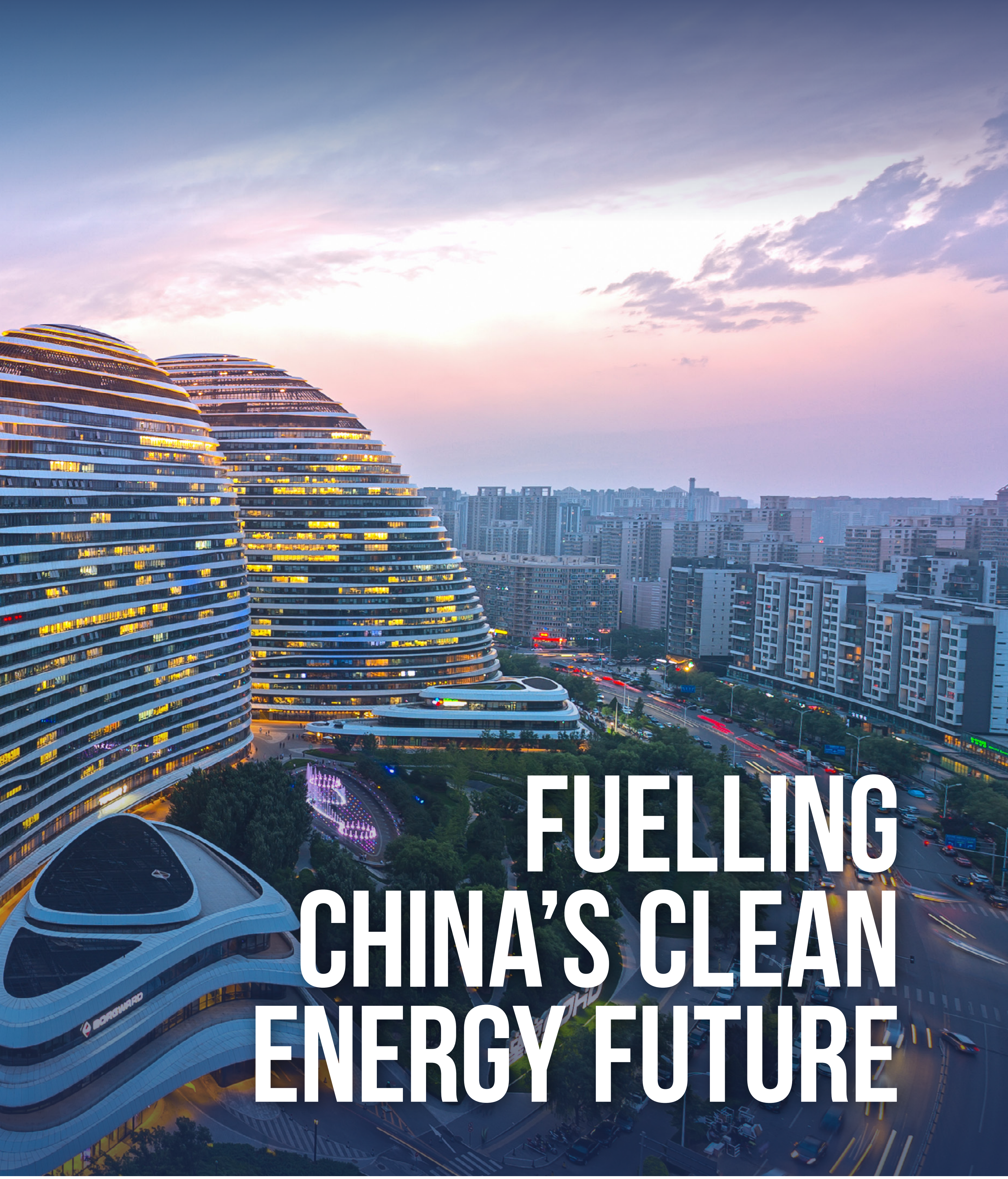


FUELLING CHINA'S CLEAN ENERGY FUTURE

SINO Gas & Energy
www.sinogasenergy.com

2016 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

2012
Project financing secured through partnership with MIE Holdings

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
Increased production to ~21 MMscf/d

ODP planning started

CONTENTS

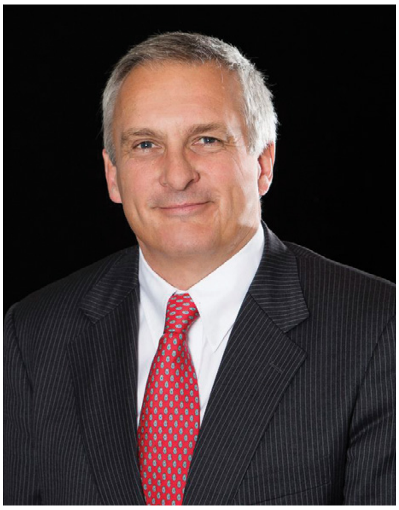
ABOUT

Sino Gas & Energy Holdings Limited ("Sino Gas", ASX: SEH) is an Australian energy company focused on developing natural gas assets in China, in support of government policy to substantially increase the proportion of natural gas in the primary energy mix. Sino Gas holds a 49% joint venture interest in Sino Gas & Energy Limited (SGE) through a strategic partnership with China New Energy Mining Limited (CNEML). SGE has been established in Beijing since 2006 and is the operator of the Linxing and Sanjiaobei Production Sharing Contracts (PSCs) in the Ordos Basin, Shanxi province.

SGE has a 70%[1] interest in the Linxing PSC, partnered with CUCBM, a subsidiary of CNOOC, and a 49% interest in the Sanjiaobei PSC, partnered with PetroChina CBM, a subsidiary of CNPC. SGE has a 100% working interest during the exploration phase of the PSCs, with SGE's PSC partners being entitled to back-in upon Overall Development Plan (ODP) approval, by contributing development and operating costs in line with their PSC interest.

The PSCs are located in the Ordos Basin and cover an area of approximately 3,000km^2. The Ordos Basin is the largest gas producing basin in China. The region has mature field developments with an established pipeline infrastructure to major markets. Increasing natural gas' share of the energy mix is a key component of China's policy to achieve a cleaner energy future.

1 *Subject to 5.25% back-in option from CBM Energy at ODP. SGE interest in Linxing PSC 64.75% if exercised*



CHAIRMAN'S REPORT

Dear Shareholder, I am pleased to present to you the Company's 2016 Annual Report.

During 2016, Sino Gas and Energy Holdings Limited made important progress towards delivering the significant underlying value of the Linxing and Sanjiaobei PSCs, further transitioning from an exploration to a development and production company. Our strong operational and commercial progress and the introduction of a new Joint Venture partner was complemented with improved macro conditions in both China and the global oil and gas markets.

The Chinese Government, under their 13th Five Year Plan, reaffirmed its commitment to promote increased natural gas use and domestic supply growth as a key component of their energy strategy to provide cleaner sources of energy. Additional investment and reforms in the midstream sector are expected to further drive Chinese natural gas demand over time. As an Australian company and a growing producer of domestic natural gas, we are well positioned and pleased to be making an important contribution to China's clean energy objectives.

In addition, oil prices at the end of 2016 were roughly double their level at the beginning of the year following a slow-down in production growth on the back of global industry capital expenditure cuts and agreement among OPEC and certain non-OPEC countries to reduce production.

Sino Gas' key achievements in 2016 included:

- Our continued commitment to the highest safety and environmental standards resulted in another year of good performance, with more than 450,000 man hours worked without incurring a lost-time injury (LTI);
- Net 1P and 2P Reserves increased 7% and 5% respectively over the 2015 Reserves and Resource assessment;
- Almost tripling daily production from the end of 2015;
- Securing Chinese Reserve Report endorsement from our PSC partners, establishing our projects as economically viable and allowing the commencement of ODP preparation;
- Employing technology and best practice to further reduce well costs and increase individual well flow rates;
- Agreeing pilot revenue allocation in accordance with the PSC entitlement, receiving revenue and remitting revenues offshore China for the first time;
- Welcoming CNEML as our new partner in SGE. We are well aligned on strategy to deliver the significant value of the assets and have established key short-term priorities and objectives to ensure continual progress.

Early in 2017, we announced a further increase in our 1P and 2P Reserves and our 2C Contingent and P50 Prospective Resources. This is the sixth consecutive year of increase in our Reserves and Resources and results in a highly competitive Reserves and Resources position when compared to our peers on the ASX.

Sino Gas continues to prudently manage its balance sheet. We finished the year in a robust financial position with a cash balance of US$44 million and extended the maturity of our credit facility to late 2018.

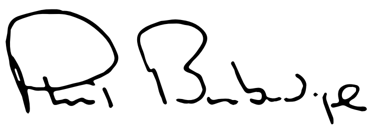
During the year, our share price outperformed the ASX 300 energy benchmark. However, we continue to believe that the share price does not reflect the deep underlying value of these large scale assets as evidenced by financial comparisons on a reserves multiple basis to our peers.

Key priorities for 2017 are:

- Maintain our safety and environmental track record;
- Optimise existing facilities to maximise production and revenue in line with guidance;
- Almost doubling our production capacity across the two PSCs;
- Complete ODP planning and submission, seeking approval in late 2017/early 2018.

With existing cash reserves, revenue from pilot production and a strict ongoing focus on cost efficiency and program scope, the Company remains well funded to complete the 2017 program as we move towards ODP approval.

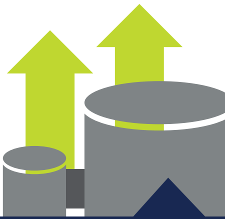
Sino Gas successfully resolved a number of key issues and challenges in 2016. This has resulted in valuable and tangible progress: growing pilot production, endorsement to commence ODP processes, a well aligned and well funded partner and support from our SOE partners. With these key foundations in place, the Sino Gas Board and Management team are confident in our ability to deliver further valuable progress in 2017 to continue to deliver the very significant value potential that we see in both Linxing and Sanjiaobei.



Phil Bainbridge
Chairman

2016 HIGHLIGHTS

~21 MMSCF PER DAY



Increased production to ~21 MMscf/d (~3,500 boe/d) gross

+18 WELLS

Successfully drilled 18 wells with average cost down 11% and average pilot well test over 1 MMscf/d

Commenced ODP process following CRR endorsements

5% increase in net 2P Reserves and 10% increase in net 2C Resources

5% NET 2P INCREASE + 10% NET 2C INCREASE

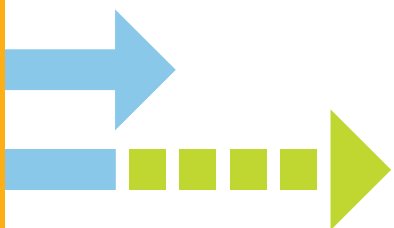
>450,000 man hours without an LTI

Agreed pilot gas sales allocation for Linxing and Sanjiaobei

Remitted gas sales proceeds offshore Mainland China

Successfully appraised Linxing (East) deep exploration area and submitted CRR

Extended credit facility maturity



A$X

Maintained strong financial position

MANAGING DIRECTOR'S REPORT

2016 was a successful year for Sino Gas & Energy Holdings Limited

In 2016, the natural gas market in China witnessed several positive developments further demonstrating the long-term attractiveness of the market. Gas demand growth during the year was 9% compared to 2015, exceeding GDP growth rates as natural gas continues to increase its share of the primary energy mix. Most notably, the 13th Five Year Plan, and the more detailed 13th Five Year Energy Plan released in early 2017, reconfirmed the central role natural gas will play in the Government's goal to provide cleaner energy, with the target to increase natural gas' share of the energy mix to 10% in 2020, up from less than 6% in 2015. The Ordos basin, where the company's assets are located, has been identified as a key basin for accelerated gas development and Sino Gas' Linxing asset has been singled out as a strategic project to be accelerated. Recent inter-provincial natural gas pipeline reforms are expected to improve third party access and lower transmission costs, supporting growth in end user demand with similar reforms now currently being examined by local regulators for intra-provincial natural gas pipelines. Finally, greater flexibility in pricing is allowing increased seasonality of gas prices, which is expected to have positive effects on the long term development of the market in China.

Recovering and stabilising oil prices allowed investors' attention to return to those companies that could not only survive, but prosper and grow in this lower oil price environment. Sino Gas remains well-positioned as a low cost producer in one of the world's largest and fastest growing gas markets with a favourable natural gas supply, demand and pricing outlook.

During the year, the company continued to deliver strong operational results. One of the highlights of the year was achieving a tripling of daily production with a significant ramp up from ~7 Million standard cubic feet per day ("MMscf/d") at the beginning of the year to ~21 MMscf/d at the end of the year. Pilot production averaged 5.6 MMscf/d, the majority of which was from the Linxing CGS which was onstream for most of the year at an uptime average of ~7 MMscf/d. The Sanjiaobei CGS resumed production and the second compressor at the Linxing CGS commenced production in December, driving the increase in production to ~21 MMscf/d at year end. Strong well results were recorded from the 18 well program with the average pilot well tested at over 1 MMscf/d, significantly above the commercial threshold. The highest vertical test rate on the field to date was recorded at 2.7 MMscf/d on Linxing East.

Our low cost advantage continued to improve in 2016 with well costs down ~11% year over year. Pilot Development wells on average were drilled for under $1 million, including fraccing and completion.

The endorsement of our Chinese Reserve Reports by our PSC partners confirms the underlying profitability of the assets allowing the company to commence Overall Development Plan processes, the key regulatory approval before commencing full field development.

Commercially, the company successfully agreed the pilot revenue allocation with both PSC partners in accordance with the PSC, allowing revenue to flow to the Joint Venture, with first Linxing revenue received in early 2016 and first Sanjiaobei gas sales proceeds payments in progress.

