



INTERIM FINANCIAL STATEMENTS

International Financial Reporting Standards (IFRS)

**Sino Australia Oil and
Gas Limited**

FOR THE HALF-YEAR ENDED 30 JUNE 2014

ABN 85 159 714 397

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Appendix 4D

Company name: Sino Australia Oil and Gas Limited (“the Company”)

ABN: 85 159 714 397

Reporting period: Half year ended 30 June 2014

Previous corresponding period: Half year ended 30 June 2013

Results for announcement to the market

Consolidated	6 months to 30 June 2014 \$	6 months to 30 June 2013 \$	Movement \$	% Movement
Revenue from continuing activities	18,482,516	16,244,172	2,238,344	13.8
Net profit (loss) after tax	5,761,567	6,883,635	(1,122,068)	(16.3)
Net profit (loss) after tax attributable to members	5,761,567	6,883,635	(1,122,068)	(16.3)
Net tangible assets per security	0.24	0.25	(0.01)	(4.0)

This Appendix 4D is to be read in conjunction with the 2013 Annual Report, the June 2013 Interim Financial Report and Directors’ Report.

The directors do not propose to pay any dividend for the half year ended 30 June 2014.

Key financial highlights

- Increase in revenues generated from continuing activities by 13.8% following increase in the number of wells serviced using hydraulic jet drilling compared to prior period
- Net profit after tax decrease of 16.3% was mainly due to decreased gross margins and significant professional fees incurred in dealings with ASIC’s investigations
- Net tangible assets remained strong at \$42.3 million
- As of the date of signing of the Interim Financial Statements, the ASIC investigation is still ongoing

Appendix 4D

Financial performance	6 months to 30 June 2014 \$	6 months to 30 June 2013 \$	Movement \$	% Movement
Total sales revenue	18,482,516	16,244,172	2,238,344	13.8
Cost of sales	(10,440,768)	(7,918,568)	(2,522,200)	31.9
Gross profit	8,041,748	8,325,604	(283,856)	(3.4)
Net profit (loss) after tax	5,761,567	6,883,635	(1,122,068)	(16.3)
Basic EPS (cents per share)	2.63	3.59	(0.96)	(26.7)
Dilutive EPS (cents per share)	2.63	3.47	(0.84)	(24.2)

Financial position	As at 30 June 2014 \$	As at 31 December 2013 \$	Movement \$	% Movement
Net assets	42,272,282	38,932,990	3,339,292	8.6

Directors' Report

The Directors of Sino Australia Oil and Gas Limited ("Sino") present their Report together with the financial statements of the Consolidated Entity, being Sino ("the Company") and its Controlled Entities ("the Group") for the half-year ended 30 June 2014.

Director details

The following persons were Directors of Sino during or since the end of the financial half-year:

Mr Tianpeng Shao	-	Executive Chairman
Mr Guangbin Zhong	-	Chief Executive Officer
Mr Wrixon Gasteen	-	Non-executive director
Mr David Cornwell	-	Non-executive director
Mr Ruiyu He	-	Non-executive director
Mr Andrew Faulkner		(Removed in March 2014)
Mr Wayne Johnson		(Removed in March 2014)
Ms Heyan Wang		(Resigned in March 2014)

Review of operations and financial results

Financial

Sales revenue for the half year ended 30 June 2014 increased by 14% to \$18.5 million compared to \$16.2 million reported in the previous corresponding period. The increase in revenues are mainly derived from increase in the number of wells serviced using hydraulic jet drilling.

However, lower unit price coupled with increased leasing costs during the period resulted in lower gross profit of \$8.0 million as compared to \$8.3 million during the half year ended 30 June 2013.

Profit

A lower net profit after tax of \$5.8 million was recorded for the half year ended 30 June 2014, compared to \$6.9 million in the previous corresponding period, mainly due to:

- Decreased gross profit; and
- Substantial legal and professional consulting fees incurred as a result of ASIC's investigations.

As a result of the weakening of the Chinese Renminbi, the Company showed a foreign exchange loss on translation of foreign operations of \$2.4 million.

Directors' Report

Operations

During the period, a total of 189 wells using hydraulic jet drilling have been completed and a total of 187 pump inspections were carried out. As at 30 June 2014, a total of 622 wells using hydraulic jet drilling have been contracted but not yet performed and a total of 573 pump inspections have been contracted and not yet performed, with a total value of \$51.9 million. PetroChina is the Company's biggest customer. The decline of its investment in oilfield development this year may cause uncertainty in our oilfield service contracts with PetroChina.

