place to assess the credit risk of banks, suppliers, customers gas buyers and partners. Contracting and procurement procedures are in place to ensure suppliers meet required standards.
Liquidity	The nature of Sino's operations requires significant expenditure on development and production activities. Budget overruns, differences from expected production levels or delays in receiving payments from third parties could adversely affect the Company's liquidity. The Company establishes annual work programs and budgets considering available sources of liquidity and continuously monitors short-term and long-term liquidity requirements to ensure that it remains well funded. The Company also has in place a 5-year senior secured $100 million debt facility with Macquarie.
Offshore remittances	China regulates the exchange and remittance of funds offshore. The Company currently has the contractual and legal right to remit profits offshore, as demonstrated in 2016. While the Company remains confident in being able to remit funds offshore in the future, it proactively monitors and manages potential changes in regulations.

Material Business Risk	Risk Management Analysis
Key business relationships including with PSC partners	Sino Gas relies on strategic relationships with other entities such as our joint venture partner CNEML and PSC partners (CUCBM (in respect of Linxing PSC) and PCCBM (in respect of Sanjiaobei PSC)), government agencies, suppliers and customers. If the Company fails to maintain good working relationships or parties that SGE conducts business with do not hold valid and subsisting licences and authorities for the relevant activities this could materially adversely affect our business. The Company monitors its contractual arrangements and actively engages with its key business partners to seek to resolve any such issues as they arise on mutually acceptable terms.

(i) Information on Directors & Company Secretary

The names, particulars, experience and qualifications of the Directors of the Company during the financial year and up to the date of this report are detailed below:

P Bainbridge

Non-Executive Chairman

Bachelor of Science Hons (Mechanical Engineering) Manchester University, United Kingdom

Experience and expertise

Philip joined the company in April 2014 as a Non-Executive Director ("NED") and was appointed to Chairman in August 2014.

Philip previously spent 23 years with BP Group in a range of petroleum engineering, development, commercial and senior management roles in the UK, Australia and the USA. More recently, he spent six years with Oil Search Limited as Chief Operating Officer, before moving to Executive General Manager LNG, responsible for all aspects of Oil Search's interests in the $19 billion PNG LNG project.

Other current directorships

Sino Gas & Energy Limited (Director)

Beach Energy Limited (Non-Executive Director)

PNG Sustainable Development Program (Chairman)

Former directorships in last 3 years

Drillsearch Energy Limited (resigned as Non-Executive Director on 1 March 2016 following merger with Beach Energy Limited)

Special responsibilities

Chairman of the board, Member of Nomination & Remuneration Committee

Sino Gas & Energy Limited Director

Interests in Shares, Options and PRs

2,491,173 Ordinary Shares

G Corrie

Managing Director

MBA from University of Chicago, B Science Hons (Geophysics) from University of Adelaide, B App. Science from Queensland University of Technology

Experience and expertise

Glenn joined the Company as Chief Executive Officer on 15 August 2014 and was appointed to the Board as Managing Director effective 1 January 2015.

Glenn previously held the position of Commercial and Business Development Director with Ophir Energy, responsible for all corporate development initiatives. Prior to joining Ophir, Mr Corrie was a Director with Temasek Holdings Ltd in Singapore, responsible for global energy investments. Between 1998 and 2010, he held a variety of Technical and Corporate Development leadership positions within the Upstream Division of the Royal Dutch Shell Group, including Strategy Manager for Shell Upstream International Asia. He is also a board member of the Australian Chamber of Commerce in Beijing.

Other current directorships

Sino Gas & Energy Limited (Director)

Former directorships in last 3 years

None

Special responsibilities

Sino Gas & Energy Limited Director

Interests in Shares, Options and PRs

8,372,359 Ordinary Shares, 3,145,843 Deferred Shares, 12,927,865 PRs

M Ginsburg

Non-Executive Director

B.A. from Harvard College and a Masters in Management from the J.L. Kellogg Graduate School of Management at Northwestern University

Experience and expertise

Matthew was appointed to the Board on 28 August 2015.

Matthew is an experienced former investment banker with extensive experience and insight into the Greater China financial services sector. Matthew is a resident of Hong Kong and has spent the majority of his 28-year career living and working in Asia. This comprised positions with First Boston in Tokyo and Hong Kong, Morgan Stanley in Hong Kong and subsequently with Barclays Capital in Hong Kong, where he was head of Asia Pacific Investment Banking and a member of the Global Investment Banking Executive Committee until mid-2014.

Other current directorships

None

Former directorships in last 3 years

None

Special responsibilities

Chair of Nomination & Remuneration Committee

Member of Audit & Risk Committee

Interests in Shares, Options and PRs

1,830,000 Ordinary Shares

G Harper

Non-Executive Director

BA from University of Kent at Canterbury and Diploma in Business Administration from Strathclyde University, MAICD

Experience and expertise

Gavin has more than 40 years' experience in the energy industry in a variety of leadership roles, primarily with Chevron Corporation for 25 years. He has broad experience working in both operating and non-operating roles in complex joint ventures in Asia, Australia and the UK. His most recent role with Chevron was as Managing Director of Chevron's gas business development company in Korea.

Gavin has been involved with the Company since June 2006 in various capacities and was appointed as a director of the Company on 14 March 2008. Gavin transitioned from Chairman to Non-Executive Director in August 2014.

Other current directorships

Omega Resources Pty Ltd (Chairman)

Ion Mining Pty Ltd (Chairman)

Former directorships in last 3 years

Pilot Energy Limited (resigned as Chairman, 2 December 2016)

Renewable Heat and Power Limited (resigned as Chairman, 2 February 2017)

Sino Gas & Energy Limited Director (resigned as Director 26 September 2014)

Special responsibilities

Member of Nomination & Remuneration Committee and Audit & Risk Committee

Interests in Shares, Options and PRs

16,711,044 Ordinary Shares

B Ridgeway

Non-Executive Director

B. Bus (Accounting) from Monash University, ACA, AICD

Experience and expertise

Bernie incorporated SGE in 2005 and was a foundation shareholder and Director of Sino Gas responsible for initially recognising the potential to develop a clean energy business in China. He has been instrumental in the formation and direction of Sino Gas and negotiated the original farm-in with Chevron in late 2005/early 2006.

He has been involved with a number of public and private companies for over 30 years as owner, director and manager in which he has gained extensive experience and expertise in finance, administration, marketing, mergers and acquisitions, corporate and business development.

Bernie is the Managing Director of Imdex Limited (ASX:IMD), a leading provider of drilling fluid products, advanced downhole instrumentation, data management solutions and geo-analytical services to mining, water well, and civil engineering industries worldwide.

Other current directorships

Imdex Limited (Managing Director)

Former directorships in last 3 years

None

Special responsibilities

Chair of Audit & Risk Committee

Member of Nomination & Remuneration Committee

Interests in Shares, Options and PRs

11,455,000 Ordinary Shares

H Spindler

Company Secretary

B. Bus (Accounting and Finance) from Edith Cowan University, CA, A Fin

Experience and expertise

Harry has 19 years' experience with Corporate Advisory and Recovery Firms. Harry is a member of the Institute of Chartered Accountants in Australia and a member of the Financial Services Institute of Australia. In 2008, Harry joined Indian Ocean Advisory Group who specialise in corporate advisory, growth and taxation matters. During his career, Harry has worked on high profile restructuring engagements in mining and technology and assists in advising a number of ASX listed mining companies.

Interests in Shares, Options and PRs

66,422 Ordinary Shares

(j) Directors' Shareholdings

The interests of Directors in the share capital of the Company as at the date of this report are detailed in section (i) of the Directors reports, above.

(k) Directors' Meetings & Committee Meetings

The following table sets out the number of Directors' meetings held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member) of the Company. During the financial year, twelve Board meetings were held.

	Meetings of Directors		Meetings of Audit & Risk Committee		Meetings of Nomination & Remuneration Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
P Bainbridge	12	12	-	-	2	2
G Corrie	12	12	-	-	-	-
M Ginsburg	12	12	4	4	2	2
G Harper	12	12	4	4	2	2
B Ridgeway	12	12	4	4	2	2

Members of the Audit & Risk and Nomination & Remuneration committees as at the date of this report are noted in the table below.

Audit & Risk Committee	Nomination and Remuneration Committee
B Ridgeway (Chair) M Ginsburg G Harper	M Ginsburg (Chair) P Bainbridge G Harper B Ridgeway

(l) Remuneration Report (audited)

The Directors are pleased to present your Company's remuneration report for the year ended 31 December 2017. The report sets out remuneration information for Sino Gas s non-executive directors ("NEDs"), executive directors and other key management personnel.

The remuneration report is set out under the following main headings:

1) Overview of remuneration framework for 2017
2) Remuneration governance
3) Directors and key management personnel ("KMP") disclosed in the report
4) Executive remuneration policy and framework
5) Non-Executive Remuneration
6) Details of remuneration
7) Service agreements
8) Share-based payments
9) Shareholdings
10) Historical Information

The information provided in this remuneration report has been audited in accordance with section 300A of the *Corporations Act 2001*.

1) Overview of remuneration framework for 2017

Sino Gas' guiding principles for remuneration strategy used throughout 2017 recognises that:

- Remuneration must be strongly linked to Company performance;
- Remuneration must be competitive to enable the Company to attract and retain quality individuals who are capable and motivated to deliver results for shareholders;
- Remuneration must provide significant incentive to deliver superior performance against the Company's strategy and key business goals;
- Remuneration must be fair and competitive with both peers and competitor employers; and
- Remuneration must be transparent to shareholders.

The Company's remuneration framework comprises:

- Remuneration includes fixed pay and benefits, a short-term incentive ("STI") and a long-term incentive ("LTI"). The short-term incentive will be assessed annually based on key short-term performance measures. The long-term incentive is assessed over three years based on share price performance (both absolute and peer comparison) as well as key operational /development metrics, which are recognised as key value drivers. Achieving a 50% payout of both short and long-term incentives will require delivery of challenging budget outcomes. Achieving a 100% payout will require outstanding delivery performance.
- Payout of bonus will be by cash, shares and deferred shares depending on the seniority of the employee.
- Resignation will not automatically result in a full payout of PRs.
- Non-executive directors will receive a fixed fee with no additional consulting arrangements or share based schemes.

The Company's remuneration policy seeks to encourage alignment between the performance of the Company and the remuneration of Executives by placing a significant proportion of executive remuneration "At Risk" requiring predetermined performance conditions be met.

The oil and gas industry is a specialised industry in which highly skilled workers are usually both mobile and highly sought after in Australia and overseas. The Company competes for talent with much larger organisations, often able to pay higher base salaries. It is important that the Company attracts people motivated and aligned to deliver top level performance whilst being mindful of effective employee cost management.

Key Developments

The key developments and outcomes for the 2017 financial year and 2018 financial year are:

- Executive Remuneration – Managing Director fixed remuneration has increased 3% for 2018. Other senior executive fixed remuneration has increased between 0% and 1.5% for 2018.
- NEDs' Remuneration – fixed fees have remained unchanged since 1 January 2014 and the Board has agreed that there will no change in 2018.

- STI – 66% of the available pool has been awarded for the 2017 financial year based on the achievement of a proportion of predetermined operational, financial and commercial performance objectives (further details are provided later in the report). The Managing Director and Chief Financial Officer have elected to receive 50% of their 2017 STI as deferred shares. The issue of these shares will be deferred to after 31 December 2018 and are subject to proportional clawback provisions should the executive terminate their employment prior to 31 December 2018.
- LTI – 3,052,562 of the available pool of PRs of 9,122,105 potentially available for vesting, vested reflecting the partial award for the relative share price performance hurdle.

Over 2017 the Company maintained focus on improving the alignment of employee incentive-based compensation with shareholder value through further refinement of performance measures and industry peer group comparators. Obtaining and considering shareholder feedback on remuneration strategies remains a core focus of the Nomination & Remuneration Committee. The Company will continue to consult with all stakeholders, including shareholders, industry funds and proxy advisory organisations on an ongoing basis.

2) Remuneration governance

The Nomination and Remuneration Committee has responsibility and oversight for making recommendations to the Board regarding remuneration for directors and employees. This Committee currently consists solely of independent NEDs.