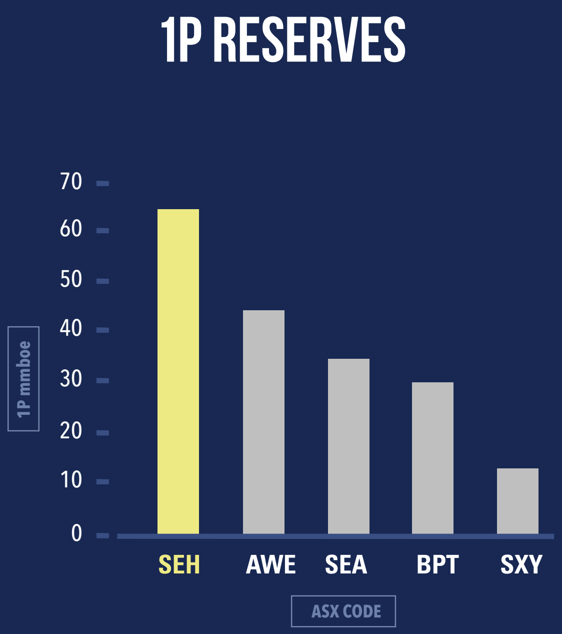
A significant development for the Joint Venture in 2016 was China New Energy Mining Limited's acquisition of our previous partners' interest in SGE for $220 million cash (before working capital adjustments). The price CNEML paid for its stake is an indication of the significant value potential of our asset, which is not yet reflected in our current share price. It has been a pleasure working with the CNEML management team since the deal was announced and Sino Gas anticipates CNEML's experienced team, complimentary skill set, strong financial backing and well-established relationships in China will serve the Joint Venture well as we move to full field development. While the transition of CNEML was smooth during the formal sale process prior to deal completion, SGE experienced a slowdown in operational and commercial momentum with some decisions delayed by our previous partner until after the completion of the transaction. This included finalisation of the Sanjiaobei Pilot Gas Sales Allocation agreement and a short-term seasonal adjustment to the Linxing natural gas price.

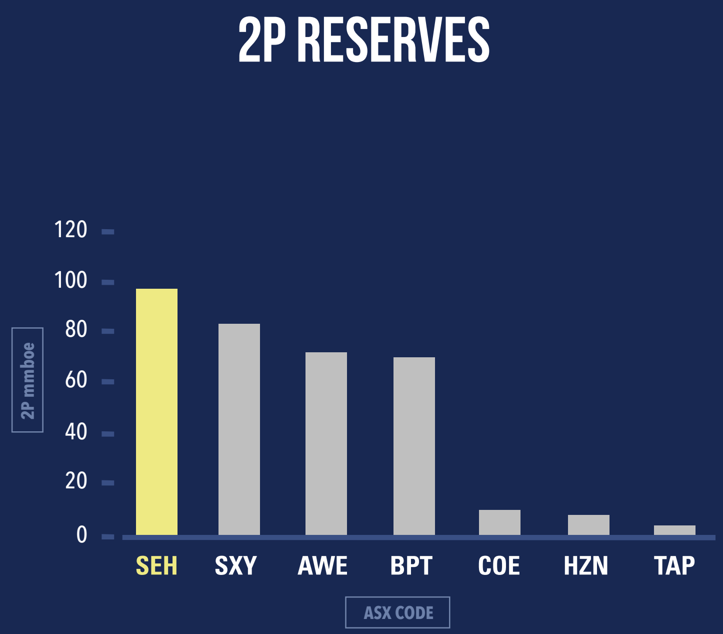
Our successful 2016 work program drove a further increase in our year end Reserves and Resources. Sino Gas net 2P reserves increased 5% to 579 Billion cubic feet (Bcf) (gross project 2P reserves 2,147 Bcf) with net 2C Contingent Resources and P50 Prospective Resources up 10% and 12% respectively. This is our sixth consecutive annual increase in year-end reserves since Sino Gas first booked reserves.

The significant scale of our assets continues to increase with combined total gross unrisked P50 Resources up 14% over year end 2015 to 8.8 Trillion cubic feet (Tcf) (1.5 billion barrels of oil equivalent) comprised of 2.1 Tcf 2P Reserves, 3.2 Tcf 2C Resources and 3.5 Tcf P50 Prospective Resources[1]. This gross Reserve and Resource base ranks the assets amongst some of the world's largest oil, gas and LNG development projects.

With a large working interest in these world-scale natural gas fields, Sino Gas also has the largest net 1P and 2P Reserves of our Australian listed peers as detailed in the chart on the following page.

1 Refer to Resources Statement for additional disclosure on page 14.





Australian listed peer group includes AWE (ASX:AWE), Beach (ASX:BPT), Cooper Energy (ASX:COE), Horizon Oil (ASX:HZN), Senex (ASX:SXY), Sundance (ASX:SEA) and Tap Oil (ASX:TAP). Reserves as of last reported; Note: Horizon Oil, Cooper Energy and Tap Oil do not report 1P Reserves, Sundance does not report 2P Reserves. Mscf:boe conversion 6:1.

2017 program to deliver further production growth and complete ODP

Our priorities in 2017 are:

1. Maintain strong focus on HSE;
2. Optimise existing facilities to maximise production and revenue;
3. Increase gas processing capacity and associated production in a cost effective manner; and
4. Complete ODP planning and submission.

Average production for the year is expected to be 18-23 MMscf/d and the 2017 SGE gross capital budget is US$40-50 million of which approximately two thirds is allocated to future growth activities. Key components of the 2017 program include optimization of existing facilities and maintenance drilling to offset well declines, installation of a new CGS on Linxing (West) and drilling new pilot wells to tie into the facility, tie-back of certain existing exploration and appraisal wells on Linxing (East) to a third-party facility, completion and submission of ODP during 2017 with approval late in 2017 / early 2018.

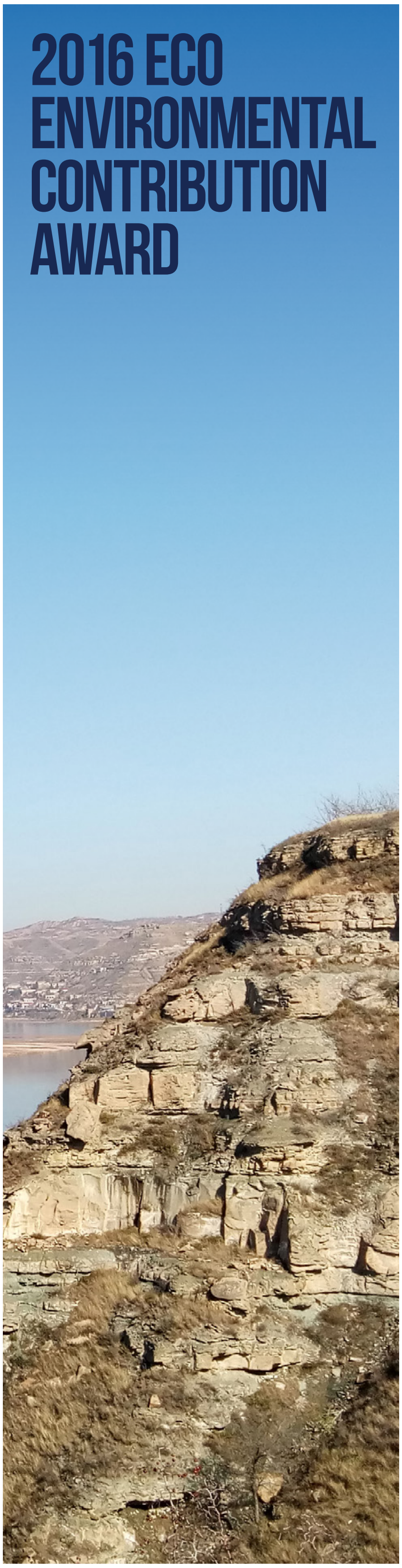
The Company is in a strong financial position. At the end of 2016, the Company held US$44 million in cash. Excluding growth capital, our underlying business is substantially self-funding at current production levels and we have minimal expenditure commitments. Sino Gas will maintain a strict ongoing focus on cost efficiency and program scope to ensure the Company remains well funded to complete the 2017 program, as we approach ODP.

I would like to once again thank the team for their hard work and acknowledge the ongoing support of our PSC partners, the Governments of both Australia and China, communities, customers and shareholders, all of whom have made a significant contribution to the excellent progress we have made. I look forward to further building on the success of 2016 as we develop the full potential of our Ordos Basin assets.

Glenn Corrie
Managing Director

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS



FINANCIAL PERFORMANCE

Operating Results for the Year

The Consolidated Entity made a loss for the year ended 31 December 2016 of $7,783,098 (31 December 2015: loss of $13,037,212). As at 31 December 2016, the Consolidated Entity had cash and cash equivalents of $44,233,179 (2015: $63,419,354) and net assets of $145,839,989 (2015: $152,969,752).

Dividends

No dividends were paid or declared by the Company during the year ended 31 December 2016.

Joint Venture Funding

Total capital expenditure incurred in 2016 by SGE was $23 million and Sino Gas paid cash calls of $13 million for its 49% share of expenditures.

Project Gas Sales

During the year SGE sold a total of 2 billion cubic feet of gas at an average price of ~$6.50/Mscf and recognised related gas sales revenue of $10.7 million. Sino Gas' share of this revenue was $5.2 million. Also, SGE received all gas sales proceeds related to prior year Linxing gas sales.

CORPORATE ACTIVITY

Occupational Health and Safety

Sino Gas maintained its top-tier safety record for the twelve months to 31 December 2016. A total of 456,188 Lost Time Injury free hours were recorded during 2016 related to drilling, testing, gathering pipeline installation and operations at the two Central Gathering Stations (527,000 in 2015). There were no recorded environmental incidents throughout the year.

Environmental Award

Sino Gas was awarded the 2016 Eco Environmental Contribution Award at the China-Australia Business Contribution Awards in June. The Award was presented by the China Society for World Trade Organization Studies in conjunction with the Chinese Ministry of Commerce (MOFCOM) in recognition for Sino Gas' integral part of providing cleaner energy to China.

In conjunction with the Award, Sino Gas Managing Director Glenn Corrie met with the Chinese Deputy Minister of Commerce, Mr Fang Aiqing where Sino Gas' Ordos basin assets were discussed.

Investor Relations

Sino Gas maintained regular meetings with the investment community in 2016, including existing and potential investors and analysts in Australia, Asia, Europe and North America.

The Company was involved in a number of international conferences in 2016 across Australia, Asia and North America hosted by Macquarie, J.P. Morgan, Citi Group, Oil & Gas Council, RBC Capital Markets and Euroz. The company also was an active participant in "Australia Week in China" organised by the Australia Department of Foreign Affairs and Trade. Two conference calls were hosted, recordings of which are available on our website, along with copies of presentations given, www.sinogasenergy.com

The Company held several site visits during the year which were attended by analysts, major institutional investors, individual investors and financial institutions.

Sino Gas maintained its position in the S&P/ASX 300 throughout the year.

Macquarie Debt Facility

The Company's $50 million Macquarie Bank Limited (Macquarie) debt facility drawn balance remained unchanged in 2016 at $10 million with further draw-down of the remaining balance subject to Macquarie internal credit approvals.

During the year, the facility was extended under the following terms:

- Full $50 million facility extended to end 2018 with repayment of the fully drawn $10 million Tranche A facility extended to late 2018;
- Subject to ODP approval for either the Linxing or Sanjiaobei PSC, Sino Gas has the option to extend the term of the facility to the end of 2019 with six equal quarterly repayments between September 2018 and December 2019;
- The undrawn $40 million Tranche B remains accessible subject to Macquarie credit committee approval;
- No extension or availability fees;
- Sino Gas retains option for early repayment; and
- Other substantive terms remain unchanged.

Changes in Senior Management

On 1 January 2016, Ian Weatherdon commenced employment as the new Chief Financial Officer. Mr. Weatherdon is a Chartered Accountant with over 25 years of experience in the oil and gas industry, most recently with Talisman/Repsol in Singapore where he was Vice-President, Finance for the Asia Pacific region. Prior to that he was the Chief Financial Officer of Talisman's Joint Venture in Colombia with Ecopetrol.

OPERATIONAL PERFORMANCE

Work Program

During the year, the Joint Venture Company, Sino Gas & Energy Limited (SGE) drilled 18 wells, including five exploration and appraisal wells and 13 pilot wells, conducted 37 well tests and tied-in 18 production wells. Total SGE expenditure was $30 million (~$15 million net to Sino Gas), one-half the original budget of $60 million as a result of significant cost savings and program optimisations, including the deferral of non-critical activities (three wells and testing activities).

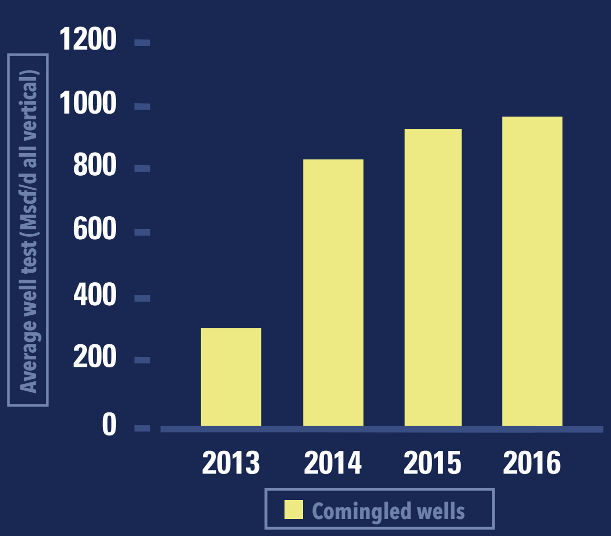
This work was carried out in a safe manner with 456,188 Lost Time Injury free hours completed during 2016. There were no recorded environmental incidents throughout the year.