On 30 May 2014 the Court made Orders extending an injunction preventing the Company from transferring money out of its Australian bank accounts other than to pay certain creditors and expenses. Due to the impact of this injunction, the Company was not able to complete the transaction of the intended purchase of three sets of drilling equipment. Following negotiations between the Company and the supplier, Zhaodong Huaying and Continental Oil Machinery Company, a supplementary agreement has been signed to reduce the agreed purchasing quantity from three units to one unit.

The one unit of drilling equipment has been delivered to the Company before the end of the period. The remaining deposit held by the supplier will be refunded to the Company in full before 30 December 2014 in two separate tranches.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under s307C of the *Corporations Act 2001* is included on page 7 of this financial report and forms part of this Directors Report.

Signed in accordance with a resolution of the Directors.



Tianpeng Shao
Chairman

29 August 2014

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**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF SINO AUSTRALIA OIL AND GAS LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Sino Australia Oil and Gas Limited for the half-year ended 30 June 2014, I declare that, 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 review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



S.J. Gray
Partner – Audit & Assurance

Adelaide, 29 August 2014

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 30 June 2014

	Notes	30-Jun-2014 \$	30-Jun-2013 \$
Sales revenue		18,482,516	16,244,172
Cost of sales		(10,440,768)	(7,918,568)
Gross profit		8,041,748	8,325,604
Other revenue		5,279	5,387
Less expenses			
Employee benefit expenses		(610,857)	(112,342)
Interest expenses		-	(162,339)
Share based payments expenses		-	(48,000)
Administration expenses		(1,304,952)	(799,792)
Profit before tax		6,131,218	7,208,518
Tax expense		(369,651)	(324,883)
Profit for the period		5,761,567	6,883,635
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		(2,422,275)	3,185,247
Total comprehensive income for the period attributable to owners of the parent		3,339,292	10,068,882

		30-Jun-2014	30-Jun-2013
Earnings per share	9		
Basic earnings per share (cents)			
Earnings from continuing operations		2.63	3.59
Earnings from discontinued operations		-	-
Total (cents)		2.63	3.59
Diluted earnings per share (cents)			
Earnings from continuing operations		2.63	3.47
Earnings from discontinued operations		-	-
Total (cents)		2.63	3.47

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2014

	Notes	30-Jun-2014 \$	31-Dec-2013 \$
Assets			
Current			
Cash and cash equivalents	5	7,319,406	8,719,858
Trade and other receivables	6	32,572,485	21,544,996
Other current assets		50,630	11,851,838
Current assets		39,942,521	42,116,692
Non-current			
Trade and other receivables	6	671,178	-
Property, plant and equipment	8	12,006,050	6,713,756
Non-current assets		12,677,228	6,713,756
Total assets		52,619,749	48,830,448
Liabilities			
Current			
Trade and other payables		9,935,291	9,494,206
Current tax liabilities		412,176	403,252
Current liabilities		10,347,467	9,897,458
Total liabilities		10,347,467	9,897,458
Net assets		42,272,282	38,932,990
Equity			
Share capital	10	13,130,539	13,130,539
Reserves		2,217,151	4,639,426
Retained earnings		26,924,592	21,163,025
Total equity		42,272,282	38,932,990

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2014

	Share Capital \$	Share Option Reserve \$	Foreign Exchange Reserve \$	Retained Earnings \$	Total Equity \$
Balance at 1 January 2014	13,130,539	48,000	4,591,426	21,163,025	38,932,990
Comprehensive income					
Profit for the period	-	-	-	5,761,567	5,761,567
Other comprehensive income for the period	-	-	(2,422,275)	-	(2,422,275)
Total comprehensive income for the period	-	-	(2,422,275)	5,761,567	3,339,292
Balance at 30 June 2014	13,130,539	48,000	2,169,151	26,924,592	42,272,282

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2013

	Share Capital \$	Share Option Reserve \$	Foreign Exchange Reserve \$	Retained Earnings \$	Total Equity \$
Balance at 1 January 2013	756,238	-	301,249	12,767,188	13,824,675
Transactions with owners in their capacity as owners:					
Directors option scheme	-	48,000	-	-	48,000
Comprehensive income					
Profit for the period	-	-	-	6,883,635	6,883,635
Other comprehensive income for the period	-	-	3,185,247	-	3,185,247
Total comprehensive income for the period	-	-	3,185,247	6,883,635	10,068,882
Balance at 30 June 2013	756,238	48,000	3,486,496	19,650,823	23,941,557