The remuneration framework for 2017 was implemented after consulting widely with industry and benchmarking to other ASX listed energy companies.

In designing remuneration packages, the Nomination and Remuneration Committee and the Board annually review the operational goals and the building blocks of long-term shareholder value. Performance objectives are then established to motivate and reward executives to achieve personal and business targets that improve the performance of the Company and, in turn, provide value for shareholders. As part of this structure, executive rewards are directly linked to safety, operational and financial performance metrics along with relative and absolute share price performance.

The Company will continue to monitor the framework against market benchmarks and ensure that the linkages between remuneration and company performance remain strong.

Further information as to the responsibilities, structure and conduct of the Nomination & Remuneration Committee is contained in the Committee's Charter, a copy of which is available on the Company's website at http://sinogasenergy.com/about-seh/corporate-governance/.

Use of Independent Remuneration consultants

During 2017, PricewaterhouseCoopers was engaged to provide market data on the Managing Director's remuneration package to enable a determination as to the reasonableness of current remuneration. No remuneration recommendations (as defined in the Corporations Act 2001) were made as part of this review.

2017 Remuneration Report Vote

At the Company's 2017 Annual General Meeting, the Company's Remuneration Report received a vote in favour of 98.7%. Feedback on the Remuneration Report was not received during the 2017 Annual General Meeting. However, the Company continued to seek and received specific feedback from institutional and retail shareholders and proxy advisory organisations during the year ended 31 December 2017.

Securities Trading Policy

The trading of Sino Gas' securities by directors, employees or certain contractors is subject to, and conditional upon, compliance with the Company's Securities Trading Policy and Procedures.

It is the Company's policy that the use of derivatives such as caps, collars, warrants or similar products in relation to the Company's securities could undermine the objectives of the securities trading policy and procedures, or distort the operation of performance hurdles applicable to vesting of securities granted to staff as part of their remuneration.

Accordingly, in accordance with the Company's policies and procedures, executives must no use or enter into derivatives or other products or other transaction which operate to limit his or her exposure to economic risk in relation to securities.

Any Director or executives wishing to trade in Sino Gas securities must consult the Chairman to gain approval to trade and ensure that trading restrictions are not in force. All trades by Directors and executives during the financial year were conducted in compliance with the Company's Share Trading Policy.

A copy of the Company's Share Trading Policy and Procedures is available on the Company's website at http://sinogasenergy.com/about-seh/corporate-governance/.

3) Directors and KMP disclosed in the report

The following persons acted as directors during the financial year:

Mr P Bainbridge	Chairman
Mr G Corrie	Managing Director
Mr M Ginsburg	Non-Executive Director
Mr G Harper	Non-Executive Director
Mr B Ridgeway	Non-Executive Director

For the purposes of this report "senior management" are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company. The following staff were considered to act as senior management during the reporting period:

Mr I Weatherdon	Chief Financial Officer
Mr F Fu	Chief Operating Officer
Mr H Spindler	Company Secretary

4) Executive remuneration policy

The remuneration framework for executives comprises three components:

- fixed pay and benefits,
- STI (being performance-based cash bonus and or deferred shares), and
- LTI (being the award of PRs under the Company's Performance Rights Plan ("PRP")).

Each of the above remuneration components is discussed further below whilst remuneration payable to the Managing director and the Executives, for the reporting period, and for the previous reporting period, is set out on page 34 in accordance with the Corporations Act and Accounting Standards.

The Company's remuneration profile for Executives is as follows:

Remuneration Element	**Expressed as a % of base remuneration at maximum level performance**	
	Managing Director	**Executives**
Base	100%	100%
STI	80 -150%*	50%
LTI	80%	30 - 50%
Total	**260 - 330%**	**180 - 200%**

* The Managing Director has the opportunity to earn an additional 70% of base salary in the event of a major transformational arrangement.

(a) Fixed Pay and Benefits

Fixed pay and benefits consists of cash salary, superannuation and non-monetary benefits (including housing, insurance, and other general expatriate benefits for an employee based in the People's Republic of China, depending on individual's respective employment arrangements).

Fixed remuneration is reviewed annually and the level of cash salary for each executive is determined considering:

- the roles and responsibilities of the individual;
- the personal performance; skills and experience of the individual;

- the individual's overall contribution to the success of the business;
- the employment location and labour market conditions in that location; and
- overall industry and global market conditions.

Mr Corrie's base pay was $556,200 per annum for the year ending 31 December 2017. Considering Mr Corrie's substantial contributions, the Board approved a 3% increase in Mr Corrie's base remuneration for 2018. Mr Corrie is eligible for usual expatriate benefits, comprising housing and utilities, medical insurance, schooling, mandarin lessons, relocation expenses and annual flights to home base.

Mr Frank Fu's base pay was $426,300 per annum for the year ending 31 December 2017. Mr Fu is eligible for the provision of family medical insurance and schooling.

Mr Ian Weatherdon's base pay was $405,000 per annum for the year ending 31 December 2017. Considering Mr Weatherdon's substantial contributions, the Board approved a 1.5% increase in Mr Weatherdon's base remuneration for 2018. Mr Weatherdon is eligible for usual expatriate benefits, comprising housing and utilities, medical insurance, schooling, mandarin lessons, relocation expenses and annual flights to home base.

(b) STI

Senior employees have the opportunity to increase their earnings through performance based STI payments. STI is awarded at the end of each financial year based on the performance for that year against a number of key performance indicators set by the Board. STI is based on a percentage of Fixed Pay and is made by way of cash and or deferred shares, depending on the individual's employment contract and remains "At Risk" until the performance conditions are satisfied.

Mr Glenn Corrie has the opportunity to earn up to 80% of base salary as STI. Mr Corrie can elect to take 50% to 100% of this payment as deferred shares and, as appropriate, receive the remaining portion in cash. The deferred shares vest after one year and are subject to clawback provisions should the executive leave the organisation before full vesting. In addition, Mr Corrie has the opportunity to earn an additional 70% of base salary in the event of a major transformational arrangement. There were no transformational arrangements in 2017.

Mr Frank Fu has the opportunity to earn up to 50% of his base salary in STI to be paid in cash.

Mr Ian Weatherdon has the opportunity to earn up to 50% of base salary. Mr Weatherdon can elect to take 50% to 100% of this payment as deferred shares and, as appropriate, receive the remaining portion in cash. The deferred shares vest after one year and are subject to clawback provisions should the executive leave the organisation before full vesting.

The 2017 STI scheme was based on a number of factors comprising HSE (10% weighting, full payout), production (20%, zero payout), regulatory approvals (25%, partial payout) financial strength (15%, full payout), commercial (10%, full payout), and corporate targets (20%, partial payout) such as strategy, technology and market interaction.

Based on an assessment of performance against these factors, the Board approved a 66% payout (2016: 78%). As a result, Mr Corrie's 2017 STI entitlement was $293,674; Mr Fu's $140,679 and Mr Weatherdon's $133,650. Both Mr Corrie and Mr Weatherdon have elected to receive their 2017 STI payment as 50% deferred shares. In addition, as a result of their exceptional performance, leadership and contributions, the Board awarded spot bonuses of $50,000 to each of Mr Corrie and Mr Weatherdon and $20,000 to Mr Frank Fu.

It is the intention that the STI performance measures in 2018 will comprise HSSE, production, regulatory approvals, financial strength, and corporate targets such as strategy, technology and market interaction. Performance will be measured against a sliding scale of performance outcomes.

(c) LTI

The PRP provides the third element of remuneration. The scheme gives senior executives an opportunity to earn Shares in the Company upon satisfaction of certain Performance Conditions which are aligned with the success of the Company and its shareholders.

Under the PRP, each performance right converts to one ordinary share of Sino Gas on exercise. In some instances, the Company may agree to allow certain vested PRs to lapse and pay the recipient a cash amount in lieu of the entitlement to issued shares (based on the market value of those shares). No amounts are paid or payable by the recipient on receipt of the PR or share. Performance Rights may be exercised at any time from the date the performance criteria and vesting conditions have been met to the date of expiry.

With the exception of PRs that may be granted to Executives as part of a recruitment package, all performance rights are based on at least a three-year performance period.

The key features of the KMP PRP grant for the financial year ended 31 December 2017 are outlined in the table below:

Participation	During 2017, Mr Glenn Corrie was awarded 5,347,173 PRs (as approved by shareholders at the 2017 AGM), Mr Weatherdon was awarded 2,433,477 PRs and Mr Frank Fu was awarded 767,895 performance rights ("2017 LTI Grant").
LTI Opportunity	The LTI opportunity level for each executive is a predetermined proportion of an employee's base pay. The quantum of performance rights received is determined by dividing the LTI opportunity for each executive by the share price of the Company at the beginning of the performance period for the performance rights.
Performance Period	3 years (January 2017 to December 2019)
Performance Hurdles	<u>**2017 LTI Grant**</u> **Relative Shareholder Return ("RSR") (30%)** The Performance Criteria is the percentage increase in the share price of the Company relative to the Peer Group (as below or subject to any variations considered necessary by the Board). The PRs will vest as follows:

Company ranking against Peer Group	% of PRs to vest
Less than 50th percentile	0%
50th to 90th percentile	Proportionate between 0% and 100%
More than 90th percentile	100%

Performance Hurdles (continued)

The Peer Group comprises:

Australian Market Peers	International Peers
Beach Energy Limited (ASX: BPT) Senex Energy Limited (ASX: SXY) AWE Limited (ASX: AWE) Horizon Oil Limited (ASX: HZN) Tap Oil Limited (ASX: TAP) Karoon Gas Australia Limited (ASX: KAR) Buru Energy Limited (ASX: BRU) Sundance Energy Australia Limited (ASX: SEA) Cooper Energy Limited (ASX: COE) Carnarvon Petroleum Limited (ASX: CVN) FAR Limited (ASX: FAR)	G3 Exploration Limited (LSE: G3E) AAG Energy Holdings Limited (SEHK: 2686) Sino Oil and Gas Holdings Limited (SEHK: 0702)

The share price comparison will be based on the 90-day volume weighted average price of ordinary shares quoted on the applicable stock exchange immediately prior to 31 December 2016 and immediately prior to the end of the Performance Period (31 December 2019).

Absolute Shareholder Return ("ASR") (30%)

The performance criteria is the percentage change in the share price of the Company. The PRs will vest as follows:

Company share price change	% of PRs to vest
Less than 25% compound growth p.a.	0%
25% compound growth p.a.	50%
>25% and <40% compound growth p.a.	Pro-rata
40% compound growth p.a.	75%
>40% and <55% compound growth p.a.	Pro-rata
55% or more compound growth p.a.	100%

The share price comparison will be based on the last 5 trading day volume weighted average price of ordinary shares quoted on the applicable stock exchange in December 2016 (A$0.115) and immediately prior to the end of the Performance Period (31 December 2019).

Operational Performance ("OP") (40%)

The Performance Hurdle is the approval by the relevant Chinese authorities of an Overall Development Plan on the Linxing PSC (50% to vest) and Sanjiaobei PSC (50% to vest).

2017 LTI Grant assessment outcomes

During the financial years ended 31 December 2014 and 2015, the Company issued 6,350,000 and 2,772,105, PRs, respectively, to key executives of the Company with a Performance period ending 31 December 2017. These PRs were subject to performance conditions of Relative Shareholder Return (40%), Absolute Shareholder Return (40%) and Operation Performance milestone of average daily production (20%).

In accordance with the PRP, the Company carried out an assessment of these hurdles as at 31 December 2017, the results of which are summarised below:

Performance Hurdle	No. of PRs vested [1]	No. of PRs non-vested
Relative Shareholder Return	3,052,562	596,280
Absolute Shareholder Return	-	3,648,842
Operational Performance	-	1,824,421

[1] In settlement of the vested PRs, the company issued 2,296,562 ordinary shares and paid cash for 756,000 vested PRs which voluntarily lapsed.

5) Non-executive remuneration

NEDs are remunerated solely by way of fees and statutory superannuation.

Remuneration is reviewed annually. Fees paid to NEDs are determined with reference to the nature of the role, responsibilities and time commitment, including membership of board committees; independent advice and industry benchmarking data; and the need to attract a diverse and well-balanced group of individuals with relevant experience and knowledge.