Well test results during the year continued to show improvement with the average 2016 pilot development well test just over 1 MMscf/d (excluding horizontal wells), with Linxing PSC pilot wells up ~20% year over year and Sanjiaobei pilot wells up ~60% over 2014 (no new Sanjiaobei Pilot wells in 2015).[1]

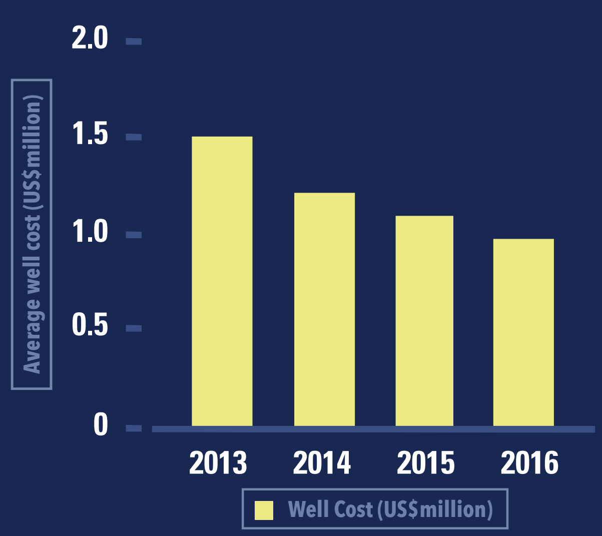
Sino Gas continues to achieve significant cost savings in its drilling program. During 2016, the average pilot well cost declined ~11% vs. the 2015 average.

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

WELL TEST IMPROVEMENTS



COST SAVINGS



Pilot Production

Gross pilot production increased from approximately 7 MMscf/d at the beginning of the year to approximately 21 MMscf/d at the end of the year. Production averaged 5.6 MMscf/d with the majority sourced from the Linxing Central Gathering Station (CGS) with the Sanjiaobei CGS resuming production in December.

Production from the Linxing CGS was temporarily shut-in from early June to mid July as a result of a delay in agreeing revised prices during our Joint Venture partner's sale process. Production from the Sanjiaobei CGS was suspended while the pilot gas allocation was agreed, ultimately in line with PSC terms. Work to restore production began but was delayed due to heavy rain causing damage to downstream third party infrastructure, which also resulted in a further shut-down of the Linxing CGS during late August/early September.

By late December, all installed processing facilities, with nameplate capacity of ~25 MMscf/d, were operational and gross production had increased to approximately 21 MMscf/d.

In 2017, SGE is targeting annual gross production, after taking into account reservoir management activities and downtime, in the range 18-23 MMscf/d (~3,000-3,800 boe/d [1]), more than triple 2016 average production.

1 Mscf:boe conversion 6:1

During 2017, over 20 MMscf/d of new processing capacity is expected to be installed or available via third party facilities by year end, nearly doubling installed capacity to 45 MMscf/d, up from 25 MMscf/d at the end of 2016.

Production associated with the increased processing capacity to be installed during the year is not expected to contribute material volumes until 2018 as it is anticipated that this capacity will be brought online in late 2017/ early 2018.

A new CGS in the northern portion of the Linxing (West) PSC ("Linxing North CGS") will be installed approximately 16 km north of the existing CGS on Linxing ("Linxing South CGS"). The Linxing North CGS will be of a similar design and capacity as the existing CGS of approximately 17 MMscf/d. Surveying of the site has been completed and sourcing long lead items is underway to support construction during the second half of 2017. Drilling of pilot development wells to tie into the Linxing North CGS will be ongoing throughout the year in preparation for start-up in late 2017 / early 2018.

A number of existing Linxing (East) deep gas exploration and appraisal wells are expected to be tied into a facility approximately 8 km from Linxing (East), which is owned by the Linxing PSC partner, CNOOC. Utilising third party facilities, with potential available capacity of 7 MMscf/d, allows this area to achieve accelerated pilot production and data gathering at a lower upfront cost. Initially, seven wells drilled and tested in 2015 and 2016 are expected to be tied-in.

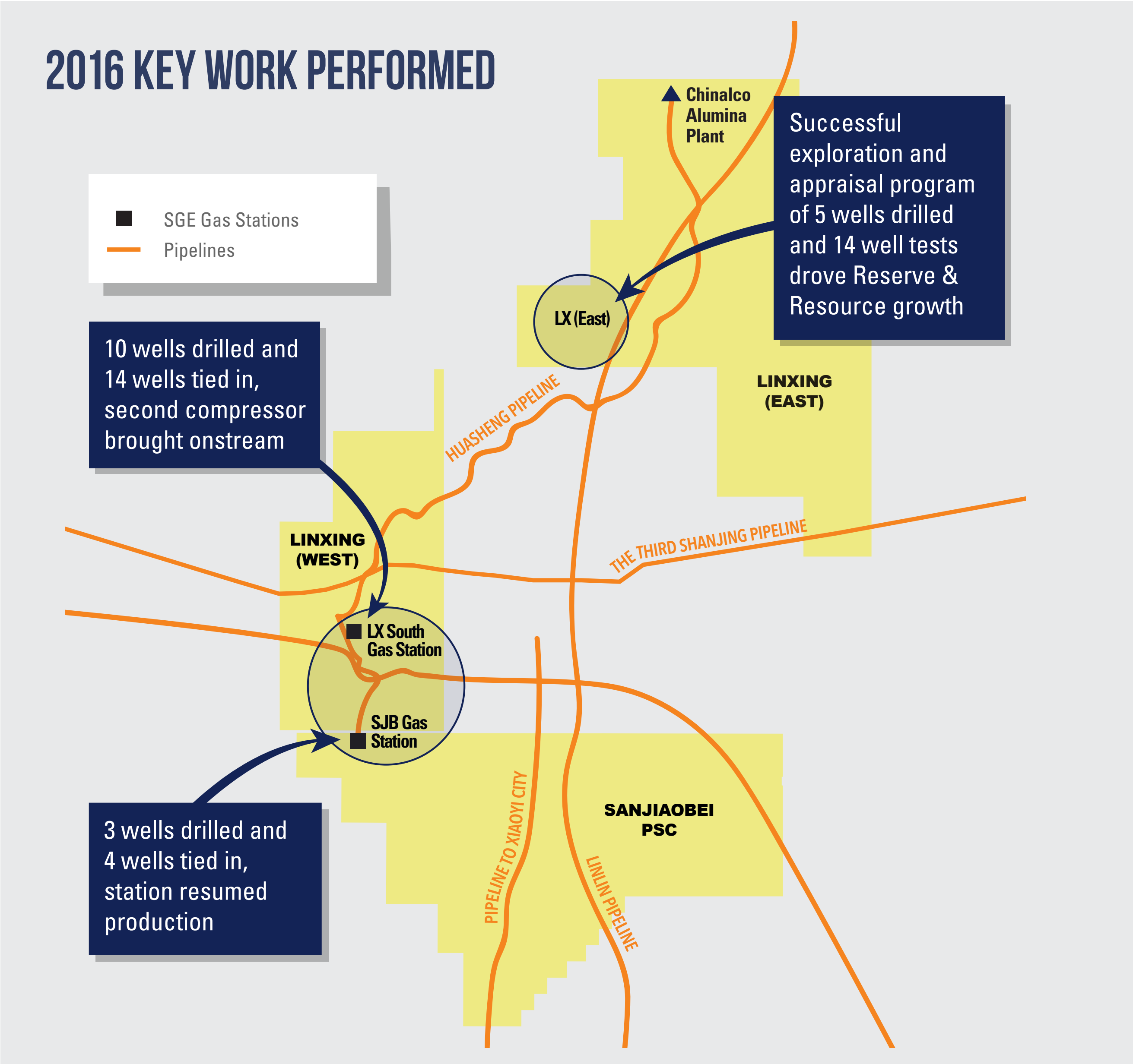
Gas Sales Agreements

During 2016, an additional Gas Sales Agreement (GSA) was signed with Xing Xian Huasheng ("Huasheng") for gas supply of up to 10.5 million standard cubic feet per day ("MMscf/d") from the Linxing CGS (refer to announcement 2 June 2016). Hausheng is supplying gas to a large Chinalco alumina plant which is situated on the Linxing PSC and is converting from coal-fired to gas-fired power, in-line with environmental directives from the Chinese Government to reduce air pollution.

This GSA with Huasheng is in addition to the existing GSA in place for gas sold from the Linxing CGS via the Yuji pipeline (refer to announcement 10 March 2015). This GSA increases the number and diversity of our customer base and off-take routes with two potential off-take routes for the Linxing CGS and three potential off-take routes for the Sanjiaobei CGS.

As a result of lower seasonal demand, the PSC Partners agreed on a temporary reduction in the price of gas sold from the Linxing CGS during the third quarter to ~$6/Mscf, in line with government policies to increase seasonality in gas prices in China. During the fourth quarter, revised winter prices of ~$6.70/Mscf (weighted average) were agreed, up ~20% in RMB terms over the summer price.

The weighted average realised price for the year was $6.50/Mscf.



Linxing PSC, Ordos Basin

Linxing (West)

A total of 10 vertical development wells were drilled on Linxing (West) and 20 well tests were performed, including two horizontals. Fourteen new wells were tied into the Linxing CGS.

During the year, two horizontal wells drilled in 2015 were fracced and tested. The TB-4H test achieved a sustained flow rate of 3.4 MMscf/d at a stable flowing tubing head pressure of 1,430psi. Based on the standard field operating pressure of 200psi, the calculated potential production rate is estimated to be over 6.6 MMscf/d. The TB-3H well tested at a commercial rate of 440 thousand standard cubic feet per day ("Mscf/d") intersected lower gas saturation in the target formation than in the other horizontal wells drilled to date. A review of the geological, drilling and completions for this well is being undertaken. Drilling of the planned fifth horizontal on the field was deferred as analysis of net pay intersected in the pilot hole indicated this location was better suited to be completed as a deviated well. The ability to quickly change and optimise the well target, design and costs with real time information is a key advantage to the multi-zone nature of the field.

Linxing (East)

Exploration and appraisal results on the Linxing (East) deep program continued to show strong results in 2016. Five wells were drilled and fourteen well tests were performed. All wells intersected and flowed gas above commercial thresholds with the exception of LXDG-13, which was marginal and drilled on the edge of the prospective area in Linxing (East).

Sino Gas achieved its highest ever vertical/deviated well test rate from the LXDG-08 well at 2.7 MMscf/d from an unfracced single upper zone with the potential to produce over 3 MMscf/d at standard operating pressures.

Based on this successful exploration and appraisal program, the Reserves area on Linxing (East) increased from 36km^2 to 99km^2 with the discovered area increasing to 130km^2. The prospective area of Linxing (East) was also increased following a reinterpretation of the location of the regional fault line across the PSC which resulted in an increase in the Linxing (East) area defined as prospective or discovered at the end of 2016 compared to the end of 2015.

The Linxing (East) Chinese Reserve Report, the company's third deep gas CRR, was compiled and submitted to its PSC partner, CUCBM, for endorsement.

On the shallow CBM Resources of Linxing (East), dewatering operations are continuing and review of the ODP is ongoing by CUCBM. A targeted, low-cost drilling program is planned in 2017 to determine if closer well spacing can improve economic flow rates.

Sanjiaobei PSC, Ordos Basin

During the year, three wells were drilled and tested with four new wells tied into the Sanjiaobei CGS. Two wells tested at an average rate of ~470 Mscf/d. The third well, SJB23-D4, was tested in the middle zone for CRR purposes and tested at marginal rates but is expected to be re-completed in a more prospective upper zone during 2017, where 13.8 metres of net pay has been identified.

Overall Development Plan Progression

The Sanjiaobei CRR has been endorsed by our PSC Partner, PetroChina CBM ("PCCBM") and the National Centre of Coal Bed Methane ("NCCBM") for submission for ratification by PetroChina and the Ministry of Land and Resources ("MOLAR").

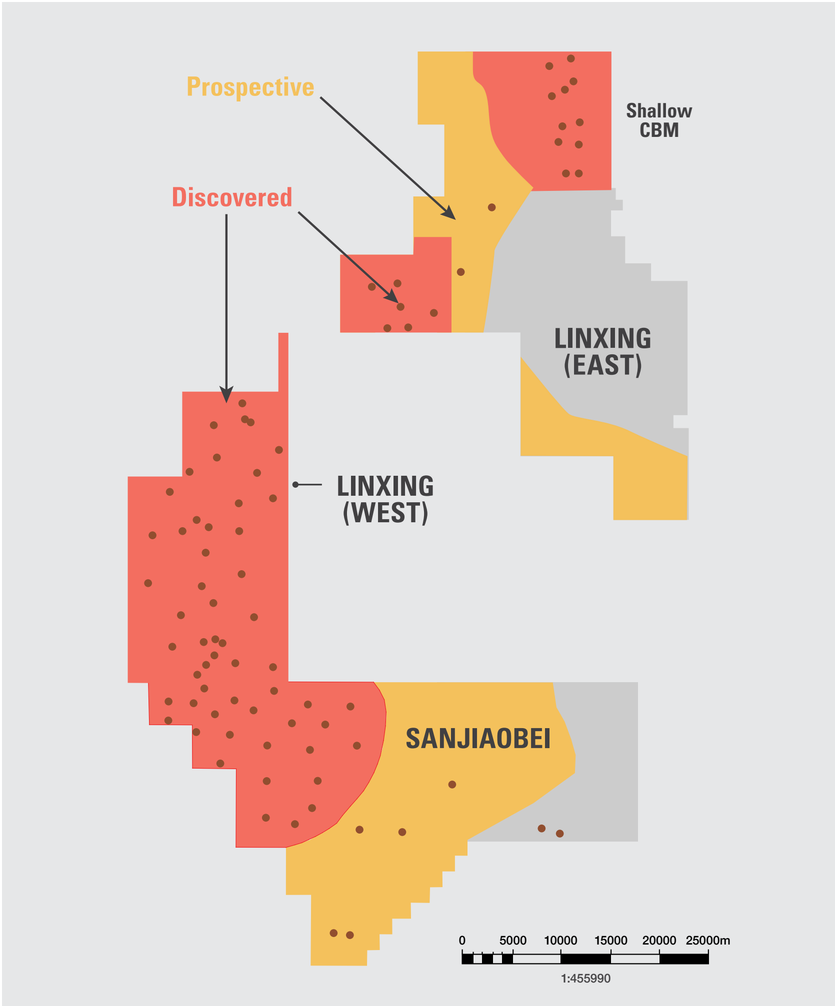
With this key regulatory milestone achieved, SGE, in collaboration with PCCBM, has now begun preparations for the ODP. This process, including field development planning, permitting and environmental impact assessment, is anticipated to take approximately one year, with ODP approval anticipated in late 2017/ early 2018 as a result.