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the half-year ended 30 June 2014

	Notes	30-Jun-2014 \$	30-Jun-2013 \$
Operating activities			
Receipts from customers		10,300,656	14,734,454
Payments to suppliers and employees		(8,759,439)	(8,180,921)
Interest received		5,279	5,387
Income tax paid		(333,035)	(569,596)
Net cash from operating activities		1,213,461	5,989,324
Investing activities			
Purchase of property, plant and equipment		(1,874,154)	(1,628,358)
Deposits paid on purchase of equipment		-	(6,619,738)
Cash receipts from/(advances to) other parties		(379,266)	2,334,538
Net cash used in investing activities		(2,253,420)	(5,913,558)
Financing activities			
Proceeds from issuing of convertible notes		-	3,211,588
Net cash from (used in) financing activities		-	3,211,588
Net change in cash and cash equivalents		(1,039,959)	3,287,354
Cash and cash equivalents, beginning of period		8,719,858	573,024
Exchange differences on cash and cash equivalents		(360,493)	417,470
Cash and cash equivalents, end of period	5	7,319,406	4,277,848

The accompanying notes form part of these financial statements.

Notes to the Condensed Interim Consolidated Financial Statements

1. Nature of operations

Sino Australia Oil and Gas Limited and subsidiaries' ('the Group') principal activities include the provision of Enhanced Oil Recovery (EOR) services for oil and gas wells.

2. General information and basis of preparation

The interim consolidated financial statements of the Group are for the six (6) months ended 30 June 2014 and are presented in Australian dollar (\$AUD), which is the functional currency of the Parent Company. These general purpose interim financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2013 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the *Corporations Act 2001*.

The interim financial statements have been approved and authorised for issue by the Board of Directors on 29 August 2014.

3. Significant accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 31 December 2013.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements.

4. Estimates

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 31 December 2013. The only exception is the estimate of

the provision for income taxes which is determined in the interim financial statements using the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

5. Cash and cash equivalents

	30-Jun-2014	31-Dec-2013
	\$	\$
Cash and cash equivalents	7,319,406	8,719,858

Within the cash balance at 30 June 2014, \$7,075,124 is currently restricted as a result of the ASIC injunction's impact on the Company.

6. Receivables

	30-Jun-2014	31-Dec-2013
	\$	\$
CURRENT		
Trade receivables	27,574,035	21,542,726
Other receivables	4,998,450	2,270
	32,572,485	21,544,996
NON-CURRENT		
Trade receivables	671,178	-
Other receivables	-	-
	671,178	-

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances except for non-current trade receivables which are expected to be received over 12 months from balance date.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements. The company does not hold any collateral as security over any receivable balance, nor does it hold any restrictions of title.

Some of the unimpaired trade receivables are past due, \$21,533,429 (31 December 2013: \$17,686,187) as at the reporting date.

The age of trade receivables is as follows:

Trade receivables ageing analysis at 30 June 2014 is:

	30-Jun-2014	31-Dec-2013
	\$	\$
CURRENT		
< 30 days	6,040,606	3,856,539
31-60 days	3,458,018	3,171,367
61-90 days	3,414,544	3,400,372
> 90 days	14,660,867	11,114,448
	27,574,035	21,542,726

Of the trade receivables past due but not impaired, a total of \$6,362,280 has been subsequently received at the time of signing of this report.

Debtors are with large China state-owned enterprise entities and are long term customers of the Company with no recent history of default.

There is a concentration of sales to a number of key and large customers during the period. 100% of revenues during the period are derived from five customers. This is due to revenues being contract based with high transaction values.

7. Segment reporting

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors and management (chief operating decision maker) in assessing performance and determining the allocation of resources.

The Group is engaged in providing drilling services through the deployment of its patented technology. It provides Enhanced Oil Recovery (EOR) services and underground work consultations to oil and gas drilling enterprises through its wholly owned subsidiary Zhaodong Huaying Oil Drilling Services in mainland China.

The following operating segments have been noted:

Drilling – represents service revenue derived from well drilling; and

Maintenance – represents service revenue derived from well maintenance.