The maximum aggregate remuneration pool for NEDs, as approved by shareholders at the Company's 2012 Annual General Meeting, is A$750,000 per annum. This pool is currently not fully utilised.

Excluding changes to the superannuation guarantee, there have been no changes to NEDs' fee base since 1

January 2014. The Board has agreed that there will be no change in fees for 2018.

NEDs' fixed fees for the financial years ended 31 December 2016 and 2017 are as follows:

- Chairman: A$200,000 plus superannuation
- Non-Executive Director: A$100,000 plus superannuation

In addition to fixed fees, NEDs are entitled to be reimbursed for all reasonable travel, accommodation and other expenses incurred in attending meetings of the Board, Committees or shareholders or while engaged on Company business and also receive the benefit of coverage under the Directors and Officers insurance policy.

Fees and payments to NEDs are set and paid in Australian Dollars (A$). Note that the remuneration table set out on page 34 and shows remuneration in US$.

NEDs do not receive any performance related remuneration. Whilst the Board has not implemented a minimum shareholding requirement, NEDs are and will continue to be encouraged to purchase shares in the Company on-market to provide alignment between director and shareholder interests. Details of NEDs' shareholdings are set out on page 37.

The Company has entered into written letters of appointment with its Non-Executive Directors. The term of the appointment of a NED is determined in accordance with the Company's Constitution and is subject to the provisions of the Constitution dealing with retirement, re-election and removal of NEDs. The Constitution provides that all NEDs of the Company are subject to re-election by shareholders by rotation every three years.

6) Details of remuneration

The following tables show details of the remuneration received by the directors and the key management personnel of the group for the current and previous financial year (with reference to their respective service agreements detailed above).

		Short-term employee benefits			Post-employment	Share-based payments			Performance related
		Cash salary & fees $	Cash bonus & STI [2] $	Non-Monetary $	Superannuation $	Deferred Shares STI $	Performance rights LTI $	Total $	%
Directors									
P Bainbridge, Chairman	2017	168,511	-	-	-	-	-	168,511	0%
	2016	162,356	-	-	-	-	-	162,356	0%
G Corrie, Managing Director	2017	556,200	196,837	211,339	-	154,318	375,128	1,493,822	49%
	2016	540,000	237,350	179,448	-	81,000	292,455	1,330,253	46%
M Ginsburg, NED	2017	84,175	-	-	-	-	-	84,175	0%
	2016	81,372	-	-	-	-	-	81,372	0%
G Harper, NED	2017	84,256	-	-	-	-	-	84,256	0%
	2016	81,178	-	-	-	-	-	81,178	0%
B Ridgeway, NED	2017	76,946	-	-	7,310	-	-	84,256	0%
	2016	74,135	-	-	7,043	-	-	81,178	0%
Sub-total of directors	**2017**	**970,088**	**196,837**	**211,339**	**7,310**	**154,318**	**375,128**	**1,915,020**	
	2016	939,041	237,350	179,448	7,043	81,000	292,455	1,736,337	
Executives									
I Weatherdon, Chief Financial Officer	2017	405,000	116,825	224,312	-	71,367	126,713	944,217	33%
	2016	380,000	76,000	191,695	-	38,000	138,228	823,923	31%
F Fu, Chief Operating Officer	2017	426,300	160,679	3,989	-	-	105,354	696,322	38%
	2016	420,000	209,990	31,404	-	-	89,052	750,446	40%
H Spindler, Company Secretary	2017	53,021	-	-	-	-	-	53,021	0%
	2016	49,065	-	-	-	-	-	49,065	0%
Total key management personnel compensation (group)	**2017**	**1,854,409**	**474,341**	**439,640**	**7,310**	**225,685**	**607,195**	**3,608,580**	
	2016	1,788,106	523,340	402,547	7,043	119,000	519,735	3,359,771	

1. Remuneration and benefits reported have been presented in US dollars, unless otherwise stated. This is consistent with the presentation currency of the Company.
2. Includes awarded spot bonus' of $50,000 to each of Mr Corrie and Mr Weatherdon and $20,000 to Mr Frank Fu.

7) Service agreements

Remuneration and other terms of employment for the Executive Directors and other executives are formalised in service agreements. Each of these agreements provide for the provision of benefits such as health insurance and participation, when eligible, in the Company's STI and LTI plans. Other major provisions of the agreements relating to remuneration are set out below.

Glenn Corrie; Managing Director

- Term of Agreement – 15 August 2014 to ongoing
- Notice / Termination Period without cause – six months' notice
- Redundancy provisions - in the event that employment is terminated by reason of redundancy, entitled to three months' salary per completed year of service, up to a maximum of nine months
- LTI award on resignation - Should Mr Corrie resign, all outstanding PRs will lapse unless his employment term exceeds 5 years, in which case, the vesting of PRs will be pro-rated for the performance period time and pro-rated progress towards achieving the respective performance hurdles

Ian Weatherdon; Chief Financial Officer

- Term of Agreement - 1 January 2016 to ongoing
- Notice / Termination Period without cause - three months' notice
- Redundancy provisions - in the event that employment is terminated by reason of redundancy, entitled to three months' salary per completed year of service, up to a maximum of six months

Frank Fu, Chief Operating Officer

- Term of Agreement - 1 June 2014 to ongoing
- Notice / Termination Period without cause - three months' notice

Harry Spindler, Company Secretary

- Term of Agreement – 2 November 2010 to ongoing
- Fees were paid to Indian Ocean Consulting Group Pty Ltd, of which Mr Spindler is an employee

8) Share-based payments

Key Management Personnel

During the financial year ended 31 December 2017, the Company issued 8,548,545 PRs to senior management as detailed below. Please refer to section 3 of this Report and Note D3 of the Annual Financial Report for further details regarding the Company's PRP and respective performance conditions and hurdles.

Details (Key Terms, refer to Note D3)	**Grant date**	**Issue date**	**Performance Period End date**	**Expiry date**	**No. at 31 Dec 2017**	**Grant date fair value ($)**	**% vested at 31 Dec 2017**
2017 LTI Grant							
G Corrie	18 May 2017	7 Jun 2017	31 Dec 2019	31 Mar 2020	5,347,173	$0.023, $0.048 & $0.065	0%
I Weatherdon	2 Jun 2017	7 Jun 2017	31 Dec 2019	31 Mar 2020	2,433,477	$0.024, $0.049 & $0.067	0%
F Fu	2 Jun 2017	7 Jun 2017	31 Dec 2019	31 Mar 2020	767,895	$0.024, $0.049 & $0.067	0%

During the financial year ended 31 December 2017, 2,191,530 PRs issued to senior management were exercised as detailed below. 1,158,470 PRs lapsed in accordance with their terms and conditions.

Details (Key Terms, refer to Note D3)	Grant date	Issue date	Performance Period End date	Expiry date	Grant date fair value ($)	No.	Exercised	Lapsed
G Corrie								
2014 LTI Grant (T1)	16 Jul 2014	16 Jul 2014	31 Dec 2016	31 Jan 2017	$0.121, $0.028, & $0.177	1,850,000	691,350	1,158,650
I Weatherdon								
2016 Grant	13 Jan 2016	19 Jan 2016	1 Jan 2017	1 May 2017	$0.047	1,500,000	1,500,000	-

As at 31 December 2017, the following PRs had been issued to the Managing Director and senior management:

Details (Key Terms, refer to Note D3)	Grant date	Issue date	Performance Period End date	Expiry date	Grant date fair value ($)	No. at 31 Dec 2017	% Vested & exercisable at 31 Dec 2017
G Corrie							
2014 LTI Grant (T2)	16 Jul 2014	16 Jul 2014	31 Dec 2017	31 Jan 2018	$0.131, $0.037 & $0.177	1,850,000	40%
2015 LTI Grant	15 May 2015	5 Jun 2015	31 Dec 2017	31 Jan 2018	$0.032, $0.076 & $0.133	2,772,105	18%
2016 LTI Grant	17 May 2016	13 Jun 2016	31 Dec 2018	31 Mar 2019	$0.043, $0.070 & $0.085	7,580,692	0%
2017 LTI Grant	18 May 2017	7 Jun 2017	31 Dec 2019	31 Mar 2020	$0.023, $0.048 & $0.065	5,347,173	0%
F Fu							
2014 LTI Grant (T2)	5 Aug 2014	5 Aug 2014	31 Dec 2017	31 Jan 2018	$0.131, $0.037 & $0.177	4,500,000	40%
2017 LTI Grant	2 Jun 2017	7 Jun 2017	31 Dec 2019	31 Mar 2020	$0.024, $0.049 & $0.067	767,895	0%
I Weatherdon							
2016 LTI Grant	13 Jun 2016	13 Jun 2016	31 Dec 2018	31 Mar 2019	$0.039, $0.061 & $0.078	3,334,102	0%
2017 LTI Grant	2 Jun 2017	7 Jun 2017	31 Dec 2019	31 Mar 2020	$0.024, $0.049 & $0.067	2,433,477	0%
						28,585,444	

Since 31 December 2017, the following PRs have been issued, exercised and lapsed:

Details (Key Terms, refer to Note D3)	Performance Period End date	Expiry date	No. Issued	No. Exercised	No. Lapsed
G Corrie					
2014 LTI Grant (T2)	31 Dec 2017	31 Jan 2018	-	740,000	1,110,000
2015 LTI Grant	31 Dec 2017	31 Jan 2018	-	512,562	2,259,543
F Fu					
2014 LTI Grant (T2)	31 Dec 2017	31 Jan 2018	-	1,044,000	3,456,000

9) Shareholdings

The Board considers it important that the directors and senior management hold a significant number of Sino Gas shares to encourage the behaviours of long-term owners.

As at 31 December 2017, directors and senior management held ordinary shares, deferred shares and PRs as listed below:

	Balance 1 January 2017			Granted as remuneration			Exercised			Net change other			Held nominally 31 December 2017		
	Ord	Def	PRs	Ord	Def	PRs	Ord	Def	PRs [2]	Ord	Def	PRs [2]	Ord	Def	PRs [2]
Directors															
P Bainbridge	2,311,173	-	-	-	-	-	-	-	-	180,000	-	-	2,491,173	-	-
G Corrie	6,278,267	-	14,052,797	-	1,946,786	5,347,173	691,530	-	(691,530)	150,000	-	(1,158,470)	7,119,797	1,946,786[1]	17,549,970
M Ginsburg	1,830,000	-	-	-	-	-	-	-	-	-	-	-	1,830,000	-	-
G Harper	15,961,790	-	-	-	-	-	-	-	-	749,254	-	-	16,711,044	-	-
B Ridgeway	11,455,000	-	-	-	-	-	-	-	-	-	-	-	11,455,000	-	-
Sub-total	**37,836,230**	**-**	**14,052,797**	**-**	**1,946,786**	**5,347,173**	**691,530**	**-**	**(691,530)**	**1,079,254**	**-**	**(1,158,470)**	**39,607,014**	**1,946,786**	**17,549,970**
Executives															
F Fu	-	-	4,500,000	-	-	767,895	-	-	-	-	-	-	-	-	5,267,895
I Weatherdon	1,000,000	-	4,834,102	-	913,304	2,433,477	1,500,000	-	(1,500,000)	-	-	-	2,500,000	913,304[1]	5,767,579
H Spindler	66,422	-	-	-	-	-	-	-	-	-	-	-	66,422	-	-
Total	**38,902,652**	**-**	**23,386,899**	**-**	**2,860,090**	**8,548,545**	**2,191,530**	**-**	**(2,191,530)**	**1,079,254**	**-**	**(1,158,470)**	**42,173,436**	**2,860,090**	**28,585,444**

1. Since 31 December 2017, the Company has awarded Mr Corrie 1,199,057 deferred shares and Mr Weatherdon 545,687 deferred shares with respect to their 2017 STI Award.

2. Please refer to Section 8 above for changes in PRs since 31 December 2017.

10) Historical Information

The table below sets out summary information about the Consolidated Entity's earnings and movements in share price for the five years to 31 December 2017.