The Linxing (West) CRR has been endorsed by CUCBM for the southern area of the PSC and the PSC partners are working to finalise the expansion of the area to also include the northern portion of the block before submission to CNOOC and MOLAR for ratification. This interim approval is sufficient to commence ODP preparation which is now underway with the support of CUCBM.

These endorsements were a significant achievement and now ODP planning with our PSC Partners will be a core activity in 2017.

RESERVES AND RESOURCES STATEMENT

2016 Reserves and Resource assessment results in material increases in all Reserves and Resources categories.



Overview

RISC Operations 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.

Results from the 18 wells drilled in 2016 (132 cumulative wells) and the interpretation of 575km of seismic lines (cumulative 3,365km) were reviewed for the updated Reserves and Resources assessment as at 31 December 2016, as well as the results from the pilot production wells producing via the Sanjiaobei and Linxing CGSs.

KEY RESULTS

Sino Gas' net mid-case discovered Resources increased 8% to 1,478 Bcf (246 mmboe[1]), comprised of 2P Reserves of 579 Bcf (+5% y/y) and unrisked 2C Contingent Resources of 899 Bcf (+10% y/y).

Net 1P Reserves increased 7% to 385 Bcf (64 mmboe), 66% of 2P Reserves.

Net 2C Contingent Resources and net P50 Prospective Resources increased 10% and 12% respectively, signifying substantial upside beyond the 2P Reserves base.

1 Mscf:boe conversion 6:1

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 a deep gas discovered/prospective area 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 the coal seams and the sandstones which are vertically adjacent to and interbedded with the coals. The coals are largely too deep (800 to 2000m) 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	Since RISC's 31 December 2015 evaluation, new wells have significantly expanded the discovered area in the Linxing (East) area from 40km^2 to 130km^2, increasing the discovered area in the Linxing PSC to 703km^2. Discovered areas on Linxing (West) and Sanjiaobei are unchanged since the 31 December 2015 evaluation. Total discovered area has increased 9% to 1,073km^2.
6	Reserves are assigned to an area of 13km^2 (2 adjacent well spacing) surrounding each successful well, unchanged from 2015. In Linxing (East) deep gas area, the additional successful drilling and testing increased the reserve area from 36km^2 to 99km^2. As a result, total reserve area increased 10% to 694km^2. Other Resources in the discovered area are classified as Contingent Resources - contingent upon further appraisal and firm development plans.
7	Sino Gas' net Proved plus Probable (2P) Reserves have increased 5% to 579 Billion cubic feet (Bcf) (~100 million barrels of oil equivalent, mmboe). Sino Gas' Proved Reserves (1P) have increased 7% to 385 Bcf (64 mmboe). Total project 2P Reserves are now 2,147 Bcf and 1P Reserves are now 1,377 Bcf. The increase in SGE Entitlement Reserves is primarily driven by an increase in Reserves on Linxing (East) following the successful further exploration and appraisal drilling and testing in 2016, partially offset by minor reductions in Entitlement Reserves in Sanjiaobei and Linxing (West) due to model refinements including forecasted costs and revenue and production ramp-up profile. The sub-surface evaluation of Sanjiaobei and Linxing (West) varied little compared to 2015 given limited new well results on Sanjiaobei and Linxing wells being concentrated in previously delineated areas.
8	Developed producing 2P Reserves net to Sino Gas increased from 16 Bcf at YE2015 to 28 Bcf due to the increase in the number of wells tied into the Sanjiaobei and Linxing central gathering stations. Total production over the year from the two central gathering stations totaled 2.0 Bcf gross.
9	Gross Prospective Resources have increased 12% driven by an expansion of the prospective area in Linxing (East) following a reinterpretation of the location of the regional fault line across the PSC, partially offset by the maturation of a portion of the prospective area in Linxing (East) to discovered area.
10	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 m3/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 Contingent Resources are estimated, contingent upon economic gas rates being demonstrated.
11	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[2] (Bcf)	2P Reserves[2] (Bcf)	3P Reserves[2] (Bcf)	2C Contingent Resources (Bcf)	P50 Prospective Resources[1] (Bcf)
31 December 2016	385	579	778	899	821
31 December 2015	362	552	751	814	733
Change (+/-)%		+5% (2P)		+10%	+12%
100% Total Project Reserves and Resources					
31 December 2016	**1,377**	**2,147**	**2,951**	**3,171**	**3,499**

Sino Gas' Net Developed Producing Reserves	1P Reserves[2] (Bcf)	2P Reserves[2] (Bcf)	3P Reserves[2] (Bcf)
Developed Producing Reserves	18	28	38
Undeveloped Reserves	367	551	740
Total Reserves	**385**	**579**	**778**

Note 1. 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.

Note 2. 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.

For the purposes of net Reserves, RICS assumes CBM Energy Associates exercise their back-in option for 5.25% of Linxing PSC, resulting in Sino Gas & Energy Limited's (SGE) having a 64.75% interest with CUCBM. In the event CBM Energy Associates does not exercise its option, SGE's interest would be 70% and net Reserves and Resources would increase accordingly. SGE's interest in the Sanjiaobei PSC, held with PCCBM, is 49%. SGE has a 100% working interest during the exploration phase of the PSC, with SGE's PSC partners being entitled to back-in upon Overall Development Plan (ODP) approval, by contributing development and operating costs in line with their PSC interest. Sino Gas and Energy Holdings Limited owns 49% of the issued capital of SGE and China New Energy Mining Limited (CNEML) owns 51% of the issued capital of SGE. Refer to Note A - Joint Venture 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 2015	362	552	751	814
Revisions from drilling	24	28	28	85
Production	-1	-1	-1	0
Acquisitions/(Divestment)	0	0	0	0
31 December 2016	**385**	**579**	**778**	**899**

Reserves and Resources Methodology

The statements of Reserves and Resources in this annual report have been independently determined to Society of Petroleum Engineers (SPE) Petroleum Resource Management System (PRMS) standards by internationally recognised oil and gas consultants RISC (Announced 6 March 2017) using probabilistic and deterministic estimation methods. These statements were not prepared to comply with the China Petroleum Reserves Office (PRO-2005) standards or the U.S. Securities and Exchange Commission regulations and have not been verified by SGE's PSC partners CNPC and CUCBM. SGE entitlement reserves 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 and Prospective Resources. All Resource figures quoted are unrisked mid-case unless otherwise noted. Sino Gas' attributable net Reserves and Resources assumes PSC partner back-in upon ODP approval and CBM Energy's option to acquire an interest of 5.25% in the Linxing PSC (by paying 7.5% of back costs) is exercised. Reserves and 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 by 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 publically released Reserves and Resources assessments to SPE PRMS standards. Under Sino Gas' disclosure policies all statements of Reserves and Resources are approved by the Chairman and Managing Director 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 2016. 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:

P Bainbridge	(Chairman) – Board member since 14 April 2014
G Corrie	(Managing Director) – Managing Director since 1 January 2015
G Harper	(Non-Executive Director) – Board member since 14 March 2008
B Ridgeway	(Non-Executive Director) – Board member since 5 March 2007
M Ginsburg	(Non-Executive Director) – Board member since 28 August 2015

(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 (2015: Nil).

(d) Operating Results for the year

The Consolidated Entity made a loss for the year ended 31 December 2016 of $7,783,098 (31 December 2015: loss of $13,037,212). As at 31 December 2016, the Consolidated Entity had cash and cash equivalents of $44,233,179 (2015: $63,419,354) and net assets of $145,839,989 (2015: $152,969,752).

(e) 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 4-5 respectively, and the Review of Operations on pages 6 to 15 of the Annual Report and forms part of this report.

(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 6 March 2017, the Company announced the results of an independent Reserves and Resources assessment from RISC as at 31 December 2016. Refer to page 12 for a statement of the Reserves and Resources.
- On 24 January 2017 and 13 February 2017, the Company issued a total of 25,000,000 ordinary shares to Argonaut upon the conversion of Options issued in February 2012.
- On 24 January 2017, the Company issued 823,680 ordinary shares upon the partial conversion of Performance Rights. On 13 February 2017, the Company issued 1,500,000 ordinary shares following the exercise of deferred sign on compensation Performance Rights.
- In January 2017, the Company awarded a total of 2,860,090 deferred shares (the issue of which is deferred to after 31 December 2017) to senior executives in accordance with the Company's 2016 STI Scheme (refer to the remuneration report on pages 23 to 34 for further details).

(h) Future Developments

Business strategy

Sino Gas' strategy is to increase shareholder value by maximising the value of its assets in Shanxi Province, People's Republic of China, through the safe and efficient monetisation of SGE's large discovered Reserves and Resources and selective exploration to expand the discovered resources area to potentially increase exploitable reserves.

Sino Gas aims to maximise the value of its assets whilst adhering to international occupational health & safety standards in all our 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 2017, the Company aims to deliver on its strategy by meeting the following objectives:

- Increase average production and cash-flow from pilot production
- Progress full-field development planning, including obtaining Overall Development Plan approval
- Grow resource base with selective exploration and appraisal activities
- Deliver additional year-on-year cost improvements
- Deploy appropriate technologies to maximise single well productivity, reservoir deliverability and optimise full field development
- Ensure the Company remains well funded to enable the Company to fund the agreed program with existing financial resources
- Maintain ongoing engagement with partners, key stakeholders and the investment community

Material business risks

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

Material Business Risk	Risk Management
Health, safety and environment	A comprehensive system of HSE procedures is maintained by the Company and 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.
Social sustainability risks	The Company manages its social sustainability risks by maintaining 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.
Significant changes in reserves and resources estimates	An independent review of reserves and resources estimates by internationally recognised oil and gas consultants is conducted on an annual basis in accordance with Society of Petroleum Engineers (SPE) Petroleum Resource Management Systems (PRMS) standards. Ah-hoc assessments are conducted with third-party consultants to review new exploration and appraisal data.
Actual future well production varies from current estimates and forecasts	The Company gathers and interprets data to continuously refine its understanding of the reservoirs' characteristics and productivity. Careful monitoring of production is conducted to accurately determine well and reservoir performance. Vertical wells are able to access multiple reservoirs mitigating the impact of poor performance from any one reservoir.
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 RMB. The Company monitors government policies, pricing trends and continuously refines its gas marketing strategy to optimise the value of gas sales.
Delays in obtaining regulatory approvals impacting the Company's ability to produce natural gas and fully develop the gas assets in a timely manner	The Company takes appropriate steps to understand approval requirements and deadlines and maintains close relationships with PSC partners and local authorities to obtain all required approvals in a timely manner
Liquidity	The Company establishes annual work program and budgets considering available sources of liquidity and continuously monitors short-term and long-term liquidity requirements to ensure that it remains well funded.
Work programs that do not meet key milestones within budget	Approved work program and budget progress, the business environment and the regulatory regime are monitored and proactively managed to minimise the impact of delays, overspending and external events.

Material Business Risk (continued)	Risk Management
Changes in the fiscal, tax, regulatory environment or contractual arrangements in the People's Republic of China and Australia	The Company monitors potential changes in the fiscal, tax, regulatory environment or contractual arrangements and the impact on its business operations. Regular engagement is maintained with professional advisors to provide an early warning to capitalise on opportunities or mitigate potential challenges.
Offshore remittances	The Company 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.
Credit risk of suppliers, customers and partners	The Company and SGE have systems and processes in place to assess the credit risk of suppliers, customers and partners. Contracting and procurement procedures are in place to ensure suppliers meet required standards and payment terms are clearly defined. Agreements are in place with PSC Partners for the sale of gas to third-party buyers. Appropriate contract remedies are in place in the event of potential default.

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/.

(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 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 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

Beach Energy Limited (Non-Executive Director)

PNG Sustainable Development Program (Non-Executive Director)

Sino Gas & Energy Limited (Director)

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

Interests in Shares, Options and Performance Rights

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

Interests in Shares, Options and Performance Rights

7,119,797 Ordinary Shares, 1,946,786 Deferred Shares, 12,202,797 Performance Rights

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 Limited (Chairman)

Former directorships in last 3 years

Pilot Energy Limited (ASX:PGY) (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

Member of Audit & Risk Committee

Interests in Shares, Options and Performance Rights

16,566,044 Ordinary Shares

B Ridgeway

Non-Executive Director

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

Experience and expertise

Bernie incorporated Sino Gas & Energy (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, oil and gas, water well, and civil engineering industries worldwide.