During the six month period to 30 June 2014, there have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

The revenues and profit generated by each of the Group's operating segments and segment assets are summarised as follows:

6 months to 30-Jun-2014	Drilling 2014 \$	Well Maintenance 2014 \$	Total 2014 \$
Revenue			
From external customers	17,923,311	559,205	18,482,516
Segment revenues	17,923,311	559,205	18,482,516
Interest revenue	-	-	5,279
Total revenues	17,923,311	559,205	18,487,795
Segment EBIT	-	-	6,131,218
Interest expenses	-	-	-
Other expenses	-	-	-
Income tax expenses	-	-	(369,651)
Net profit after tax	-	-	5,761,567

6 months to 30-Jun-2013	Drilling 2013 \$	Well Maintenance 2013 \$	Total 2013 \$
Revenue			
From external customers	15,709,489	534,683	16,244,172
Segment revenues	15,709,489	534,683	16,244,172
Interest revenue	-	-	5,387
Total revenues	15,709,489	534,683	16,249,559
Segment EBIT	-	-	7,370,857
Interest expenses	-	-	(162,339)
Other expenses	-	-	-
Income tax expenses	-	-	(324,883)
Net profit after tax	-	-	6,883,635

During the period, the top three (June 2013: top three) customers within the drilling segment contributed more than 10% of segment revenues totalling \$17,362,611 (93.94%) (June 2013: \$15,361,788 (94.71%)). One (June 2013: One) customer within the well maintenance segment contributed more than 10% of segment revenues totalling \$559,203 (100%) (June 2013: \$534,683 (100%)).

	Drilling \$	Well Maintenance \$	Others \$	Total \$
Total segment assets				
30 June 2014	40,251,263	-	12,368,486	52,619,749
31 December 2013	40,108,320	-	8,722,128	48,830,448

8. Property, plant and equipment

During the half-year ended 30 June 2014, the Group acquired assets with cost of \$6,336,350 (30 June 2013: \$37,033).

9. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Parent Company (Sino) as the numerator, i.e. no adjustments to profits were necessary during the six (6) months period to 30 June 2014 and 2013.

The number of ordinary shares used in the calculation of the diluted earnings per share is the same as the number used in the calculation of basic earnings per share, as options are not considered to be dilutive.

	6 months to 30-Jun-2014	6 months to 30-Jun-2013
Weighted average number of shares used in basic earnings per share	219,429,028	193,170,400
Weighted average number of shares used in diluted earnings per share	219,429,028	199,705,158

10. Share capital

	6 months to 30-Jun-2014	Year to 31-Dec-2013
Amounts in shares:		
Shares issued and fully paid:		
Beginning of the period	219,429,028	193,170,400
Shares issued on conversion of convertible notes	-	7,177,628
Shares issued on Initial Public Offering (IPO)	-	18,481,000
Shares issued to Lead Manager on successful IPO	-	600,000
Shares issued and fully paid	219,429,028	219,429,028

11. Dividends

No dividends have been declared during the period.

12. Contingent liabilities

The Group has no contingent liabilities or contingent assets as at 30 June 2014. (2013: \$nil).

13. Fair value measurement

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

The value of the Group's financial assets and financial liabilities are determined by its short-term book value which is also its fair value.

14. Events after the reporting date

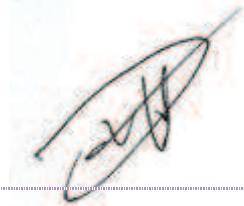
At the time of the signing of this report, ASIC's investigations are still ongoing and as noted in Note 5 of this report, within the cash balance at 30 June 2014, \$7,075,124 is currently restricted as a result of the ASIC injunction's impact on the Company.

Other than the above, there has not arisen in the interval between 30 June 2014 and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group, in future years.

Directors' Declaration

1. In the opinion of the Directors of Sino Australia Oil and Gas Limited:
 - a. The consolidated financial statements and notes of Sino Australia Oil and Gas Limited are in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of its financial position as at 30 June 2014 and of its performance for the half-year ended on that date; and
 - ii. Complying with Accounting Standard AASB 134 *Interim Financial Reporting*; 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.

Signed in accordance with a resolution of the Directors:



Director
Tianpeng Shao

Dated the 29th day of August 2014

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SINO AUSTRALIA OIL AND GAS LIMITED

We have reviewed the accompanying half-year financial report of Sino Australia Oil and Gas Limited ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 30 June 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The Directors of Sino Australia Oil and Gas Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Sino Australia Oil and Gas Limited consolidated entity's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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As the auditor of Sino Australia Oil and Gas Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Sino Australia Oil and Gas Limited is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



S J Gray
Partner – Audit & Assurance

Adelaide, 29 August 2014