	2013	2014	2015	2016	2017
Revenue ($)	372,090	1,114,073	232,056	2,708,807	6,407,670
Net profit (loss) after tax ($)	(1,018,905)	832,832	(13,037,212)	(7,783,098)	(4,496,876)
Dividends ($)	-	-	-	-	-
Basic earnings (loss) per share ($ cents)	(0.08)	0.05	(0.70)	(0.38)	(0.21)
Diluted earnings (loss) per share ($ cents)	(0.08)	0.05	(0.70)	(0.38)	(0.21)
Share price at the start of the year (A$ cents)	13	20	19	7.8	11.5
Share price at the end of the year (A$ cents)	20	19	7.8	11.5	15.5

(m) Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

(n) Indemnification of Officers and Auditors

During the financial year, the Company paid premiums to insure the Directors, Company Secretary, and certain executive officers of the Company against claims (and related costs) brought against an individual while performing their normal duties (unless such claims relate to a dishonest or fraudulent act omission, or was for personal profit or advantage to which there was no legal entitlement). The Company has entered into Deeds of Insurance, Access and Indemnity with the Directors and Company Secretary of the Company and certain officers to the extent permitted by the Corporations Act 2001.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

(o) Environmental Regulation

The Company's joint venture is required to carry out its activities in accordance with the Chinese laws and regulations in the areas in which it undertakes its exploration, development and production activities. Environmental assessments have been conducted for exploration activities and production facilities. The Company is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect to its operating activities.

(p) Share Options & Rights

Shares Under Option

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Details	Issue Date	Expiry Date	Exercise price (A$)	Number on issue
Unlisted Options	1 Sept 2014 #	1 Sept 2018	$0.25	30,000,000

 # Of these Options, 15,000,000 are subject to an escrow arrangement. If they remain subject to escrow arrangement as at 1 September 2018, the Company may cancel those options with no consideration payable.

No person entitled to exercise the options has any right by virtue of the options to participate in any share issue of the Company.

Movement in Shares under Option

No share options were issued during the year ended 31 December 2017 or since that date.

During the year ended 31 December 2017, 25,000,000 ordinary shares were issued upon the exercise of options issued to an advisor in 2012. There have been no shares issued upon the exercise of options by the Company since 31 December 2017.

Please refer to Notes C3 and D3 of the Annual Financial Report for further information.

Deferred Shares

As at the date of this report, senior management have an interest in the following deferred shares:

Details	Deferred Period	Par Value (A$)	Number on issue
2016 STI	31 Dec 2017	$0.115	1,946,786
2017 STI	31 Dec 2018	$0.155	1,744,744

Movement in Deferred Shares

2,860,090 deferred shares were issued during the year ended 31 December 2017 with respect to the Company's 2016 STI. Since 31 December 2017, the Company has awarded 1,744,744 deferred shares interests with respect to the Company's 2017 STI Award.

During 2017, the Company did not issue any fully paid ordinary shares under the Company's STI deferred shares scheme. Since 31 December 2017, the Company has issued 913,304 fully paid ordinary shares under the Company's STI deferred shares scheme which related to the 2016 STI.

Please refer to the Share Based Payment information above and Note D3 of the Financial Statements for further information regarding the STI scheme.

PRs

Details of PRs on issue as at the date of this report are detailed below. All PRs have been issued by Sino Gas & Energy Holdings Limited.

Rights (Key Terms, refer to Note D3)	Exercise price	Issue date	Performance Period end date	Expiry date	No. of shares under PRs
2016 LTI Grant	Nil	13 Jun 2016	31 Dec 2018	31 Mar 2019	10,914,794
2017 LTI Grant	Nil	7 Jun 2017	31 Dec 2019	31 Mar 2020	9,576,014
					20,490,808

Please refer to note D3 for further details regarding the Company's PRs.

Movement in PRs

During the financial year ended 31 December 2017, the Company issued 9,576,014 PRs to eligible participants (2017 LTI Grant). Please refer to section I(3) of the Directors Report and Note D3 of the Financial Statements for further details.

During the financial year ended 31 December 2017, 2,026,320 PRs lapsed due to their terms and conditions or termination of employment and 2,323,680 PRs were exercised.

Since 31 December 2017, 2,296,562 PRs have been exercised and 6,825,543 PRs have lapsed.

(q) Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the group are important and the general standards of independence are maintained.

Details of the amounts paid or payable to the auditor (Ernst and Young) for audit and non-audit services provided during the year are set out in Note B1 of the Annual Financial Report.

The board of directors has considered the position and is satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

(r) Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 41.

(s) Auditor

Ernst and Young are the Company's Auditor and continue in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.

Glenn Corrie
Managing Director
Perth

29 March 2018

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Auditor's Independence Declaration to the Directors of Sino Gas & Energy Holdings Limited

As lead auditor for the audit of Sino Gas & Energy Holdings Limited for the financial year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Sino Gas & Energy Holdings Limited and the entities it controlled during the financial year.

Ernst & Young

Darryn Hall
Partner
29 March 2018

ANNUAL FINANCIAL REPORT

CONTENTS

Notes to the Financial Statements

Consolidated Statement of Loss and Other Comprehensive Loss

for the year ended 31 December 2017

	Notes	2017 US$	2016 US$
Revenue			
Interest income		393,457	279,894
Interest income from loans to JV	A2	6,014,213	2,428,913
Share of loss of JV accounted for using the equity method	A2	(2,335,019)	(2,299,415)
Net income from JV		3,679,194	129,498
Expenses			
Financing costs	C2	1,091,355	1,715,596
Depreciation and amortisation		165,961	117,239
Share-based compensation	D3	890,761	618,115
General and administration	B1	6,447,156	5,323,076
Foreign exchange gain		(108,167)	(23,901)
Loss before income tax		(4,414,415)	(7,340,733)
Income tax expense	B2	82,461	442,365
Loss for the year attributable to shareholders		(4,496,876)	(7,783,098)
Total comprehensive loss for the year		(4,496,876)	(7,783,098)
Loss per share for loss attributable to shareholders:		Cents	Cents
Basic loss per share	B4	(0.21)	(0.38)
Diluted loss per share	B4	(0.21)	(0.38)

The above Consolidated Statement of Loss and Other Comprehensive Loss should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

as at 31 December 2017

	Notes	2017 US$	2016 US$
ASSETS			
Current assets			
Cash and cash equivalents	C1	27,972,052	44,233,179
Prepayments and other receivables		2,146,602	277,576
Total current assets		30,118,654	44,510,755
Non-current assets			
Interest in JV accounted for using equity method	A2	53,376,240	53,739,414
Loan receivable from JV	A2	70,240,975	59,690,712
Exploration and evaluation assets	D1	4,165,573	-
Property, plant and equipment		399,997	224,643
Total non-current assets		128,182,785	113,654,769
Total assets		158,301,439	158,165,524
LIABILITIES			
Current liabilities			
Trade and other payables		3,852,408	2,325,535
Borrowings	C2	10,000,000	-
Total current liabilities		13,852,408	2,325,535
Non-current liabilities			
Borrowings	C2	-	10,000,000
Total liabilities		13,852,408	12,325,535
Net assets		**144,449,031**	**145,839,989**
EQUITY			
Contributed equity	C3	177,164,771	174,892,183
Reserves	C3	11,240,812	10,407,482
Accumulated losses		(43,956,552)	(39,459,676)
Total equity		**144,449,031**	**145,839,989**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2017

	Notes	Contributed equity US$	Equity settled benefits reserves US$	Accumulated losses US$	Total attributable to equity holders of the Company US$
Balance at 1 January 2017		174,892,183	10,407,482	(39,459,676)	145,839,989
Loss for the year		-	-	(4,496,876)	(4,496,876)
Total comprehensive loss for the year		-	-	(4,496,876)	(4,496,876)
Transactions with owners in their capacity as owners:					
Issue of shares	C3	2,272,588	-	-	2,272,588
Performance rights	C3	-	607,645	-	607,645
Deferred shares	C3	-	225,685	-	225,685
Balance at 31 December 2017		**177,164,771**	**11,240,812**	**(43,956,552)**	**144,449,031**
Balance at 1 January 2016		174,793,004	9,853,326	(31,676,578)	152,969,752
Loss for the year		-	-	(7,783,098)	(7,783,098)
Total comprehensive loss for the year		-	-	(7,783,098)	(7,783,098)
Transactions with owners in their capacity as owners:					
Transfer of shares for the settlement of deferred shares	C3	99,179	(99,179)	-	-
Performance rights	C3	-	534,335	-	534,335
Deferred shares	C3	-	119,000	-	119,000
Balance at 31 December 2016		**174,892,183**	**10,407,482**	**(39,459,676)**	**145,839,989**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows
for the year ended 31 December 2017

	Notes	2017 US$	2016 US$
Cash flows from operating activities			
Payments to suppliers and employees		(6,149,120)	(5,275,197)
Income tax paid		(234,891)	-
Interest received		411,218	253,989
Interest paid		(1,176,469)	(1,041,600)
Net cash used in operating activities	C1	(7,149,262)	(6,062,808)
Cash flows from investing activities			
Payments for equipment		(341,315)	(14,813)
Purchase of Linxing Option	D1	(3,278,641)	-
Loans to JV	A2	(5,390,000)	(12,779,200)
Other contributions to the JV	A2	(1,514,252)	(633,578)
Repayment of loans from JV		-	345,601
Net cash used in investing activities		(10,524,208)	(13,081,990)
Cash flows from financing activities			
Proceeds from issue of equity securities	C3	1,425,656	-
Borrowing related transaction costs		(116,293)	-
Net cash provided by financing activities		1,309,363	**-**
Net decrease in cash and cash equivalents		(16,364,107)	(19,144,798)
Cash and cash equivalents at the beginning of the year	C1	44,233,179	63,419,354
Effects of exchange rate changes on cash and cash equivalents		102,980	(41,377)
Cash and cash equivalents at end of the year	C1	**27,972,052**	**44,233,179**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

About this Report

These financial statements are the consolidated financial statements of the Group consisting of Sino Gas & Energy Holdings Limited ("Sino Gas", "SEH" or the "Company") and its subsidiaries (the "Group"). SEH's interest in its jointly controlled corporation is accounted for using the equity method.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial year end is 31 December which has been consistently applied for all the years presented.

The financial statements were authorised for issue by the Directors on 29 March 2018.

Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards ("AAS") and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Sino Gas is a for-profit entity for the purpose of preparing the financial statements.

The consolidated financial statements of the Group also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

These financial statements have been prepared under the historical cost convention, unless otherwise stated. All amounts are presented in United States dollars ("US$" or "US Dollars"), unless otherwise noted.

Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary for consistency with the policies adopted by the Group. The Group has formed a trust to administer its Performance Rights Plan ("PRP"), which is consolidated into the Group accounts.

Foreign currency translation

The functional and presentation currency of the Company, its subsidiaries and JV continues to be US$.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Critical accounting judgements and key sources of estimation uncertainty

Management is required to make judgments, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and estimates which are material to the financial report are found in the following notes:

A3. Recoverability of the investment in SGE and

D1 Exploration and evaluation assets

D3. Share-based payments.

A- JOINT VENTURE

A1. Establishment of SGE and its shareholding

In 2012, the Company entered into agreements with Asia Gas and Energy Limited ("Asia Gas") to establish a jointly controlled corporation between Sino Gas and Asia Gas in Sino Gas & Energy Limited ("SGE") for the principal purpose of the exploration, development and production of natural gas pursuant to two production sharing contracts ("PSC"s), Linxing PSC and Sanjiaobei PSC, both located on the eastern flank of the Ordos Basin in the People's Republic of China.

SEH's economic interest in SGE as at 31 December 2017 was 49% (2016: 49%). On 20 July 2016, China New Energy Mining Limited ("CNEML") completed the acquisition of MIE Holdings Corporation's entire interest in Asia Gas for a cash payment of US$220 million (minus working capital and net contributions adjustments of US$11.8 million). CNEML's interest in SGE is 51% (2016: 51%). Information regarding the statement of financial position and performance of SGE is set out adjacent.

For the accounting policies applied by SEH in its recognition of its share of the interest in SGE refer to the accounting policies set out in **A5**.

A2. SEH's interests in SGE

Financing transactions with and investments in SGE take the form of both loans to the JV and equity investments.

No dividends were paid by SGE for the year ended 31 December 2017 (2016: Nil).