Other current directorships

Imdex Limited since 23 May 2000 (ASX: IMD)

Former directorships in last 3 years

None

Special responsibilities

Chair of Audit & Risk Committee

Member of Nomination & Remuneration Committee

Interests in Shares, Options and Performance Rights

11,455,000 Ordinary Shares

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 in 1992

Experience and expertise

Matthew was appointed to the Board on 28 August 2015.

Matthew is an experienced former investment banker who has extensive experience and insight into the Greater China financial services sector. Matthew is 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 Performance Rights

1,830,000 Ordinary Shares

H Spindler

Company Secretary

B. Bus, CA, A Fin

Experience and expertise

Harry has over 15 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, technology and assists in advising a number of ASX listed mining companies.

Interests in Shares, Options and Performance Rights

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, seven 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	7	7	-	-	2	2
G Corrie	7	7	-	-	-	-
G Harper	7	7	4	4	2	2
B Ridgeway	7	7	4	4	2	2
M Ginsburg	7	7	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 B Ridgeway G Harper

(I) Remuneration Report

The Directors are pleased to present your Company's remuneration report for the year ended 31 December 2016. The report sets out remuneration information for Sino Gas and Energy Holdings Limited'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 2016
2) Remuneration governance
3) Directors and key management personnel disclosed in the report
4) Executive remuneration policy
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 as required by section 308(3C) of the *Corporations Act 2001*.

1) Overview of remuneration framework for 2016

Sino Gas' guiding principles for remuneration strategy used throughout 2016 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 will be based on 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 will be assessed over three years based on share price performance (both absolute and relative 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 or deferred shares depending on the seniority of the employee.
- Resignation will not automatically result in a full payout of performance rights.
- 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 doing all they can to deliver top level performance whilst being mindful of effective employee cost management.

Key Developments

The key developments and outcomes for the 2016 financial year and 2017 financial year are:

- Executive Remuneration – Managing Director fixed remuneration has remained unchanged since 1 January 2015 with an increase of 3% approved for 2017. Other senior executive remuneration remained unchanged during 2016 with fixed remuneration increases of between 1.5% and 6.5% approved for 2017.
- Non-Executive Directors' Remuneration – fixed fees have remained unchanged since 1 January 2014 and the Board has agreed that there will no change in 2017.

- STI – 78% of the available pool has been awarded for the 2016 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 2016 STI as deferred shares. The issue of these shares will be deferred to after 31 December 2017 and are subject to proportional clawback provisions should the executive terminate their employment prior to 31 December 2017.
- LTI – 37% (691,530) of the available pool of performance rights (1,850,000) vested reflecting the partial award for the relative shareholder return performance hurdle.

In summary, over the 2016 financial year we have focused on improving the alignment of employee incentive-based compensation with shareholder value through further refinement of performance measures, industry peer group comparators and disclosure of remuneration practices. Obtaining and considering shareholder feedback on remuneration strategies remains a core focus of the Nomination & Remuneration Committee. We 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 Non-Executive Directors.

The remuneration framework in 2016 was implemented, after consulting widely with industry and benchmarking to other ASX listed energy companies.

In designing remuneration, 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 operational, safety 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 2016, 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.

2016 Remuneration Report Vote

At the Company's 2016 Annual General Meeting, the Company's Remuneration Report received a vote in favour of 98%. Feedback on the Remuneration Report was not received during the 2016 Annual General Meeting. However, the Company continued to seek and received specific feedback from institutional and retail shareholders and proxy advisory organisations during the financial year ended 31 December 2016.

Securities Trading Policy

The trading of Sino Gas' securities 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 by employees or designated contractors 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, executives must not 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 the Company's securities.

Any Director or executive 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 Securities Trading Policy.

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

3) Directors and key management personnel (KMP) disclosed in the report

The following persons acted as directors during the financial year:

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

I Weatherdon	Chief Financial Officer – Appointed 1 January 2016
F Fu	Chief Operating Officer
H Spindler	Company Secretary

4) Executive remuneration policy

The remuneration framework for executives comprises three components:

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

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 30 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%
Short term incentive (STI)	80 -150%*	30 - 50%
Long term incentive (LTI)	80%	15 - 50%
Total	**260 - 330%**	**145 - 200%**

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

Fixed Pay and Benefits

Fixed pay and benefits consist of cash salary, superannuation contributions and non-monetary benefits (including housing, insurance, and other expatriate benefits).

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

- the role 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 US$540,000 per annum for the year ending 31 December 2016 (unchanged since his appointment as Managing Director on 1 January 2015). It is the intention of the board that Mr Corrie's base pay will be reviewed on an annual basis. Considering Mr Corrie's substantial contributions, the Board approved a 3% increase in Mr Corrie's base remuneration for 2017. Mr Corrie is eligible for usual expatriate benefits, comprising housing and utilities, medical insurance, schooling, mandarin lessons, relocation expenses and annual flights to home country.

Mr Frank Fu's base pay was US$420,000 per annum for the year ending 31 December 2016 (unchanged since his employment in 2014). Mr Fu is eligible for the provision of family medical insurance and schooling. The Board approved a 1.5% increase in Mr Fu's base remuneration for 2017.

Mr Ian Weatherdon's base pay was US$380,000 per annum for the year ending 31 December 2016. Since his engagement with the Company on 1 January 2016, Mr Weatherdon has proved to be a valuable addition to the executive team. The Board approved a 6.5% increase in Mr Weatherdon's base remuneration for 2017. Mr Weatherdon is eligible for usual expatriate benefits, comprising housing and utilities, medical insurance, mandarin lessons, relocation expenses and annual flights to home country.

Short term incentive (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. 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 2016.

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 2016 STI scheme was based on a number of factors comprising HSSE (10% weighting), production (25%), technology (15%), CRR approvals (15%), financial strength (15%), commercial relationship management (10%) and corporate targets (10%) such as strategy and market interaction.

Based on assessment of performance against these factors, the Board approved a 78% payout. As a result, Mr Corrie's 2016 STI entitlement was US$324,000; Mr Fu's US$172,200 and Mr Weatherdon's US$152,000. Both Mr Corrie and Mr Weatherdon have elected to receive their 2016 STI payment as 50% deferred shares.

Whilst the Board approved a 55% STI payment for the year ending 31 December 2015, given the industry climate and the share price underperformance, all eligible executives (Mr Corrie and Mr Fu) elected to forfeit their 2015 STI entitlement. However, Mr Corrie and Mr Fu were awarded spot bonus' of US$75,350 and US$37,790, respectively during 2016 for exceptional performance in managing relationships with key stakeholders and securing the receipt of long outstanding gas sales proceeds.

It is the intention that the STI performance measures in 2017 will comprise HSSE, pilot 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.

Long Term Incentive (LTI)

The Performance Rights Plan (PRP) provides the third element of the remuneration structure. 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 performance rights plan, each performance right converts to one ordinary share of Sino Gas on exercise. No amounts are paid or payable by the recipient on receipt of the performance right 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 a number of performance rights that may be granted to Executives as part of a recruitment package, all future performance rights will be based on a three-year performance period.

The key features of the PRP grant for the financial year ended 31 December 2016 are outlined in the table below:

Participation

(a) During 2016, Mr Glenn Corrie was awarded 7,580,692 performance rights (as approved by shareholders at the 2016 AGM) and Mr Weatherdon was awarded 3,334,102 performance rights (2016 LTI Grant).

(b) Mr Weatherdon was awarded 1,500,000 sign on performance rights upon his commencement with the Company on 1 January 2016 (2016 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 test period for the performance rights.

Performance Period

(a) 3 years (January 2016 to December 2018)

(b) 12 months from commencement date

Performance Hurdles

2016 LTI Grant

Relative Shareholder Return (RSR) (30%)

The Performance Criteria is 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 Performance Rights will vest as follows:

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

The Peer Group comprises:

Australian Market Peers	International Peers
Beach Energy Limited	Green Dragon Gas Ltd (LSE: GDG)
Senex Energy Limited	MIE Holdings Corporation (SEHK: 1555)
AWE Limited	AAG Energy Holdings Ltd (SEHK: 2686)
Horizon Oil Limited	Sino Oil and Gas Holdings Ltd (SEHK: 0702)
Tap Oil Limited	
Karoon Gas Australia Limited	
Buru Energy Limited	
Sundance Energy Australia Limited	
Cooper Energy Limited	
Carnarvon Petroleum Limited	

Performance Hurdles (continued)

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 2015 and immediately prior to the end of the Performance Period (31 December 2018).

Absolute Shareholder Return (ASR) (30%)

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

Company share price change	% of Performance Rights to vest
Less than 30% compound growth p.a.	0%
30% compound growth p.a.	30%
>30% and <50% compound growth p.a.	Pro-rata
50% compound growth p.a.	75%
>50% and <70% compound growth p.a.	Pro-rata
70% 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 2015 (A$0.076) and immediately prior to the end of the Performance Period (31 December 2018).

Operational Performance (OP) (40%)

The Performance Hurdle is the approval by the relevant Chinese authorities of an ODP on either the Linxing or Sanjiaobei PSC to enable Sino to proceed to full-field development.

2016 Grant

Continued Employment (CE) (100%)

The Performance Hurdle is the employee's continued service for 12 months from commencement of employment.

2014 LTI Grant (T1) assessment outcomes

During the financial year ended 31 December 2014, the Company issued 1,850,000 performance rights to Mr Corrie with a performance period ending 31 December 2016. These performance rights were subject to performance conditions of Relative Shareholder Return (40%), Absolute Shareholder Return (40%) and Operational 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 2016, the results of which are summarised below:

Performance Hurdle	No of Performance Rights vested	No of Performance Rights which lapsed
Relative Shareholder Return	691,530	48,470
Absolute Shareholder Return	-	740,000
Operational Performance	-	370,000

5) Non-executive remuneration

Non-Executive Directors are remunerated solely by way of fees and statutory superannuation and their remuneration is reviewed annually to ensure that the fees reflect the demands on, and responsibilities of, such Directors.

The fees paid to Non-Executive Directors are determined with reference to the nature of the role, responsibility and time commitment required for the performance of the role 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.

Fees and payments to Non-Executive Directors are set and paid in Australian Dollars (A$). Note that the remuneration table set out on page 30 shows remuneration in US$.

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

Excluding changes to the superannuation guarantee, there have been no changes to Non-Executive Directors' fee base since 1 January 2014. A benchmarking exercise was carried out in 2016 and it was confirmed that Non-Executive Directors' remuneration remains in line with market and, as a result, the Board has agreed that there will be no change in fees for 2017.

Non-Executive Directors' fixed fees for the financial year ended 31 December 2016 and for the financial year ending 31 December 2017 are as follows:

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

In addition to the Board fixed fees, Non-Executive Directors 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.

Non-Executive Directors do not receive any performance related remuneration. Whilst the Board has not implemented a minimum shareholding requirement, Non-Executive Directors 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 Non-Executive Directors shareholdings are set out on pages 19 to 21.

The Company has entered into written letters of appointment with its Non-Executive Directors. The term of the appointment of a Non-Executive Director 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 Non-Executive Directors. The Constitution provides that all Non-Executive Directors 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			
		Cash salary & fees $	Cash bonus & STI $	Non-monetary $	Other $	Superannuation $	Deferred Shares STI $	Performance rights LTI $	Total $	Performance related %
Directors										
P Bainbridge, Chairman	2016	162,356	-	-	-	-	-	-	162,356	0%
	2015	164,020	-	-	-	-	-	-	164,020	0%
G Corrie, Managing Director	2016	540,000	237,350	179,448	-	-	81,000	292,455	1,330,253	46%
	2015	540,000	-	220,807	-	-	31,587	428,601	1,220,995	38%
G Harper, Non-Executive Director	2016	81,178	-	-	-	-	-	-	81,178	0%
	2015	82,043	-	-	-	-	-	-	82,043	0%
B Ridgeway, Non-Executive Director	2016	74,135	-	-	-	7,043	-	-	81,178	0%
	2015	74,880	-	-	-	7,114	-	-	81,994	0%
M Ginsburg, Non-Executive Director	2016	81,372	-	-	-	-	-	-	81,372	0%
	2015	26,050	-	-	-	-	-	-	26,050	0%
C Heseltine, Non-Executive Director[2]	2016	-	-	-	-	-	-	-	-	0%
	2015	38,917	-	-	-	17,072	-	-	55,989	0%
Sub-total of directors	**2016**	**939,041**	**237,350**	**179,448**	**-**	**7,043**	**81,000**	**292,455**	**1,736,337**	
	2015	925,910	-	220,807	-	24,186	31,587	428,601	1,631,091	
Executives										
I Weatherdon, Chief Financial Officer[3]	2016	380,000	76,000	191,695	-	-	38,000	138,228	823,923	31%
	2015	-	-	-	-	-	-	-	-	0%
F Fu, Chief Operating Officer	2016	420,000	209,990	31,404	-	-	-	89,052	750,446	40%
	2015	421,223	-	92,790	-	-	-	74,213	588,226	13%
H Spindler, Company Secretary	2016	49,065	-	-	-	-	-	-	49,065	0%
	2015	53,410	-	-	-	-	-	-	53,410	0%
J Hodgson, Chief Financial Officer[4]	2016	-	-	-	-	-	-	-	-	0%
	2015	302,735	-	192,574	120,835	-	-	-	616,144	0%
Total key management personnel compensation (group)	**2016**	**1,788,106**	**523,340**	**402,547**	**-**	**7,043**	**119,000**	**519,735**	**3,359,771**	
	2015	1,703,278	-	506,171	120,835	24,186	31,587	502,814	2,888,871	

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. C Heseltine retired from the Board of Sino Gas on 28 August 2015.
3. I Weatherdon was appointed to the role as Chief Financial Officer on 1 January 2016.
4. J Hodgson resigned as Chief Financial Officer of the Company on 18 December 2015.

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, motor vehicles and participation, when eligible, in the Company's Short Term Incentive and Long Term Incentive plans. Other major provisions of the agreements relating to remuneration are set out below.

Glenn Corrie, Managing Director

- Term of Agreement – 15 August 2015 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 Performance Rights will lapse unless his employment term exceed 5 years, in which case, the vesting of Performance Rights will be pro-rated for performance period time and subject to progress towards achieving the respective performance hurdles, in the opinion of the Board.

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 Advisory Group Pty Ltd, of which Mr Spindler is an employee.

8) Share-based payments

Key Management Personnel

During the financial year ended 31 December 2016, the Company issued 12,414,794 Performance Rights to the Managing Director and Chief Financial Officer as detailed below. Please refer to section 3 of this Remuneration Report and Note D2 of the Annual Financial Report for further details regarding the Company's Performance Rights Plan and respective performance conditions and hurdles.

Details (Key Terms, refer to Note D2)	**Grant date**	**Issue date**	**Performance Period End date**	**Expiry date**	**No. at 31 Dec 2016**	**Grant date fair value (US$)**	**% vested at 31 Dec 2016**
2016 LTI Grant							
G Corrie	17 May 2016	13 Jun 2016	31 Dec 2018	31 Mar 19	7,580,692	$0.043, $0.070 & $0.085	0%
I Weatherdon	13 Jun 2016	13 Jun 2016	31 Dec 2018	31 Mar 19	3,334,102	$0.039, $0.061 & $0.078	0%
2016 Grant							
I Weatherdon	13 Jan 2016	19 Jan 2016	1 Jan 2017	1 May 17	1,500,000	$0.047	0%

During the financial year ended 31 December 2016, nil Performance Rights issued to senior management were exercised or lapsed either voluntarily or due to termination of employment.

As at 31 December 2016, the following Performance Rights had been issued to the Managing Director and senior management:

Details (Key Terms, refer to Note D2)	Grant date	Issue date	Performance Period End date	Expiry date	Grant date fair value (US$)	No. at 31 Dec 2016	% Vested & exercisable at 31 Dec 2016
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	37.4%
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	0%
2015 LTI Grant	15 May 2015	5 Jun 2015	31 Dec 2017	31 Jan 2018	$0.032, $0.076 & $0.133	2,772,105	0%
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%
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	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%
2016 Grant	13 Jan 2016	19 Jan 2016	1 Jan 2017	1 May 2017	$0.047	1,500,000	0%
						23,386,899	

Since 31 December 2016, the following Performance Rights have been exercised and lapsed:

Details (Key Terms, refer to Note D2)	Exercise / Lapsed	Performance Period End date	Expiry date	No.
G Corrie				
2014 LTI Grant (T1)	Exercised	31 Dec 2016	31 Jan 2017	691,530
2014 LTI Grant (T1)	Lapsed	31 Dec 2016	31 Jan 2017	1,158,470
I Weatherdon				
2016 Grant	Exercised	1 Jan 2017	1 May 2017	1,500,000

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 2016, directors and senior management held ordinary shares, deferred shares and performance rights as listed below:

	Balance 1 January 2016			Granted as remuneration			Exercised			Net change other			Held nominally 31 December 2016		
	Ord	Def	Perf Rights	Ord	Def	Perf Rights	Ord	Def	Perf Rights[2]	Ord	Def	Perf Rights[2]	Ord	Def	Perf Rights[2]
Directors															
P Bainbridge	1,861,173	-	-	-	-	-	-	-	-	450,000	-	-	2,311,173	-	-
G Corrie	4,982,922	695,345	6,472,105	-	-[1]	7,580,692	695,345	(695,345)	-	600,000			6,278,267	-[1]	14,052,797
G Harper,	15,507,240	-	-	-	-	-	-	-	-	454,550	-	-	15,961,790	-	-
B Ridgeway	11,455,000	-	-	-	-	-	-	-	-	-	-	-	11,455,000	-	-
M Ginsburg	1,830,000	-	-	-	-	-	-	-	-	-	-	-	1,830,000	-	-
Sub-total	**35,636,335**	**695,345**	**6,472,105**	**-**	**-**	**7,580,692**	**695,345**	**(695,345)**	**-**	**1,504,550**	**-**	**-**	**37,836,230**	**-**	**14,052,797**
Executives															
F Fu	-	-	4,500,000	-	-	-	-	-	-	-	-	-	-	-	4,500,000
I Weatherdon	-	-	-	-	-[1]	4,834,102	-	-	-	1,000,000	-	-	1,000,000	-[1]	4,834,102
H Spindler	66,422	-	-	-	-	-	-	-	-	-	-	-	66,422	-	-
Total	**35,702,757**	**695,345**	**10,972,105**	**-**	**-**	**12,414,794**	**695,345**	**(695,345)**	**-**	**2,504,550**	**-**	**-**	**38,902,652**	**-**	**23,386,899**

1. Since 31 December 2016, the Company has awarded Mr Corrie 1,946,786 deferred shares and Mr Weatherdon 913,304 deferred shares with respect to their 2016 STI Award.
2. Please refer to Section 8 above for changes in Performance Rights since 31 December 2016.

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 2016.

	2012	2013	2014	2015	2016
Revenue (USD)	78,281	372,090	1,114,073	232,056	2,708,807
Net profit (loss) after tax (USD)	486,076	(1,018,905)	832,832	(13,037,212)	(7,783,098)
Dividends (USD)	-	-	-	-	-
Basic earnings (loss) per share (USD cents)	0.04	(0.08)	0.05	(0.70)	(0.38)
Diluted earnings (loss) per share (USD cents)	0.03	(0.08)	0.05	(0.70)	(0.38)
Share price at the start of the year (AUD cents)	3	13	20	19	7.8
Share price at the end of the year (AUD cents)	13	20	19	7.8	11.5

- End of audited remuneration report -

(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. Disclosure of the Limits of Liability or the premium paid is subject to confidentiality requirements under the contract of insurance.

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. An environmental assessment is required to be submitted as a part of the ODP. 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 2016 or since that date.

There were no shares issued by the Company during the year ended 31 December 2016 on the exercise of options. Since 31 December 2016, 25,000,000 ordinary shares have been issued by the company upon the exercise of options (expiry: 17 February 2017, exercise price: A$0.075) issued to Argonaut in 2012.

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	2,860,090

Movement in Deferred Shares

No deferred shares were issued during the year ended 31 December 2016. During 2016, the Company issued 695,345 fully paid ordinary shares under the Company's 2014 STI deferred shares scheme as approved by shareholders at the Company's 2015 Annual General Meeting.

Since 31 December 2016, the Company has awarded 2,860,090 deferred shares interests with respect to Mr Corrie's and Mr Weatherdon's 2016 STI Award.

Please refer to the Share Based Payment information above and Note D2 of the Financial Statements for further information regarding the STI scheme.

Performance Rights

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

Rights (Key Terms, refer to Note D2)	Exercise price	Issue date	Performance Period end date	Expiry date	No. of shares under performance rights
2014 LTI Grant (T2)	Nil	16 Jul 2014, 5 Aug 2014 & 29 Sept 2014	31 Dec 2017	31 Jan 2018	6,850,000
2015 LTI Grant	Nil	5 Jun 2015	31 Dec 2017	31 Jan 2018	2,772,105
2016 LTI Grant	Nil	13 June 2016	31 Dec 2018	31 March 2019	10,914,794
					20,536,899

Please refer to note D2 for further details regarding the Company's Performance Rights.

Movement in Performance Rights

During the financial year ended 31 December 2016, the Company issued 12,414,794 Performance Rights to eligible participants (2016 LTI Grant & 2016 Grant). Please refer to section I(3) of the Directors Report and Note D2 of the Financial Statements for further details.

During the financial year ended 31 December 2016, 750,000 Performance Rights lapsed due to their terms and conditions and nil Performance Rights were exercised.

Since 31 December 2016, 2,323,680 performance rights have been exercised and 1,526,320 performance rights have lapsed. No performance rights have been issued since the end of the financial year.

(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 Financial Statements.

The board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are 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 37.

(s) Auditor

Ernst and Young were appointed as Auditor and continues 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

13 March 2017

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Auditor's independence declaration to the Directors of Sino Gas and Energy Holdings Limited

As lead auditor for the audit of Sino Gas and Energy Holdings Limited for the financial year ended 31 December 2016, 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 and Energy Holdings Limited and the entities it controlled during the financial year.

Ernst & Young

D A Hall
Partner
13 March 2017

ANNUAL FINANCIAL REPORT

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Consolidated Statement of Loss and Other Comprehensive Loss
for the year ended 31 December 2016

	Notes	2016 US$	2015 US$
Revenue			
Interest income		2,708,807	232,056
Share of loss of joint venture accounted for using the equity method	A2	(2,299,415)	(386,772)
Expenses			
Financing costs	C2	1,715,596	3,957,553
Depreciation and amortisation		117,239	106,301
Share-based compensation	D2	618,115	567,225
General and administration	B1	5,323,076	6,399,110
Foreign exchange (gain) / loss		(23,901)	1,852,307
Loss before income tax		(7,340,733)	(13,037,212)
Income tax expense	B2	442,365	-
Loss for the year attributable to shareholders		(7,783,098)	(13,037,212)
Total comprehensive loss for the year		(7,783,098)	(13,037,212)
Loss per share for loss attributable to shareholders:		Cents	Cents
Basic loss per share	B4	(0.38)	(0.70)
Diluted loss per share	B4	(0.38)	(0.70)

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 2016

	Notes	2016 US$	2015 US$
ASSETS			
Current assets			
Cash and cash equivalents	C1	44,233,179	63,419,354
Trade and other receivables		269,740	366,269
Loan receivable from joint venture	A2	7,836	353,438
Total current assets		44,510,755	64,139,061
Non-current assets			
Interest in joint venture accounted for using equity method	A2	53,739,414	50,126,564
Loan receivable from joint venture	A2	59,690,712	48,933,348
Property, plant and equipment		224,643	328,757
Total non-current assets		113,654,769	99,388,669
Total assets		158,165,524	163,527,730
LIABILITIES			
Current liabilities			
Trade and other payables		2,325,535	1,093,515
Provisions		-	53,345
Borrowings	C2	-	9,411,118
Total current liabilities		2,325,535	10,557,978
Non-current liabilities			
Borrowings	C2	10,000,000	-
Total liabilities		12,325,535	10,557,978
Net assets		**145,839,989**	**152,969,752**
EQUITY			
Contributed equity	C3	174,892,183	174,793,004
Reserves	C3	10,407,482	9,853,326
Accumulated losses		(39,459,676)	(31,676,578)
Total equity		**145,839,989**	**152,969,752**

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 2016

	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 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
Balance at 1 January 2015		111,613,442	9,238,195	(18,639,366)	102,212,271
Loss for the year		-	-	(13,037,212)	(13,037,212)
Total comprehensive loss for the year		-	-	(13,037,212)	(13,037,212)
Transactions with owners in their capacity as owners:					
Issue of shares	C3	65,870,975	-	-	65,870,975
Share issue costs	C3	(2,691,413)	-	-	(2,691,413)
Purchase of treasury shares	C3	(160,492)	-	-	(160,492)
Transfer of shares for the settlement of performance rights	C3	160,492	(160,492)	-	-
Performance rights	C3	-	690,996	-	690,996
Deferred shares	C3	-	84,627	-	84,627
		63,179,562	615,131	-	63,794,693
Balance at 31 December 2015		174,793,004	9,853,326	(31,676,578)	152,969,752

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 2016

	Notes	2016 US$	2015 US$
Cash flows from operating activities			
Payments to suppliers and employees		(5,275,197)	(6,406,536)
Interest received		253,989	232,056
Interest paid		(1,041,600)	(997,113)
Net cash used in operating activities	C1	(6,062,808)	(7,171,593)
Cash flows from investing activities			
Payments for equipment		(14,813)	(249,575)
Loans to joint venture		(12,779,200)	(27,536,749)
Other contributions to the joint venture		(633,578)	-
Repayment of loans from joint venture		345,601	2,745,947
Net cash used in investing activities		(13,081,990)	(25,040,377)
Cash flows from financing activities			
Proceeds from issue of equity securities		-	65,870,975
Share issue costs (net of tax)		-	(2,691,413)
Purchase of treasury shares		-	(160,492)
Net cash provided by financing activities		-	63,019,070
Net increase (decrease) in cash and cash equivalents		(19,144,798)	30,807,100
Cash and cash equivalents at the beginning of the year	C1	63,419,354	34,140,775
Effects of exchange rate changes on cash and cash equivalents		(41,377)	(1,528,521)
Cash and cash equivalents at end of the year	C1	44,233,179	63,419,354

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 or SEH or the Company) and its subsidiaries (the Group) and joint ventures.

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 statements were authorised for issue by the Directors on 13 March 2017.

Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards 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$), 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, which is consolidated into the group accounts.

Foreign currency translation

The functional and presentation currency of the Company and its subsidiaries 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 investment in SGE and

D2. 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), a subsidiary of MIE Holdings Corporation (MIE) to establish a jointly controlled corporation between Sino Gas and MIE 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 (PSCs), Linxing PSC and Sanjiaobei PSC, both located on the eastern flank of the Ordos Basin in the People's Republic of China (the PRC).

SEH's economic interest in SGE as at 31 December 2016 was 49% (2015: 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% (2015: MIE 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 joint venture and equity investments.