SGE's financial position and performance for both years ended 31 December were as follows:

	2017	2016
Statement of Financial Position	**US$**	US$
Cash and cash equivalents	3,270,916	2,821,926
Current assets	15,108,775	4,192,497
Non-current assets	305,622,941	285,842,004
Total assets	**324,002,632**	**292,856,427**
Current liabilities	42,392,492	29,705,132
Borrowings from shareholders	143,486,577	121,758,391
Non-current liabilities	292,716	266,105
Total liabilities	**186,171,785**	**151,729,628**
Net assets	**137,830,847**	**141,126,799**
SEH's interest	49%	49%
SEH's share of net assets in SGE	**67,537,115**	**69,152,131**
Capitalised interest	(5,245,124)	(5,245,124)
Asia Gas loan note	(11,593,890)	(11,593,890)
Other capital costs	2,678,139	1,426,296
Investment in SGE	**53,376,240**	**53,739,414**
Statement of Loss and other Comprehensive Loss		
Sales	31,420,381	12,131,048
Other Income	46,793	134,995
Operating expense	9,073,457	7,725,466
General and administration expense	3,556,392	2,911,587
Depreciation and amortisation expense	10,591,273	4,391,518
Interest expense	12,101,495	4,956,965
Exchange loss/(gain) and other financial costs	909,900	(3,026,809)
Loss before income tax	**(4,765,343)**	**(4,692,684)**
Income tax expense	-	-
Loss for the year	**(4,765,343)**	**(4,692,684)**
SEH's interest	**49%**	**49%**
Loss for the year attributable to SEH	**(2,335,019)**	**(2,299,415)**

	2017	2016
SEH's equity investment in SGE	**US$**	US$
Balance at the beginning of the year	53,739,414	50,126,564
SEH's share of net loss of equity accounted JV	(2,335,019)	(2,299,415)
Beneficial financial terms contribution	853,950	6,217,407
Elimination of capitalised interest	-	(1,766,658)
Other capital costs	1,117,895	1,426,296
Other	-	35,220
Balance at the end of the year	**53,376,240**	**53,739,414**

Recognition and measurement

The investment in SGE is classified as a JV in that parties to the joint arrangement share joint control by virtue of the fact unanimous consent is required for the venture to undertake key activities. Accordingly, SEH accounts for its interest in SGE using the equity method in the consolidated statement of financial position.

Over and above the direct equity investment in SGE, SEH finances SGE in the form of shareholder loans which may attach to it beneficial financing terms which under AAS may be considered equity contributions to the investee. In addition, adjustments are necessary to the carrying amount of the investment in SGE, where interest on loans made by SEH to SGE has been capitalised in SGE to the costs of qualifying assets. The recognition of the interest income in SEH of interest charged to SGE which it has capitalised to qualifying assets would result in a mismatch of inter-related income and expense and could artificially distort consolidated net profit. Accordingly, where the interest expense in SGE has been capitalised to qualifying assets, the interest income in SEH has been applied against the equity investment in SGE.

Interest was not paid by SGE during the period, instead it has been capitalised to the principal on the loan between SEH and SGE.

At initial recognition, loans are measured at fair value plus transaction costs that are directly attributable to the acquisition of the loans. Loans are subsequently carried at amortised cost using the effective interest method.

The difference between the fair value of the loans provided to the JV and the amount of funds advanced in substance represents an equity contribution in the JV and is recognised by the Company as an addition to its investment in the JV.

SEH's interest-bearing loan to SGE	**2017** US$	2016 US$
Carrying amount at the beginning of the year	59,690,712	48,933,348
Advances to SGE	5,390,000	12,779,200
Interest on principal	6,014,213	4,195,571
Fair value adjustment	(853,950)	(6,217,407)
Interest-bearing loan receivable	**70,240,975**	**59,690,712**

The loan is denominated in US dollars, unsecured and has an interest rate which is benchmarked against the People's Bank of China borrowing rate for loans over five years. As at 31 December 2017 the rate was 4.90% (2016: 4.90%). It has been classified as non-current based on the repayment terms of the loan agreement. The weighted average interest rate ("WAIR") was 9.45% (2016: 9.41%).

A3. Recoverability of the investment in SGE

The Company undertakes a review of its investment in SGE whenever events or changes indicate that its carrying value may exceed its estimated net recoverable amount. In analysing the recoverability of its investment in SGE, management has considered both its interest in the JV accounted for using the equity method and the loans to SGE. The process of estimating the recoverable amount requires significant judgement. Management examine the recoverable amount with reference to fair value less cost to dispose through observations of market transactions as well as value-in-use assessments based on cashflow modelling. The 2016 sale of MIE's 51% interest in SGE indicates a recoverable amount on a fair value less cost to dispose basis in excess of the investment in SGE. Value-in-use assessments involve an evaluation and assessment of future commodity prices, Reserves and Resources, production costs, sustainable capital requirements, foreign exchange rates, discount rates and income tax rates. Management also employed the use of a discounted cash flow model to determine the recoverable amount on a value-in-use basis of the Company's investment in SGE. The discounted cash flow model prepared as at 31 December 2017 includes independently assessed 2P Reserves and assumes a real discount rate of 10%, wellhead price of US$6.98/Mscf, inflated at 2.5% per year, average lifting costs (opex+capex) inclusive of inflation of 2.5% per year of approximately US$1.20/Mscf and current Chinese corporate tax applicable under the PSCs, and a constant USD/Renminbi ("CNY") exchange rate of 6.90. Based on current economic conditions and information available, no reasonably possible change in a key assumption used in the model would expect to result in a material impairment.

From this analysis, management has determined that the investment in SGE is not impaired.

Key estimates and judgements
Reserves and Resources

The estimation of Reserves and Resources require significant management judgement and interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. Estimates of oil and natural gas reserves are used to calculate depreciation and amortisation charges. Judgement is used in determining the reserve base applied to each asset. Estimates are reviewed regularly or when there are changes in the economic circumstances impacting specific assets or asset groups. These changes may impact depreciation and amortisation and asset carrying values.

A4. SEH's commitments and contingencies relating to SGE

The Company intends to continue pilot production and the evaluation of its Linxing and Sanjiaobei PSCs. The minimum spending commitment of SGE is US$52,800,000 (2016: US$77,600,000) in accordance with the PSCs. The Company's share of SGE's total capital commitments at the balance date was US$25,872,000 (2016: US$38,024,000).

SGE had no recorded contingent liabilities as at 31 December 2017 (2016: Nil).

A5. Significant accounting policies used in SGE

Recognition of revenue on pilot gas accounted for using equity method

Revenue in SGE is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to SGE and the revenue can be reliably measured. For the financial year, revenue has been recognised on production relating to both Linxing and Sanjiaobei PSCs.

Exploration and evaluation expenditure

Areas of interest are recognised at the cash generating unit ("CGU") level, being the smallest grouping of assets generating independent cash inflows. If recoverable amounts cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows. Exploration expenditure for each area of interest is carried forward as an asset provided that one of the following conditions is met:

(i) such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or

(ii) exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable Reserves, and active operations in relation to the area are continuing.

Exploration expenditure which fails to meet at least one of the conditions outlined above is written off. Exploration and evaluation expenditure are no longer classified as such when the technical feasibility and commercial viability of extracting a hydrocarbon resource are demonstrable.

Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation, amortisation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

The cost of oil and gas properties is amortised based on the unit of production method. Unit of production rates are based on total proved natural gas reserves and incorporate estimated future capital costs required to produce such proved reserves. Proved natural gas reserves are the estimated quantities of natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

Other tangible assets are depreciated over three years using straight-line method.

Impairment

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

B- GROUP PERFORMANCE

B1. General and administration expenses

Included within general and administration expenses in the statement of loss and other comprehensive loss are the following:

	2017 US$	2016 US$
Employment costs[2]	4,128,653	3,331,939
Professional fees[1]	1,157,959	846,726
Corporate office expenses[2]	1,160,544	1,144,411
Total	**6,447,156**	**5,323,076**

1) Included in professional fees is the remuneration of auditors below.

2) The operating lease payments recorded in the employment costs and corporate office expenses were US$905,553 (2016: US$624,737).

Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditor of the parent entity, and its related practices:

	2017 US$	2016 US$
Audit fees		
Audit and review of financial statements	86,883	73,882
SEH's share of audit services of SGE	32,642	35,597
Total audit fees	**119,525**	**109,479**
Non-audit fees		
Taxation services	21,642	86,371
SEH's share of tax services of SGE	27,308	-
Total non-audit fees	48,950	86,371
Total auditor's remuneration	**168,475**	**195,850**

The Group's auditor for 2017 and 2016 is Ernst & Young. The Group may employ its auditor on assignments in addition to their statutory audit duties where the auditor's expertise and experience with the Group are important or where the auditors were successful in a competitive selection process. These assignments are principally related to tax consulting services.

B2. Income taxes

Numerical reconciliation of income tax expense to prima facie tax payable

	2017 US$	2016 US$
Loss before income tax expense	(4,414,415)	(7,340,734)
Tax at the Australian tax rate of 30% (2016: 30%)	(1,324,325)	(2,202,220)
Non-deductible and non-assessable non-temporary items	270,192	185,434
Expenses attributable to branch office China	1,110,112	804,908
Income taxes on the branch office in China at China tax rate of 25%	82,461	442,365
Tax rate differential between Australia and China (5%)	16,492	88,473
Tax rate differential between Australia and Hongkong (13.5%)	45,988	-
Net change in the unrecognised deferred tax asset on tax losses carried forward	(118,459)	1,123,405
Income tax expense	**82,461**	**442,365**

Recognition and measurement

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised. The tax rates and laws used to determine the amount are based on those that have been enacted or substantively enacted by the end of the reporting period. Income taxes relating to items recognised directly in equity are recognised in equity.

Current tax

Current tax expense is the expected tax payable on taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax is not recognised if the taxable difference relates to investments in subsidiaries to the extent that the Group is able to control the reversal of the temporary difference and it is not probable to reverse in the foreseeable future.

Offsetting deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

Current or deferred income tax expense recorded during the year was US$82,461 (2016: 442,365).

Deferred tax balances

	2017 US$	2016 US$
Provisions and accruals	99,837	94,104
Business related costs	322,970	565,197
Costs of issued capital	342,111	471,380
Other non-current assets	2,822,895	1,983,132
Tax losses	3,928,576	4,007,601
Deferred tax asset	7,516,389	7,121,414
Investment under equity accounting	(7,516,389)	(7,121,414)
Deferred tax liability	(7,516,389)	(7,121,414)
Net deferred tax balance	-	-

Tax losses

	2017 US$	2016 US$
Unused tax losses (excluding capital losses) for which no deferred tax asset has been recognised	7,478,805	6,249,310
Potential tax benefit @ 30%	2,243,642	1,874,793

B3. Other commitments and contingencies

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2017 US$	2016 US$
Within one year	576,790	376,413
Later than one year but not later than five years	63,143	182,663
	639,933	**559,076**

B4. Loss per share

	2017 Cents	2016 Cents
Basic loss per share		
Total basic loss per share attributable to the ordinary equity holders of the company	(0.21)	(0.38)
Diluted loss per share		
Total diluted loss per share attributable to the ordinary equity holders of the company	(0.21)	(0.38)

The total loss for the year attributable to shareholders as reported in the statement of profit or loss and other comprehensive loss of US$4,496,876 (2016: loss of US$7,783,098) was not adjusted to calculate both basic and diluted earnings per share.

The weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share was 2,107,583,199 (2016: 2,074,132,672).

The weighted number of share options, deferred shares and performance rights ("PR"s) on issue during the year and comparable year has not been included in the calculation of the denominator of diluted earnings per share because they were anti-dilutive for both reporting periods. They could potentially dilute basic earnings per share in the future.

Refer to note **D3** for number of PRs and deferred shares outstanding at 31 December 2017. These PRs are contingently issuable shares and accordingly not included in diluted earnings per share. The PRs and deferred shares while antidilutive in the current period could potentially be dilutive in the future.

C- LIQUIDITY, DEBT AND CAPITAL

C1. Cash and cash equivalents

	2017 US$	2016 US$
Cash and cash equivalents	27,972,052	44,233,179

Recognition and measurement

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value. For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash and cash equivalents as set out above.

The weighted average interest rate at year-end was 1.44% (2016: 0.80%).