SGE's financials for both years ended 31 December were as follows:

Statement of Financial Position	**2016 US$**	**2015 US$**
Cash and cash equivalents	2,821,926	3,718,979
Current assets	4,192,497	11,655,889
Non-current assets	285,842,004	262,983,735
Total assets	**292,856,427**	**278,358,603**
Current liabilities	29,705,132	45,447,292
Borrowings from shareholders	121,758,391	99,852,288
Non-current liabilities	266,105	-
Total liabilities	**151,729,628**	**145,299,580**
Net assets	**141,126,799**	**133,059,023**
SEH's interest	49%	49%
SEH's share of net assets in SGE	**69,152,131**	**65,198,921**
Capitalised interest	(5,245,124)	(3,478,467)
Asia gas loan note	(11,593,890)	(11,593,890)
Other capital costs	1,426,296	**-**
Investment in SGE	**53,739,414**	**50,126,564**

Statement of Loss and other Comprehensive Loss		
Sales	12,131,048	7,884,304
Other Income	134,995	3,330
Operating expense	7,725,466	5,078,155
General and administration expense	2,911,587	1,905,854
Depreciation and amortisation expense	4,391,518	1,864,813
Interest expense	4,956,965	-
Exchange (gain)	(3,026,809)	(139,034)
Loss before income tax	**(4,692,684)**	**(822,154)**
Income tax expense	-	-
Loss for the year	**(4,692,684)**	**(822,154)**
SEH's interest	**49%**	**49%**
Loss for the year attributable to SEH	**(2,299,415)**	**(402,855)**
Performance rights adjustments	-	16,083
Loss for the year attributable to SEH	**(2,299,415)**	**(386,772)**

SEH's equity investment in SGE	**2016 US$**	**2015 US$**
Balance at the beginning of the year	50,126,564	50,133,517
SEH's share of net loss of equity accounted joint venture	(2,299,415)	(386,772)
Beneficial financial terms contribution	6,217,407	3,702,929
Elimination of capitalised interest	(1,766,658)	(3,478,468)
Other capital costs	1,426,296	-
Other	35,220	155,358
Balance at the end of the year	**53,739,414**	**50,126,564**

Recognition and measurement

The investment in SGE is classified as a joint venture 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 Australian Accounting Standards 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 during the period 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 in 2016 US$4,195,571 (2015: US$3,478,468).

SEH's loans to SGE	2016 US$	2015 US$
Current		
Interest-free loan	7,836	353,438
Non-current		
Interest-bearing loan	59,690,712	48,933,348
Total loan receivable	**59,698,548**	**49,286,786**

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 joint venture and the amount of funds advanced in substance represents an equity contribution in the joint venture and is recognised by the Company as an addition to its investment in the joint venture.

SEH's interest-bearing loan to SGE	2016 US$	2015 US$
Carrying amount at the beginning of the year	48,933,348	21,665,956
Advances to SGE	12,779,200	27,536,749
Interest on principal	4,195,571	3,478,468
Fair value adjustment	(6,217,407)	(3,702,929)
Other non-cash movements	-	(44,896)
Interest-bearing loan receivable	**59,690,712**	**48,933,348**

The loan is denominated in US dollars, unsecured and has an interest rate which is benchmarked against the People's Bank of China five year borrowing rate. As at 31 December 2016 the rate was 4.90% (2015: 6.15%). It has been classified as non-current based on the repayment terms of the loan agreement. The weighted average interest rate (WAIR) was 10% (2015: 9.26%).

SEH's interest-free loans to SGE	2016 US$	2015 US$
Carrying amount at the beginning of the year	353,438	2,962,685
Advances to SGE	172,082	136,700
Repayments from SGE	(517,684)	(2,745,947)
Interest-free loan receivable	**7,836**	**353,438**

The loan is interest free, denominated in US dollars, unsecured and repayable on demand.

A3. Recoverability of 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 joint venture 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 sell through observations of market transactions as well as value-in-use assessments based on cashflow modelling. The recent sale of MIE's 51% interest in SGE indicates a recoverable amount on a fair value less cost to sell 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 2016 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 amortization 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 annual minimal spending commitment of SGE is US$4,195,030. The Company's share of SGE's capital commitments at the balance date was US$2,055,565 (2015: US$2,263,151).

SGE had no recorded contingent liabilities as at 31 December 2016 (2015: Nil).

A5. Accounting policies used in accounting for interests 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 period, revenue has been recognised on production relating to the 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 mineral 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.

The depreciation rate applicable to other tangible assets is generally 33% per annum.

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:

	2016	2015
	US$	US$
Employment costs	3,331,939	3,214,321
Professional fees*	846,726	1,808,117
Corporate office expenses	1,144,411	1,376,672
Total	**5,323,076**	**6,399,110**

* Included in professional fees is the remuneration of auditors below

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:

	2016	2015
	US$	US$
Audit fees		
Audit and review of financial statements	73,882	91,057
SEH's share of audit services of SGE	35,597	55,116
Total audit fees	109,479	146,173
Non-audit fees		
Taxation services	86,371	125,235
Other consulting services	-	9,474
SEH's share of non-audit services of SGE	-	4,900
Total non-audit fees	86,371	139,609
Total auditor's remuneration	**195,850**	**285,782**

The Group's auditor for 2015 was PricewaterhouseCoopers. Ernst & Young became the Group's auditor in 2016. The Group may employ its auditors 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

	2016 US$	2015 US$
Loss before income tax expense	(7,340,734)	(13,037,212)
Tax at the Australian tax rate of 30% (2015: 30%)	(2,202,220)	(3,911,164)
Non-deductible and non-assessable non-temporary items	185,434	356,254
Expenses attributable to branch office China	804,908	-
Income taxes on the branch office in China at China tax rate of 25%	442,365	-
Tax rate differential between Australia and China (5%)	88,473	-
Net change in the unrecognised deferred tax asset on tax losses carried forward	1,123,405	3,554,910
Income tax expense	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$442,365 (2015: nil).

Deferred tax balances

	2016 US$	2015 US$
Provisions and accruals	94,104	89,163
Unrealised foreign exchange loss	-	555,693
Business related costs	565,197	852,506
Costs of issued capital	471,380	161,485
Other non-current assets	1,983,132	1,874,145
Tax losses	4,007,601	2,504,567
Deferred tax asset	7,121,414	6,037,559
Investment under equity accounting	(7,121,414)	(6,037,559)
Deferred tax liability	(7,121,414)	(6,037,559)
Net deferred tax balance	-	-

Tax losses

	2016 US$	2015 US$
Unused tax losses (excluding capital losses) for which no deferred tax asset has been recognised	6,249,310	9,494,610
Potential tax benefit @ 30%	1,874,793	2,848,383

B3. Other commitments and contingencies

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

	2016 US$	2015 US$
Within one year	376,413	493,512
Later than one year but not later than five years	182,663	11,136
	559,076	504,648

B4. Loss per share

	2016 Cents	2015 Cents
Basic loss per share		
Total basic loss per share attributable to the ordinary equity holders of the company	(0.38)	(0.70)
Diluted loss per share		
Total diluted loss per share attributable to the ordinary equity holders of the company	(0.38)	(0.70)

The total loss for the year attributable to shareholders as reported in the statement of profit or loss and other comprehensive loss of US$7,783,098 (2015: loss of US$13,037,212) 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 2,074,132,672 (2015: 1,864,484,721).

The weighted number of share options, deferred shares and performance rights 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. There are 25,000,000 share options excluded from the calculation of diluted earnings per share as they are anti-dilutive. They could potentially dilute basic earnings per share in the future.

Refer to note D2 for number of Performance Rights (PRs) and deferred shares outstanding at 31 December 2016. 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

	2016 US$	2015 US$
Cash and cash equivalents	44,233,179	63,419,354

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 0.80% (2015: 0.15%).

Foreign denomination of cash and cash equivalents held	2016 US$	2015 US$
In AUD	846,754	5,754,250
In USD	42,367,163	57,416,881
In CNY	1,019,262	248,223
Total in USD	44,233,179	63,419,354

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

	2016 US$	2015 US$
Loss for the year	(7,783,098)	(13,037,212)
Depreciation and amortisation of non-current assets	117,239	106,301
Share-based payments expense	618,115	567,225
Transaction costs amortised	671,924	2,959,446
Share of loss from joint venture	2,299,415	386,772
Interest income from loan to SGE	(2,428,913)	-
(Increase) / decrease in trade and other receivables	96,529	(39,092)
Increase in current payables	439,302	438,032
Decrease in provisions	(53,345)	(43,821)
Other non-cash items	(39,976)	1,490,756
Net cash outflow from operating activities	**(6,062,808)**	**(7,171,593)**

C2. Borrowings

Current borrowings	2016 US$	2015 US$
Principal	-	10,000,000
Transaction costs (less amortisation)	-	(671,924)
Interest accrued	-	83,042
Total current borrowings	-	9,411,118
Non-current borrowings		
Principal	10,000,000	-
Total borrowings	**10,000,000**	**9,411,118**

Financing costs	2016 US$	2015 US$
Interest expense	1,043,672	998,107
Transaction costs amortised	671,924	2,959,446
Total financing costs	**1,715,596**	**3,957,553**

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 weighted average interest rate at year-end was 10.44% (2015: 10.16%) entirely denominated in USD.

Sino Gas has a US$50 million term debt facility with Macquarie Bank Limited. The full amount of Tranche A (US$10 million) of the debt facility was drawn down in September 2014. Repayment of the drawn amount has been extended with the first repayment of US$1.67 million due on 30 September 2018 and the remainder on 31 December 2018. Tranche B of US$40 million may be drawn down subject to compliance with the financial covenants and internal credit approval of Macquarie Bank Limited.

In the event Overall Development Plan approval is obtained for either Linxing PSC or Sanjiaobei PSC before the end of 2018, Sino Gas has the option to extend the maturity of the debt facility to the end of 2019 and repay the US$10,000,000 outstanding under Tranche A in six equal quarterly payments from September 2018 to December 2019.

The interest rate is 3 Month LIBOR + 9.75%.

Cash transaction costs of US$2,590,206 were incurred in establishing the loan facility, and have been allocated pro-rata based on fair value to the borrowings and options to which they are directly attributable, and amortized over the availability period.

All remaining Tranche B transaction costs were expensed in full in 2015 as there was no evidence that it is probable that Tranche B will be drawn down.

Upon the draw-down of Tranche A, 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 2016 and 2015 reporting periods.

The loan is secured against the Company's assets including its shares in Sino Gas & Energy Limited.

C3. Issued capital and reserves

	2016 US$	2015 US$
Equity and reserves		
Issued Capital	174,892,183	174,793,004
Reserves	10,407,482	9,853,326

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.

Issued and Paid Up Capital	No. of Shares	US$
Balance at 1 January 2016	2,073,678,608	174,793,004
Issue of shares through conversion of deferred shares (a)	695,345	99,179
Balance at 31 December 2016	**2,074,373,953**	**174,892,183**
Balance at 1 January 2015	1,544,247,358	111,613,442
Issue of shares through allotments (b)	526,031,250	65,870,975
Purchase of treasury shares	(2,500,000)	(160,492)
Transfer of treasury shares for the settlement of performance rights	2,500,000	160,492
Issue of shares through conversion of performance rights (c)	3,400,000	-
Share issue costs	-	(2,691,413)
Balance at 31 December 2015	**2,073,678,608**	**174,793,004**

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

(b) In 2015, the Company completed a capital raising for A$80 million through a Share Placement of 500 million shares at A$0.16 per share and a Share Purchase Plan (SPP) for eligible retail investors at the same price. SPP subscriptions received were for 26,031,250 shares totalling A$4,165,000 (US$3,196,263).

(c) During 2015, the Company issued 3,400,000 fully paid ordinary shares following the exercise of Performance Rights under the Company's Performance rights plan.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from the equity reserves attributable to the owners of Sino Gas as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Sino Gas.

Reserves

	2016	2015
	US$	US$
Option Reserve	5,788,508	5,788,508
Performance Rights Reserve	4,499,974	3,965,639
Deferred shares Reserve	119,000	99,179
Equity Settled Benefits Reserve	**10,407,482**	**9,853,326**

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 equity settled benefits reserve arises on the grant of share options to directors and senior executives under the Employee Share Option Plan, performance rights to directors and senior executives under the Performance Rights Plan and other share based payments under the Company's short-term incentive scheme.

	2016	**2015**
Movements in reserves during the year	**US$**	**US$**
Balance at the beginning of the financial year	9,853,326	9,238,195
Performance rights expense (a)	499,115	535,638
Share of movement in SGE's share-based payment reserves	35,220	155,358
Exchange of short-term employee benefit entitlement for deferred shares	-	53,040
Transfer of shares for the settlement of performance rights / deferred shares	(99,179)	(160,492)
Deferred shares expense	119,000	31,587
Balance at the end of the financial year	**10,407,482**	**9,853,326**

(a) Performance rights

Each performance right is exercisable for one ordinary share at nil consideration should set hurdles be achieved. During the period, nil performance rights were exercised (2015: 5,900,000) or forfeited (2015: 2,300,000) by employees and directors. 750,000 employee performance rights lapsed in 2016.

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)	
	2016	2015
	US$	US$
1% increase in interest rates	(318,463)	(446,020)
1% decrease in interest rates	318,463	446,020

The impact on loss for the year of a 1% increase or decrease in interest rate on loans receivable is (US$225,364)/US$216,603 for 2016 and (US$156,100)/US$156,100 for 2015. 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 United States dollars. Certain financial instruments of the Group are exposed to movements in the Australian dollar (AUD), and the Chinese Renminbi (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	
	2016	2015	**2016**	2015
1 AUD equates to USD	0.744	0.752	0.724	0.731
1 CNY equates to USD	0.151	0.159	0.144	0.154

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

	Loss increase/(decrease)			
		2016		**2015**
	AUD	**CNY**	**AUD**	**CNY**
	US$	**US$**	**US$**	**US$**
10% increase	(85,512)	28,330	(571,846)	(44,226)
10% decrease	85,512	(28,330)	571,846	44,226

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 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**
31 December 2015		
< 6 months	1,093,515	3,468,460
6-12 months	-	7,320,006
Total – 2015	**1,093,515**	**10,788,466**
Carrying Amount - 2015	**1,093,515**	**9,411,118**

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.

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.

D- OTHER ITEMS

D1. Events occurring after the reporting period

Subsequent to year end, the Company issued a total of 25,000,000 ordinary shares to Argonaut upon the conversion of Options issued in February 2012.

In addition, in January 2017, the Company issued 823,680 ordinary shares upon the partial conversion of Performance Rights and awarded a total of 2,860,090 deferred shares (the issue of which is deferred to after 31 December 2017) to senior executives in accordance with the Company's 2016 STI Scheme. In February 2017, the Company issued 1,500,000 ordinary shares following the exercise of deferred sign-on compensation Performance Rights.

D2. Share-based payments

	2016	2015
	US$	US$
Performance rights expense	499,115	535,638
Deferred shares expense	119,000	31,587
Total share based payments	**618,115**	**567,225**

Employee performance rights plan (PRP)

With the exception of performance rights that may be granted to senior executives as part of a recruitment package, all outstanding performance rights at the end of 2016 are based on at least a three-year performance period. In the event an individual ceases to hold office, other than due to a Qualifying Reason, performance rights which are not exercisable will lapse. In the event an individual ceases to hold office due to the occurrence of a Qualifying Reason, the PRP includes a provision to award performance rights 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 Performance Rights are satisfied by the issue or procurement of fully paid ordinary shares when the applicable performance hurdles are met.

The movements in Performance Rights during the financial year ended 31 December 2016 are as follows:

	2016		2015	
	No	Weighted average grant fair value	No	Weighted average grant fair value
Outstanding at the beginning of the year	12,722,105	US$0.091	17,150,000	US$0.103
Granted during the year	12,414,794	US$0.063	3,772,105	US$0.068
Forfeited or lapsed during the year	(750,000)	US$0.060	(2,300,000)	US$0.063
Exercised during the year	-	-	(5,900,000)	US$0.123
Outstanding at the end of the year	24,386,899	US$0.078	12,722,105	US$0.091

The weighted average share price at the date of exercise for performance rights exercised during the financial year ended 31 December 2016 was nil (2015: US$0.123).

Employee performance rights plan (PRP) (cont'd)

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

Series	Grant date	Expiry date	Performance Hurdles RSR	ASR	OP	No. of shares under perf rights	Weighted average grant fair value (US$)
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		(CE)		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**
31 December 2015							
(*)	30 Aug 2011	30 Aug 2016		(*)		750,000	US$0.060
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	5 Aug 2014	31 Jan 2018 (T2:100%)	40%	40%	20%	4,500,000	US$0.103
2014 LTI Grant	29 Sept 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
						12,722,105	US$0.091

(*) Employee Performance Rights lapsed in 2016.

The hurdles are summarized below:

(a) **Continued Employment (CE)**: from the date of issue until the date 12 months from individual's commencement date;

(b) **Relative Shareholder Return (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 Performance Rights will vest as follows:

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

Employee performance rights plan (PRP) (cont'd)

(b) **Relative Shareholder Return (RSR) (cont'd)**:

2014 (T1 & T2) & 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).

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 performance period.

2016 LTI Grant

The Peer Group comprises: Green Dragon Gas Ltd (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).

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 2015 and end of the three-year Performance Period.

(c) **Absolute Shareholder Return (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.

2014 & 2015 LTI Grants

The Performance hurdle will be the 5-day volume weighted average share price of the Company (as at the last trading day of the Performance Period).

The Performance Rights will vest as follows:

Company share price (A$)

2014 LTI Grant (T1)	**2014 LTI Grant (T2) and 2015 LTI grant**	
31 December 2016	**31 December 2017**	**% of Performance Rights 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

The performance hurdle will be the percentage change in the share price of the Company. The Performance Rights will vest as follows:

Company Share Price Change	% of Performance Rights 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%

Employee performance rights plan (PRP) (cont'd)

(d) **Operational Performance (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 Performance Rights will vest as follows:

Average daily gross production

2014 LTI Grant (T1)	2014 LTI Grant (T2) and 2015 LTI Grant	
31 December 2016	**31 December 2017**	**% of Performance Rights 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.

Performance Rights Valuation

The fair value of the services received in return for performance rights granted are measured by reference to the fair value of the performance rights 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 performance right by the number of performance rights expected to vest.

The probability of achieving market performance conditions is incorporated into the determination of the fair value per performance right. No adjustment is made to the expense for performance rights that fail to meet the market condition. The number of performance rights 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 Performance Rights granted during 2016, the Company has assumed an exercise price of nil and a dividend yield of nil. Other inputs in relation to options and performance rights 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$)			
							CE	PSR	ASR	OP
1,500,000	13 Jan 2016	$0.067	01 May 2018	-	-	$0.047	$0.047	-	-	-
4,548,416	17 May 2016	$0.115	31 Mar 2019	70%	1.63%	$0.057	-	$0.070	$0.043	-
3,032,276	17 May 2016	$0.115	31 Mar 2019	-	-	$0.085	-	-	-	$0.085
2,000,462	13 Jun 2016	$0.105	31 Mar 2019	70%	1.62%	$0.050	-	$0.061	$0.039	-
1,333,640	13 Jun 2016	$0.105	31 Mar 2019	-	-	$0.078	-	-	-	$0.078

Key estimates and judgements - *Valuation of performance rights*

The fair value of performance rights 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 performance rights related to operational performance (OP), and tenure rights is calculated using a binominal valuation pricing model.

Deferred shares – executive short-term incentive scheme

Under the Company's short-term incentive (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	**2016**	2015
Number of rights to deferred shares	2,860,090	347,672
Fair value (per share)	US$0.083	US$0.13

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

Share Options

The following table details the number and weighted average exercise prices of share options issued to one of the Company's corporate advisors at an exercise price of A$0.075 which were outstanding at 31 December 2016.

Number of options	**Fair value at grant date**	**Expiry Date**
20,000,000	US$0.0526	15 Feb 2017
5,000,000	US$0.0290	15 Feb 2017
25,000,000		

5,000,000 unlisted options (with a fair value at grant date of US$0.0333) lapsed on 24 January 2015 in accordance with their vesting terms and conditions. No other movements were recorded in the period or prior year.

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.

D3. Key management personnel disclosures

	2016 **US$**	2015 US$
Short-term employee benefits	2,713,993	2,330,284
Post-employment benefits	7,043	24,186
Share-based payments	638,735	534,401
	3,359,771	2,888,871

D4. Group and parent entity information

Group information

	Country of incorporation	**2016 Interest %**	2015 Interest %
Subsidiary			
Sino Gas & Energy Nominees Pty Ltd	Australia	100%	100%
Joint arrangements			
SGE	Australia	49%	49%

Parent entity information

The individual financial statements for the parent entity show the following aggregate amounts:

	2016 **US$**	2015 US$
Statement of financial position		
Current assets	44,510,652	63,785,622
Total assets	**161,019,497**	**162,350,847**
Current liabilities	2,325,535	10,557,977
Total liabilities	**12,325,535**	**10,557,977**
Net assets	**148,693,962**	**151,792,870**
Shareholders' equity		
Contributed equity	174,892,183	174,793,004
Reserves	9,929,738	9,410,800
Accumulated losses	(32,410,934)	(23,238,962)
Loss for the year	(3,717,025)	(9,171,972)
Total equity	**148,693,962**	**151,792,870**

The Company is not aware of any contingencies relating specifically to the parent entity (2015: nil).

The financial information for the parent entity, Sino Gas & Energy Holdings Limited, 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 joint venture entities are accounted for at cost in the financial statements of Sino Gas & Energy Holdings Limited. 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, the chief operating decision maker has assessed that the group has a single reporting segment for the purposes of financial reporting.

D5. 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.

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 2016.

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 2016 reporting periods.

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.

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 principals 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 control replaces the exiting notion of risks and rewards.

Based on an initial impact assessment and the stage of project development of the Company and its associate, SGE, the new standard is not expected to significantly impact revenue recognition.

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.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 39 to 60 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 2016 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 44 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

13 March 2017

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Independent auditor's report to the Shareholders 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), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of loss and other comprehensive loss, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

In our opinion:

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

(i) giving a true and fair view of the Group's consolidated financial position as at 31 December 2016 and of its consolidated financial performance for the year ended on that date; and

(ii) 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional* Accountants (the Code) that are relevant to our audit of the financial report in Australia; and we have 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 the 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 statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.

EY Building a better working world

Accounting for investments in associates

Why significant	How our audit addressed the key audit matter
Sino Gas & Energy Holdings Limited ("SEH") owns a 49% interest in Sino Gas & Energy Limited ("SGE" or the "joint venture"). SGE is the operator of the Linxing and Sanjiaobei Production Sharing Contracts in the Ordos Basin, Shanxi province. The investment in SGE is accounted for under the equity method and considered for impairment when indicators are identified. Accounting for the results of and investment in SGE is complex due to the financing relationship between SEH and SGE in the form of shareholder loans to SGE which gives rise to adjustments for deemed equity contributions at fair value and capitalised interest as described in Note A2 to the financial statements. Judgment is also required in assessing whether the carrying value is impaired. The investment in SGE as at 31 December 2016 and the share of loss recorded for the year then ended have been disclosed in Note A2 to the financial statements.	We evaluated the Group's basis of accounting and assessed the carrying value of the investment. In obtaining sufficient audit evidence, we: ▸ Performed testing procedures on the relevant financial information of SGE for the purpose of the consolidated financial statements of SEH. To do this, we issued a component team in Beijing instructions and their key work papers were reviewed and considered in the context of the investment recognised by SEH ▸ Assessed the adjustments to the investment for deemed equity contributions and capitalised interest ▸ Evaluated the Group's considerations of the impairment indicators of the total investment in SGE, which included the loan receivable from SGE. This was considered with reference to the recent comparable sale of MIE Holdings Corporation's interest in SGE to China New Energy Mining Limited ▸ Assessed the adequacy of the disclosures in the consolidated financial statements.

Information other than the financial statements and auditor's report

The Directors are responsible for the other information. The other information comprises the information in the Company's Annual Report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

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 upon 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.

Directors' responsibilities 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 related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or 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 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 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

- 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 entity'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 in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity 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 consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 23 to 34 of the Directors' Report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Sino Gas & Energy Holdings Limited for the year ended 31 December 2016, 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

D A Hall

D A Hall
Engagement Partner
Perth
13 March 2017

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 6 March 2017.

(a) Ordinary share capital

Distribution of ordinary shares

The Company has a total of 2,101,697,633 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 240 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	135	6,109
1,001	-	5,000	165	631,409
5,001	-	10,000	227	1,931,406
10,001	-	100,000	1,350	67,459,917
100,001	and over		1,134	2,031,668,792
Total Number of holders			3,011	2,101,697,633

Note: 695,345 ordinary shares are subject to voluntary escrow until 6 May 2017.

Twenty largest holders of ordinary shares

Name	Ordinary shares	
	Number held	% of Issued Share Capital
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	328,501,261	15.63
CITICORP NOMINEES PTY LIMITED	276,588,366	13.16
J P MORGAN NOMINEES AUSTRALIA LIMITED	261,367,545	12.44
NATIONAL NOMINEES LIMITED	167,728,341	7.98
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	56,662,629	2.70
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	38,556,511	1.83
NERO RESOURCE FUND PTY LTD NERO RESOURCE FUND	37,318,240	1.78
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	26,783,606	1.27
MARFORD GROUP PTY LTD	23,133,896	1.10
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	17,188,408	0.82
NATIONAL NOMINEES LIMITED <DB A/C>	16,498,282	0.78
AZURE SEA LTD	16,399,896	0.78
BNP PARIBAS NOMS PTY LTD <DRP>	15,228,963	0.72
G & S HARPER PTY LTD <G & S HARPER FAMILY S/F A/C>	14,366,048	0.68
BNP PARIBAS NOMINEES PTY LTD <JARVIS A/C NON TREATY DRP>	13,650,475	0.65
DURBIN SUPERANNUATION PTY LTD <DURBIN FAMILY S FUND A/C>	12,230,000	0.58
KEEBLE NOMINEES PTY LTD <RIDGEWAY SM SUPER A/C>	11,155,000	0.53
SALTY NOMINEES PTY LTD <SALTY A/C>	10,200,000	0.49
G & N LORD SUPERANNUATION PTY LTD <GNR SUPERANNUATION FUND A/C>	10,000,000	0.48
MR PETER JOHN BOX	9,708,331	0.46
Total Top Twenty Holders	**1,363,265,798**	**64.86**
Total Remaining Holders Balance	**738,431,835**	**35.14**
Total	**2,101,697,633**	**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 20,536,899 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	20,536,899
Total Number of Holders	4	20,536,899

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	156,846,337
Kinetic Investment Partners Pty Ltd	94,257,037

CORPORATE DIRECTORY

Board of Directors

Philip Bainbridge
Chairman

Glenn Corrie
Managing Director

Gavin Harper
Non-Executive Director

Bernard Ridgeway
Non-Executive Director

Matthew Ginsburg
Non-Executive Director

Company Secretary

Harry Spindler

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ASX Code

SEH (ordinary shares)

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Legal Advisors – Australia

HopgoodGanim

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Allen & Overy

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Legal Advisors – China

Jun He Law Offices

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SINO Gas & Energy

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