Foreign denomination of cash and cash equivalents held	2017 US$	2016 US$
In AUD	1,050,689	846,754
In USD	25,841,537	42,367,163
In HKD	120,952	-
In CNY	958,874	1,019,262
Total in USD	**27,972,052**	**44,233,179**

Reconciliation of loss after income tax to net cash outflow from operating activities

	2017 US$	2016 US$
Loss for the year	(4,496,876)	(7,783,098)
Other non-cash items	(102,980)	(39,976)
Depreciation and amortisation of non-current assets	165,961	117,239
Share-based payments expense	890,761	618,115
Transaction costs amortised	-	671,924
Share of loss from JV	2,335,019	2,299,415
Interest income from loan to SGE	(6,014,213)	(2,428,913)
(Increase) / decrease in trade and other receivables	(328,398)	96,529
Increase in current payables	401,464	439,302
Decrease in provisions	-	(53,345)
Net cash outflow from operating activities	**(7,149,262)**	**(6,062,808)**

C2. Borrowings

Current borrowings	2017 US$	2016 US$
Principal	10,000,000	-
Non-current borrowings		
Principal	-	10,000,000
Total borrowings	**10,000,000**	**10,000,000**

Financing costs	2017 US$	2016 US$
Interest expense	1,091,355	1,043,672
Transaction costs amortised	-	671,924
Total financing costs	**1,091,355**	**1,715,596**

Recognition and measurement

Borrowings are initially recognised at fair value, net of transaction costs incurred, with subsequent measurement at amortised cost using the effective interest rate method. Under the effective interest rate method, the difference between the amount initially recognised and the redemption amount is recognised in profit or loss over the period of the borrowings on an effective interest basis. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance date.

The WAIR at year-end was 10.94% (2016: 10.44%) entirely denominated in USD.

In 2014, Sino Gas entered into a US$50 million term debt facility ("Existing Facility") agreement with Macquarie Bank ("Macquarie"). The full amount of Tranche A (US$10 million) of the debt facility was drawn down in September 2014. Repayment of the drawn amount was extended with the first repayment of US$1.67 million due on 30 September 2018 and the remainder on 31 December 2018.

The interest rate is 3 Month LIBOR + 9.75%.

Upon the draw-down of Tranche A of the existing facility, 30 million four-year options were issued with an exercise price of A$0.25 per share, of which 15 million options have vested with no conditions attached and 15 million options vest pro rata based on the drawdown of the first US$10 million of Tranche B funds. The options expire 1 September 2018.

The 15 million options granted with no conditions were valued at A$0.0915 per share at the grant date of 28 August 2014. The resulting US$1,372,972 was included in the transaction costs of borrowing with a corresponding increase in equity. The amount was amortized over the original availability period of Tranche A.

Options issued on borrowing facilities are measured at fair value on the grant date using the Black-Scholes option pricing model.

Sino Gas has complied with the financial covenants of its borrowing facility during the 2017 and 2016 reporting periods.

In December 2017, Sino Gas entered into a new five-year senior secured US$100 million debt facility ("New Facility") agreement with Macquarie, which will replace the existing debt facility agreement. Conditions precedent related to the new facility were satisfied in January 2018 after which the existing facility was repaid and cancelled.

Key terms of the New Facility include:

- 5-year senior non-revolving facility secured against the Company's assets, including the shares in SGE
- US$68 million fully committed and, subject to Macquarie credit approval, an additional US$32 million
- Phased availability of US$50 million to fund repayment of the existing Macquarie debt facility (US$10 million), project development, financing costs and G&A expenses
- US$18 million available upon exercise of the Linxing Option to fund the exercise of the Linxing Option, project development and financing costs
- Interest rate of LIBOR +8.2% prior to ODP approval, stepping down to LIBOR +6.5% with ODP approvals
- 60% of the amount outstanding at the end of the third year to be repaid in equal quarterly instalments over years four and five, with the remainder due at end of year five
- The facility may be repaid at any time at the full discretion of the Company without penalty

Transaction costs of US$1,540,627 were incurred to 31 December 2017 in establishing the New Facility and have been classified as prepayments in the Consolidated Statement of Financial Position.

The principal balance has been classified as current in the Consolidated Statement of Financial Positions since at year-end the conditions precedent to finalise the New Facility were satisfied in January 2018. The outstanding amount at 31 December 2017 has been repaid through the proceeds of a drawdown from the New Facility. The borrowings will be classified as long-term in future financial statements.

C3. Issued capital and reserves

	2017 US$	2016 US$
Equity and reserves		
Issued Capital	177,164,771	174,892,183
Reserves	11,240,812	10,407,482

Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. The shares have no par value.

Issued and Paid Up Capital	No. of Shares	US$
Balance at 1 January 2017	2,074,373,953	174,892,183
Issue of shares through exercise of outstanding options (a1)	25,000,000	1,425,656
Issue of shares as a result of Linxing Option purchase (a2)	12,000,000	846,932
Issue of shares through conversion of PRs (a3)	2,323,680	-
Balance at 31 December 2017	**2,113,697,633**	**177,164,771**
Balance at 1 January 2016	2,073,678,608	174,793,004
Issue of shares through conversion of deferred shares (b)	695,345	99,179
Balance at 31 December 2016	**2,074,373,953**	**174,892,183**

(a1) In 2017, the outstanding options as at 31 December 2016 were exercised at an exercise price of A$0.075.

(a2) As part of the consideration to purchase the Linxing Option, Sino Gas issued 12,000,000 ordinary shares to the seller with a fair value of A$0.093 per share. The fair value was included as part of the carrying value of the exploration and evaluation assets. For details of this transaction, please refer to note **D1**.

(a3) During 2017, the Company issued 2,323,680 fully paid ordinary shares following the exercise of PRs under the Company's PRP.

(b) During 2016, the Company issued 695,345 fully paid ordinary shares under the Company's short-term incentive ("STI") plan related to the 2014 STI.

Reserves

	2017 US$	2016 US$
Option Reserve	5,788,508	5,788,508
Performance Rights Reserve	5,107,619	4,499,974
Deferred shares Reserve	344,685	119,000
Equity Settled Benefits Reserve	**11,240,812**	**10,407,482**

This reserve is used to record the value of equity benefits provided to employees and, historically, directors as part of their remuneration and to suppliers as payments for services. The reserve initially arises on the grant of the equity settled benefit. As part of the revised remuneration framework adopted in 2014, the Company no longer offers equity benefits to non-executive directors.

Movements in reserves during the year	2017 US$	2016 US$
Balance at the beginning of the financial year	10,407,482	9,853,326
PR expense (a)	607,645	499,115
Share of movement in SGE's share-based payment reserves	-	35,220
Transfer of shares for the settlement of PRs / deferred shares	-	(99,179)
Deferred shares expense	225,685	119,000
Balance at the end of the financial year	**11,240,812**	**10,407,482**

(a) PR expense

Each PR is exercisable for one ordinary share at nil consideration, upon satisfaction of certain performance hurdles set in the PRP. Please refer to **D3** for details. During the year, 2,323,680 PRs were exercised (2016: nil), 2,026,320 employee PRs lapsed (2016: 750,000) and 9,576,014 employee PRs were issued (2016: 12,414,794).

C4. Financial risk management

Financial risk management objectives

The Group is exposed to financial risks through the normal course of its business operations. The key financial risks impacting the Group relate to its financial instruments as per those disclosed in the statement of financial position. Specifically, those key risks are considered to be foreign currency risk and interest rate risk. The Group's financial instruments exposed to these risks are cash and short-term deposits, receivables, loans to SGE, payables and borrowings.

The Board of Directors of the Company monitor the Group's risks on an ongoing basis. The Group does not use derivative financial instruments as part of its risk management process.

Capital risk management

As set out in **C2** and **C3,** a combination of equity and debt funding has been used to fund the operations of the Group to date. The Company manages its capital to ensure it will be able to continue as a going concern while maximising return to shareholders. The Group's overall strategy remains unchanged from the previous financial year. Under the terms of the Macquarie borrowing facility, the Company is required to comply with a number of covenants. Refer to **C2** for details.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated loss.

Interest rate risk management

The Group's cash flow is exposed to interest rate risk as entities in the Group borrow, lend and deposit funds at floating rates of interest. The Group's fixed interest rate financial instruments are carried at amortised cost and are not subject to interest rate risk, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rate. The weighted average interest rate is set out in **A2**, **C1** and **C2** for the items affected.

The following table details the Group's pre-tax loss sensitivity to a 1% increase and decrease in variable interest rates:

	Loss increase/(decrease)	
	2017 US$	2016 US$
1% increase in interest rates	139,651	(318,463)
1% decrease in interest rates	(139,651)	318,463

The impact on loss for the year of a 1% increase or decrease in interest rate on loans receivable is (US$229,397) / US$219,385 for 2017 and (US$225,364)/US$216,603 for 2016. However, these amounts have no impact on the Group's pre-tax loss, as the interest income on loans receivable is eliminated under equity accounting method (refer to **A2**).

Foreign currency risk management

The functional currency of the Company is US dollars. Certain financial instruments of the Group are exposed to movements in the Australian dollar ("AUD"), and CNY against the US dollar. The Company does not currently undertake any hedging activities to manage foreign currency risk.

The carrying amount of the Group's currency denominated monetary assets and monetary liabilities expressed in US dollars at the reporting date is set out in their respective sections, being **A2, C1, C2.**

The following exchange rates applied during the year:

	Average rate		Reporting date 31 December	
	2017	2016	**2017**	2016
1 AUD equates to USD	0.767	0.744	0.780	0.724
1 CNY equates to USD	0.148	0.151	0.153	0.144

The following table details the Group's pre-tax loss sensitivity to a 10% increase and decrease in the AUD and CNY against the US dollar:

	Loss increase/(decrease)			
	2017		**2016**	
	AUD	**CNY**	AUD	CNY
	US$	**US$**	US$	US$
10% increase	(103,828)	(97,074)	(85,512)	28,330
10% decrease	103,828	97,074	85,512	(28,330)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors of the Company. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring there are appropriate plans in place to finance future cash flows.

The following table sets out a maturity analysis of the Group's financial liabilities:

	Trade and other payables	Interest bearing loans and borrowings
	US$	US$
31 December 2017		
< 6 months	3,852,408	547,176
6-12 months	-	10,547,177
>12 months	-	-
Total – 2017	**3,852,408**	**11,094,353**
Carrying Amount – 2017	**3,852,408**	**10,000,000**
31 December 2016		
< 6 months	2,325,536	525,000
6-12 months	-	525,000
>12 months	-	11,050,000
Total – 2016	**2,325,536**	**12,100,000**
Carrying Amount - 2016	**2,325,536**	**10,000,000**

Fair value of financial instruments

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the consolidated financial statements represents or approximate their respective fair values.

Credit risk management

The Group's maximum exposure to credit risk is the carrying amount of those assets as indicated in the statement of financial position. Credit risk on financial instruments refers to the potential financial loss to the Group that may result from counterparties failing to meet their contractual obligations. The Group manages its counterparty credit risk by limiting its transactions to counterparties of sound credit worthiness. The Group faced no significant credit exposures at the balance date.

D- OTHER ITEMS

D1. Exploration and evaluation assets

During the year, a Sale and Purchase Agreement was entered between a wholly-owned subsidiary of SEH and CBM Energy Associates L.C. ("CBME") to purchase CBME's option ("Option") to acquire a 7.5% (reduced to 5.25% on full PSC Partner back-in) participating interest in the Linxing PSC at ODP approval. The Option was originally agreed between CBME and ChevronTexaco China Energy Company in 2005.

To exercise the Option, Sino Gas would be required to reimburse SGE 7.5% of all historical costs and expenses incurred under the Linxing PSC at the time of exercise.

The costs to acquire the option have been capitalised as Exploration and Evaluation assets in the financial statements based on the fair value of consideration given up, consisting of cash and ordinary shares and other costs directly related to the transaction.

The Company periodically undertakes a review of the recoverability of the Option purchased. Management has determined that the option is not impaired.

D2. Events occurring after the reporting period

Subsequent to period end, the Company has satisfied all the conditions precedent defined in the New facility and the Existing Facility was repaid with the New Facility. As well, in January, the Company issued 3,209,866 ordinary shares upon the partial conversion of PRs and award of deferred shares to senior executives as part of the Company's 2016 STI plan and the Company awarded a total of 1,744,744 deferred shares (the issue of which is deferred to after 31 December 2018) to senior executives in accordance with the Company's 2017 STI Scheme.

D3. Share-based payments

	2017 US$	2016 US$
Performance rights expense	607,645	499,115
Deferred shares expense	225,685	119,000
Long-term incentive ("LTI") expense	57,431	-
Total share-based compensation	**890,761**	**618,115**

Employee performance rights plan

With the exception of PRs that may be granted to senior executives as part of a recruitment package, all outstanding PRs at the end of 2017 are based on at least a three-year performance period. In the event that an individual ceases to hold office, other than due to a Qualifying Reason, PRs which are not exercisable will lapse. In the event that an individual ceases to hold office due to the occurrence of a Qualifying Reason, the PRP includes a provision to award PRs pro-rata based on the number of days worked in the Performance Period subject to progress towards satisfaction of the applicable Performance Criteria, in the opinion of the Board.

The PRs are satisfied by the issue or procurement of fully paid ordinary shares or payments in cash when the applicable performance hurdles are met.

Performance Rights Valuation

The fair value of the services received in return for PRs granted are measured by reference to the fair value of the PRs granted. The fair value of the services is recognised as an expense on a straight-line basis over the vesting period and is determined by multiplying the fair value per PR by the number of PRs expected to vest.

The probability of achieving market performance conditions is incorporated into the determination of the fair value per PR. No adjustment is made to the expense for PRs that fail to meet the market condition. The number of PRs expected to vest based on achievement of operational conditions, are adjusted over the vesting period in determining the expense to be recognised in the consolidated income statement.

In determining the fair value of PRs granted during 2017, the Company has assumed an exercise price of nil and a dividend yield of nil. The volatility is determined based on the historical volatility. Other inputs in relation to options and PRs are:

No. issued	Valuation date	Share price (A$)	Expiry date	Expected Volatility	Risk free interest rate	Weighted average fair value granted (US$)	Weighted average fair value granted (US$) RSR	ASR	OP
5,347,173	18 May 2017	$0.087	31 Mar 2020	70%	1.67%	0.047	0.048	0.023	0.065
4,228,841	2 Jun 2017	$0.090	31 Mar 2020	70%	1.58%	0.049	0.049	0.024	0.067

Key estimates and judgements - ***Valuation of PRs***

The fair value of PRs related to absolute shareholder return ("ASR") and relative shareholder return ("RSR") performance metrics is calculated at the date of grant using the Monte-Carlo simulation model, taking into account, amongst other things, the impact of the performance condition. The fair value of PRs related to operational performance ("OP"), and tenure rights is calculated using a binominal valuation pricing model.

The movements in PRs during the financial year ended 31 December 2017 are as follows:

	2017		2016	
	No.	Weighted average grant fair value	No.	Weighted average grant fair value
Outstanding at the beginning of the year	24,386,899	US$0.078	12,722,105	US$0.091
Granted during the year	9,576,014	US$0.048	12,414,794	US$0.063
Forfeited or lapsed during the year	(2,026,320)	US$0.084	(750,000)	US$0.060
Exercised during the year	(2,323,680)	US$0.073	-	-
Outstanding at the end of the year	29,612,913	US$0.068	24,386,899	US$0.078
Exercisable at the end of the year	3,052,562	US$0.114	2,323,680	US$0.084

Of the PRs outstanding at the end of the year, 9,122,105 were either exercised or lapsed subsequent to balance sheet date and 20,490,808 have a weighted average vesting period of 1.5 years.

The weighted average share price at the date of exercise for PRs exercised during the financial year ended 31 December 2017 was US$0.08 (2016: nil).

The following table details the number and weighted average grant fair value at grant date of PRs outstanding at year end.

Series	Grant date	Expiry date	Performance Hurdles			No. of shares under PRP	Weighted average grant fair value (US$)
			RSR	ASR	OP		
31 December 2017							
2014 LTI Grant	16 Jul 2014	31 Jan 2018 (T2:50%)	40%	40%	20%	1,850,000	US$0.099
2014 LTI Grant	05 Aug 2014	31 Jan 2018 (T2:100%)	40%	40%	20%	4,500,000	US$0.103
2015 LTI Grant	15 May 2015	31 Jan 2018	40%	40%	20%	2,772,105	US$0.070
2016 LTI Grant	17 May 2016	31 Mar 2019	30%	30%	40%	7,580,692	US$0.068
2016 LTI Grant	13 Jun 2016	31 Mar 2019	30%	30%	40%	3,334,102	US$0.061
2017 LTI Grant	18 May 2017	31 Mar 2020	30%	30%	40%	5,347,173	US$0.047
2017 LTI Grant	2 Jun 2017	31 Mar 2020	30%	30%	40%	4,228,841	US$0.049
						29,612,913	US$0.068

Series	Grant date	Expiry date	Performance Hurdles			No. of shares under PRP	Weighted average grant fair value (US$)
			RSR	ASR	OP		
31 December 2016							
2014 LTI Grant	16 Jul 2014	31 Jan 2017 (T1:50%) & 31 Jan 2018 (T2:50%)	40%	40%	20%	3,700,000	US$0.099
2014 LTI Grant	05 Aug 2014	31 Jan 2018 (T2:100%)	40%	40%	20%	4,500,000	US$0.103
2014 LTI Grant	29 Sep 2014	31 Jan 2017 (T1:50%) & 31 Jan 2018 (T2:50%)	40%	40%	20%	1,000,000	US$0.093
2015 LTI Grant	15 May 2015	31 Jan 2018	40%	40%	20%	2,772,105	US$0.070
2016 Grant	13 Jan 2016	01 May 2017	Continued Employment			1,500,000	US$0.047
2016 LTI Grant	17 May 2016	31 Mar 2019	30%	30%	40%	7,580,692	US$0.068
2016 LTI Grant	13 Jun 2016	31 Mar 2019	30%	30%	40%	3,334,102	US$0.061
						24,386,899	**US$0.078**

The hurdles are summarized below:

(a) **Continued Employment**: from the date of issue until the date 12 months from individual's commencement date. This is only applicable to PRs granted to senior executives as part of a recruitment package;

(b) **RSR**: The Performance hurdle will be the percentage movement in the share price of the Company relative to the Peer Group (as below or subject to any variations considered necessary by the Board). The PRs will vest as follows:

Company ranking against Peer Group	% of PRs to vest
Less than 50th percentile	0%
50th to 90th percentile	Proportionate vesting between 0% and 100%
More than 90th percentile	100%

2014 & 2015 LTI Grants

The Peer Group comprises: Green Dragon Gas Ltd (LSE: GDG), MIE Holdings Corporation (SEHK: 1555), Far East Energy Corporation (US:FEEC), Sino Oil and Gas Holdings Limited (SEHK: 0702), Beach Energy Limited (ASX:BPT), Senex Energy Limited (ASX:SXY), Drillsearch Energy Limited (ASX:DLS), AWE Limited (ASX:AWE), Horizon Oil Limited (ASX:HZN), Tap Oil Limited (ASX:TAP), Karoon Gas Australia Limited (ASX:KAR), Buru Energy Limited (ASX:BRU), Great Eastern Energy Corporation Ltd. (LSE:GEEC), Sundance Energy Australia Limited (ASX:SEA), Maverick Drilling and Exploration Limited (ASX: MAD), Cooper Energy Limited (ASX:COE), Antares Energy Limited (ASX:AZZ), and Pancontinental Oil and Gas NL (ASX:PCL).

2016 LTI Grant

The Peer Group comprises: Green Dragon Gas Limited (LSE: GDG), MIE Holdings Corporation (SEHK: 1555), AAG Energy Holdings Limited (SEHK: 2686), Sino Oil and Gas Holdings Limited (SEHK: 0702), Beach Energy Limited (ASX:BPT), Senex Energy Limited (ASX:SXY), AWE Limited (ASX:AWE), Horizon Oil Limited (ASX:HZN), Tap Oil Limited (ASX:TAP), Karoon Gas Australia Limited (ASX:KAR), Buru Energy Limited (ASX:BRU), Sundance Energy Australia Limited (ASX:SEA), Cooper Energy Limited (ASX:COE), and Carnarvon Petroleum Limited (ASX:CVN).

2017 LTI Grant

The Peer Group comprises: G3 Exploration Limited (LSE: G3E) (previously known as Green Dragon Gas Ltd (LSE: GDG)), AAG Energy Holdings Limited (SEHK: 2686), Sino Oil and Gas Holdings Limited (SEHK: 0702), Beach Energy Limited (ASX:BPT), Senex Energy Limited (ASX:SXY), AWE Limited (ASX:AWE), Horizon Oil Limited (ASX:HZN), Tap Oil Limited (ASX:TAP), Karoon Gas Australia Limited (ASX:KAR), Buru Energy Limited (ASX:BRU), Sundance Energy Australia Limited (ASX:SEA), Cooper Energy Limited (ASX:COE), Carnarvon Petroleum Limited (ASX:CVN) and FAR Limited (ASX:FAR).

For all these LTI grants with RSR hurdles, the share price comparison will be based on the 90-day volume weighted average price of ordinary shares quoted on the applicable stock exchange immediately prior to the date of issue and end of the three-year Performance Period.

(c) ASR:

The share price comparison will be based on the last five-day volume weighted average price of ordinary shares quoted on the applicable stock exchange immediately prior to the beginning of the Performance Period and immediately prior to the end of the three-year Performance Period.

The PRs will vest as follows:

2014 & 2015 LTI Grants

Company share price (A$)

2014 LTI Grant (T1) 31 December 2016	2014 LTI Grant (T2) & 2015 LTI Grant 31 December 2017	% of PRs to vest
Under A$0.30	Under A$0.40	0%
A$0.30 to A$0.60	A$0.40 to A$0.70	Proportionate vesting between 0% and 100%
Over A$0.60	Over A$0.70	100%

2016 LTI Grant

Company share price change	% of PRs to vest
Less than 30% compound p.a.	0%
30% compound p.a.	30%
>30% and <50% compound growth p.a.	Pro-rata
50% compound growth p.a.	75%
>50% and <75% compound growth p.a.	Pro-rata
70% or more compound growth p.a.	100%

2017 LTI Grant

Company share price change	% of PRs to vest
Less than 25% compound p.a.	0%
25% compound p.a.	50%
>25% and <40% compound growth p.a.	Pro-rata
40% compound growth p.a.	75%
>40% and <55% compound growth p.a.	Pro-rata
55% or more compound growth p.a.	100%

(d) OP:

2014 & 2015 LTI Grants

The Performance hurdle will be the average of daily gross production measured in Million standard cubic feet per day (MMscf/d) for the period of one month prior to the end of the performance period for online production days. The PRs will vest as follows:

Average daily gross production

2014 LTI Grant (T1)	2014 LTI Grant (T2) & 2015 LTI Grant	
31 December 2016	31 December 2017	% of PRs to vest
Under 25 MMscf/d	Under 50 MMscf/d	0%
25 - 50 MMscf/d	50 - 100 MMscf/d	Proportionate vesting between 0% and 80%
50 - 60 MMscf/d	100 - 120 MMscf/d	Proportionate vesting between 80% and 100%
Over 60 MMscf/d	Over 120 MMscf/d	100%

2016 LTI Grant

Overall Development Plan ("ODP"): The performance hurdle will be the approval by the relevant Chinese authorities of an ODP on either the Linxing or Sanjiaobei PSC by the end of 2018 to enable Sino to proceed to full-field development.

2017 LTI Grant

ODP: The performance hurdle will be the approval of an ODP on either the Linxing PSC (50% to vest) and Sanjiaobei PSC (50% to vest).

Deferred shares – executive STI scheme

Under the Company's STI scheme, the Managing Director and Chief Financial Officer receive 50% of the annual STI achieved in deferred shares and can elect to receive the remaining 50% in the form of deferred shares or in cash.

The number of deferred shares to be granted is determined based on the dollar value of the achieved STI divided by five-day volume weighted average price at which the Company's shares are traded on the ASX prior to satisfaction of the STI hurdles.

If the eligible executive terminates his or her employment due to a Qualifying Reason prior to the issue date, the number of Shares to be issued will be pro-rated based on the number of days elapsed between the entitlement date and the issue date as at the date of cessation of employment.

The fair value is recognised as an expense and in the equity settled benefits reserve over the relevant service period, being the year to which the bonus relates and the year of deferral.

Fair value of deferred shares	2017	2016
Number of rights to deferred shares	1,744,744	2,860,090
Fair value (per share)	US$0.122	US$0.083

The Managing Director and Chief Financial Officer hold an interest in 1,199,057 and 545,687 deferred shares respectively to be issued after 31 December 2018 with respect to 2017 STI award (2016 STI award: 1,946,786 and 913,304 deferred shares respectively to be issued after 31 December 2017). The fair value of the deferred shares (per share) granted on 31 December 2017 was US$0.122 (2016:US$0.083).

LTI Bonus Plan

The Board of Directors approved an LTI Bonus Plan for employees who do not participate in the PRP effective 1 January 2016. Annually, at the discretion of the Board, each eligible employee shall receive LTI bonus entitlements based on 15% of their base annual salary, which are payable after a three-year performance period and satisfaction of performance conditions. The Performance Conditions are determined by the board each year and are linked to those approved under the PRP and continued employment. Employees are required to be employed by the company at the time the LTI Bonus is paid and as such, any departed employees forfeit their LTI Bonus Entitlements.

After the three-year performance period and at the discretion of the Board, employees will receive an additional cash bonus based on the number of LTI Bonus Entitlements, the then existing share price and progress on satisfaction of the Performance Conditions. The LTI Bonus is accounted for as cash settled share-based payment and presented as a liability in the statement of financial position.

Share Options

C2 includes a summary of the key terms and conditions of the 30,000,000 four-year options that were issued to Macquarie in 2014.

D4. Key management personnel disclosures

	2017	2016
	US$	US$
Short-term employee benefits	2,768,390	2,713,993
Post-employment benefits	7,310	7,043
Share-based payments	832,880	638,735
	3,608,580	**3,359,771**

D5. Group and parent entity information

Group information

	Country of incorporation	**2017 Interest %**	2016 Interest %
Subsidiaries			
Sino Gas & Energy Nominees Pty Ltd	Australia	100%	100%
Daily Glory Investment Limited	Hong Kong	100%	-
Lucky Asia Industrial Limited	Hong Kong	100%	-
Joint arrangements			
SGE	Australia	49%	49%

Parent entity information

The ultimate parent of the Group is the same as the parent company. The individual financial statements for the parent entity show the following aggregate amounts:

	2017	2016
	US$	US$
Statement of financial position		
Current assets	34,561,088	44,510,652
Total assets	**163,769,409**	**161,019,497**
Current liabilities	13,790,731	2,325,535
Total liabilities	**13,790,731**	**12,325,535**
Net assets	**149,978,677**	**148,693,962**
Shareholders' equity		
Contributed equity	177,164,771	174,892,183
Reserves	10,763,067	9,929,738
Accumulated losses	(36,127,959)	(32,410,934)
Loss for the year	(1,821,201)	(3,717,025)
Total equity	**149,978,678**	**148,693,962**

The Company is not aware of any contingencies relating specifically to the parent entity (2016: nil).

The financial information for the parent entity, Sino Gas, disclosed throughout the report has been prepared on the same basis as the consolidated financial statements except as set out below.

Investments in subsidiaries, associates and jointly controlled entities

Investments in subsidiaries, associates and JV entities are accounted for at cost in the financial statements of Sino Gas. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Segment reporting

In line with the accounting standards, management has assessed that the Group has a single reporting segment for the purposes of financial reporting.

D6. Other accounting policies

Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is likely that the economic benefits will flow to the Group and the revenue can be reliably measured.

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Exploration and Evaluation Expenditure

Areas of interest are recognised at the CGU level, being the smallest grouping of assets generating independent cash flows, which usually is represented by an individual gas field. For the Company this is determined at the level of each PSC.

Exploration expenditure for each area of interest is carried forward as an asset provided that one of the following conditions is met:

(i) such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or

(ii) exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which fails to meet at least one of the conditions outlined above is written off.

Exploration and evaluation expenditure are no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Economically recoverable reserves are reassessed annually.

Impairment

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Borrowing Costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

New accounting standards and interpretations

The Company has adopted new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2017.

The adoption of these standards did not have any impact on the current or prior period.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods. Management will adopt these standards from the effective dates specified in these standards.

Unless stated below, the Group has not yet determined the extent of the impact of the following standards:

AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 Financial Instruments addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities, including a forward-looking 'expected loss' impairment model and introduces new rules for hedge accounting.

Based on an initial impact assessment, the new standard is not expected to have a significant impact on the financial statements.

AASB 15 Revenue from contracts with customers (effective from 1 January 2018)

AASB 15 introduces a new framework for accounting for revenue and will replace AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programs. AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, therefore the notion of transfer of control replaces the exiting notion of transfer of risks and rewards.

Based on an initial impact assessment, the new standard is not expected to significantly impact revenue recognition of the Company or SGE.

AASB 16 Leases (effective from 1 January 2019)

One of the key changes to AASB 16 Leases is that lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. AASB 16 will result in lessees recognising most leases on the statement of financial position.

Management is assessing the impact of implementation of this standard on the financial statements.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 44 to 64 are in accordance with the *Corporations Act 2001*, including:

   i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

   ii. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial year ended on that date, and

(b) *there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.*

The Basis of Preparation note on page 48 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

Glenn Corrie
Managing Director

29 March 2018

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Independent auditor's report to the members of Sino Gas & Energy Holdings Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Sino Gas & Energy Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of loss and other comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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Accounting for the investment and loans to the joint venture including impairment considerations

Why significant	How our audit addressed the key audit matter
Sino Gas & Energy Holdings Limited owns a 49% interest in Sino Gas & Energy Limited ("SGE" or the "joint venture"). In addition, Sino Gas & Energy Holdings Limited provides shareholder loans to SGE, which are recorded as receivables. As detailed in note A2 to the financial report, at 31 December 2017, the investment in SGE amounted to \$53.4 million and the receivable from SGE amounted to \$70.2 million. SGE is the operator of the Linxing and Sanjiaobei Production Sharing Contracts in the Ordos Basin, Shanxi province, China. The Company's 49% interest in SGE is accounted for as a joint venture using the equity method and the investment and receivables are considered for impairment when indicators are identified. The accounting for the results of and the investment in SGE is significant to our audit due to the complexity involved in measuring both the investment as well as the shareholder loan receivable. Refer to note A to the financial report for further detail explaining the key judgments underpinning the accounting for the investment in and receivable from SGE as well as in assessing whether the carrying value is recoverable.	We evaluated the Group's basis of accounting and assessed the carrying value of the investment. In obtaining sufficient audit evidence, we: ► Evaluated the relevant financial information of SGE through our review of the joint venture Component auditors' audit documentation for the purpose of the consolidated financial statements of the Company; ► Assessed the Group's calculations supporting the measurement of the investment and the shareholder loan. This calculation included the discounting of the shareholder loan balance based on the Group's current best estimate of when the shareholder loan will be repaid; ► Evaluated the Group's shareholder loan repayment assumptions having regard to the current status of the project and the group's best estimates of the timeline to finance, develop, commission and produce free cashflow from the project to repay the shareholder loan; ► Verified management's accounting for the loan receivable from SGE based on the terms and conditions of the shareholder loan agreement; ► Assessed the Group's considerations of the impairment indicators of the total investment in SGE, which included the loan receivable from SGE; and ► Evaluated the adequacy of the disclosures in the consolidated financial statements.

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Information other than the financial report and auditor’s report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company’s 2017 Annual Report, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 27 to 38 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Sino Gas & Energy Holdings Limited for the year ended 31 December 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Darryn Hall

Darryn Hall
Partner
Perth
29 March 2018

ADDITIONAL SECURITIES EXCHANGE INFORMATION

Additional Securities Exchange Information

1. Number of holders of equity securities

The shareholder information set out below was applicable as at 21 March 2018.

(a) Ordinary share capital

Distribution of ordinary shares

The Company has a total of 2,116,907,499 fully paid ordinary shares on issue. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. There were 177 holders holding less than a marketable parcel.

The number of securities, by size of holding:

Holding			No. of Holders	Fully Paid Shares
1	-	1,000	141	6,647
1,001	-	5,000	238	914,262
5,001	-	10,000	411	3,305,724
10,001	-	100,000	1,749	76,946,296
100,001	and over		1,002	2,035,734,570
Total Number of holders			3,541	2,116,907,499

Twenty largest holders of ordinary shares

Name	Ordinary shares Number held	Ordinary shares % of Issued Share Capital
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	361,556,440	17.08
J P MORGAN NOMINEES AUSTRALIA LIMITED	309,629,447	14.63
CITICORP NOMINEES PTY LIMITED	270,495,083	12.78
NATIONAL NOMINEES LIMITED	123,405,947	5.83
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	84,696,389	4.00
NERO RESOURCE FUND PTY LTD NERO RESOURCE FUND	50,318,240	2.38
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	45,294,504	2.14
MONEX BOOM SECURITIES (HK) LTD CLIENTS ACCOUNT>	24,197,469	1.14
BNP PARIBAS NOMS PTY LTD <DRP>	22,607,376	1.07
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	22,114,816	1.04
MARFORD GROUP PTY LTD	16,733,896	0.79
AZURE SEA LTD	16,399,896	0.77
G & S HARPER PTY LTD <G & S HARPER FAMILY S/F A/C>	14,511,048	0.69
BNP PARIBAS NOMINEES PTY LTD <JARVIS A/C NON TREATY DRP>	13,650,475	0.64
DURBIN SUPERANNUATION PTY LTD <DURBIN FAMILY S FUND A/C>	12,430,000	0.59
KEEBLE NOMINEES PTY LTD <RIDGEWAY SM SUPER A/C>	11,155,000	0.53
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	10,541,816	0.50
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	10,312,338	0.49
G & N LORD SUPERANNUATION PTY LTD <GNR SUPERANNUATION FUND A/C>	10,000,000	0.47
MR PETER JOHN BOX	9,708,331	0.46
Total Top Twenty Holders	**1,439,758,511**	**68.01**
Total Remaining Holders Balance	**677,148,988**	**31.99**
Total	**2,116,907,499**	**100.00**

(b) Options

Distribution of options

The Company has a total of 30,000,000 unlisted options. The options are summarised below:

Number on issue	Exercise Price	Expiry date
30,000,000 #	$0.25	1 Sep 2018

Of these Options, 15,000,000 are subject to an escrow arrangement. If they remain subject to escrow arrangements as at 1 September 2018, the Company may cancel those options with no consideration payable.

The number of securities, by size of holding:

Unlisted Options

Largest holders of unquoted options holding more than 20%

Shareholder	No. of options	% of total
Macquarie Bank Limited	30,000,000	100.00
Total	30,000,000	100.00

(c) Performance Rights

Distribution of performance rights

The Company has a total of 20,490,808 performance rights on issue held by 4 holders. All of these performance rights have been issued pursuant to the Company's Performance Rights Plan.

The number of performance rights, by size of holding:

Size of Holding	No of holders	Number
1 - 1,000	-	-
1,001 - 5,000	-	-
5,001 - 10,000	-	-
10,001 - 100,000	-	-
100,001 and over	4	20,490,808
Total Number of Holders	4	20,490,808

2. Substantial Shareholders

The Company has received the following substantial shareholder notices:

Name	No. of Shares
FIL Limited and associated entities	150,650,332
IOOF Holdings Limited and associated entities	106,079,532
Commonwealth Bank of Australia and associated entities	167,968,289
Kinetic Investment Partners Pty Ltd	94,257,037

CORPORATE DIRECTORY

Board of Directors

Philip Bainbridge
Chairman

Glenn Corrie
Managing Director

Matthew Ginsburg
Non-Executive Director

Gavin Harper
Non-Executive Director

Bernard Ridgeway
Non-Executive Director

Company Secretary

Harry Spindler

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ASX Code

SEH (ordinary shares)

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Allen & Overy

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HopgoodGanim Lawyers

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Jun He Law Offices

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