SINO Gas & Energy
www.sinogasenergy.com

Sino Gas & Energy Holdings Limited

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDING 30 JUNE 2018

ACN 124 242 422

ASX | SEH

Sino Gas & Energy Holdings Limited
ACN 124 242 422

INTERIM FINANCIAL REPORT

for the half-year ended 30 June 2018

Contents

Sino Gas & Energy Holdings Limited ("Sino Gas", ASX: SEH) is an Australian energy company focused on developing gas assets in China. Sino Gas holds a 49% interest in Sino Gas & Energy Limited ("SGE"), the operator of the Linxing and Sanjiaobei Production Sharing Contracts ("PSCs") in the Ordos Basin, China's largest gas producing basin. SGE has been established in Beijing since 2005 and is jointly owned with China New Energy Mining Limited ("CNEML") via a strategic partnership. The Linxing PSC is held with China United Coalbed Methane ("CUCBM") (a CNOOC wholly-owned subsidiary) and the Sanjiaobei PSC is held with PCCBM (a PetroChina wholly-owned subsidiary). SGE's PSC partners are entitled to participate up to their 51% PSC participating interest by contributing their future share of costs.

Sino Gas also holds an option to acquire 7.5% of SGE's participating interest in the Linxing PSC by contributing 7.5% of historical back costs to SGE (3.675% assuming full CUCBM participation).

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

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

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by Sino Gas & Energy Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth).

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 half-year ended 30 June 2018. Sino Gas is a limited liability company that is incorporated and domiciled in Australia.

At 30 June 2018, Sino Gas held 49% of the issued capital of Sino Gas & Energy Limited (the "Joint Venture" or "SGE") (2017: 49%), which holds interests in the Linxing (49%)[1] and Sanjiaobei (49%)[1] Production Sharing Contracts ("PSC") in Shanxi Province, People's Republic of China. In addition to its interest in SGE, Sino Gas holds an option to acquire from SGE 7.5% (reduced to 3.675% on full PSC Partner participation) of SGE's net interest in the Linxing PSC at Overall Development Plan ("ODP") approval in exchange for reimbursing SGE 7.5% of all Linxing historical costs and expenses.

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

Directors

The following persons were directors of Sino Gas during the half-year and up to the date of this report:

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

Lone Star Scheme of Arrangement

Sino Gas announced on 31 May 2018 that it had entered into a Scheme Implementation Agreement ("SIA") with a wholly-owned subsidiary of Lone Star Fund X Acquisitions, LLC (together with its affiliates, "Lone Star") under which Lone Star proposes to acquire 100% of the issued share capital of Sino Gas by way of a scheme of arrangement (the "Scheme"). Under the terms of the Scheme, Sino Gas shareholders will receive cash consideration of A$0.25 per Sino Gas share, subject to all applicable conditions being satisfied or waived and the Scheme being implemented.

The Sino Gas Board unanimously recommends that Sino Gas shareholders vote in favour of the Scheme at the Scheme Meeting in the absence of a superior proposal, and subject to the independent expert continuing to conclude that the Scheme is in the best interests of Sino Gas shareholders. Subject to those same qualifications, each Sino Gas Director intends to vote all the Sino Gas Shares held or controlled by them in favour of the Scheme.

The conditions to the Scheme are summarised in the SIA. Since entering into the SIA, a number of key conditions precedent have been satisfied, including the Australian Government Foreign Investment Review Board ("FIRB") confirming it has no objection to the Scheme, the independent expert issuing a report concluding the Scheme is in the best interests of Sino Gas shareholders, SGE's entry into the Linxing 11th Modification Agreement ("MA11") and the Federal Court of Australia approving the convening of the Scheme Meeting. Sino Gas' Directors believe that all of the other outstanding conditions are capable of being satisfied in accordance with the SIA.

The Scheme Meeting will be held at 10.00am (Sydney time) on Wednesday, 5 September 2018. If the Scheme is approved by the requisite majorities of Sino Gas shareholders at the Scheme Meeting and all other conditions precedent are satisfied or waived (where capable of waiver), Sino Gas intends to apply to the Court for orders approving the Scheme.

Production Sharing Contracts

Linxing PSC

On 12 June 2018, Sino Gas announced that SGE had entered into MA11 with SOE partner CUCBM to modify the terms of the Linxing PSC. The modifications included a reduction in SGE's natural gas participating interest from 70% to 49% (prior to the impact of the Linxing Option) to satisfy CUCBM's stated internal requirements, an 8-year extension of the gas PSC to 31 August 2036, relinquishment of ~1,000 km^2 of Linxing East exploration acreage and extension of the exploration period to 31 August 2019.

As announced on 22 May 2018, SGE received approval for the first Linxing ODP from SOE partner CUCBM. In line with CUCBM's support for a staged approval process to facilitate the continued ramp-up of production in parallel with phased approvals, the first ODP focuses on core development and pilot production areas representing ~20% of the current discovered area of Linxing East and West.

Future ODP submissions to support development of the remaining discovered area are expected to be appended to this initial ODP.

Sino Gas announced on 9 May 2018 the finalisation of the Linxing PSC development phase cost allocation principles. This agreement allowed for resumption of Linxing gas sales proceeds. SGE has received ~85% of accounts receivable announced as overdue on 29 March 2018. The process of monthly collection of accounts receivable is ongoing.

Sanjiaobei PSC

The first Sanjiaobei ODP is currently undergoing final review with approval expected in 2H 2018.

In anticipation of this approval, confidential preliminary discussions are ongoing between SGE and SOE partner PCCBM pertaining to the timing and extent of PCCBM's participation in the project up to its 51% participating interest, operational matters related to the development stage of the project, allocation of pilot production above the previously announced 3 Bcf prior to ODP approval and the extension of the exploration period that expires on 31 August 2018. Discussions are currently expected to be concluded around the time of the first ODP approval[2].

Reserves & Resources[3]

As announced on 12 July 2018, RISC Advisory Pty Ltd ("RISC")'s updated Reserves & Resources report reflects the impact of MA11, up-to-date technical data, the first ODPs for Linxing and Sanjiaobei, analogous field data and the previously announced Sino Gas Development Plan, prepared in conjunction with J-Energy Company Limited, a Chinese specialist technical firm with direct experience in similar neighbouring Ordos basin tight gas fields.

RISC has certified that as at 30 June 2018:

- Gross (total project) mid-case discovered Resources decreased 4% from 31 December 2017 to 5.1 trillion cubic feet ("Tcf"), comprised of gross 2P Reserves of 1.3 Tcf (-38%) and gross 2C Resources of 3.8 Tcf (+19%);
- Net Sino Gas mid-case discovered Resources decreased 28% from 31 December 2017 to 1.1 Tcf, comprised of net 2P Reserves of 256 billion cubic feet ("Bcf") (-56%) and net 2C Resources of 806 Bcf (-10%); and
- Net Sino Gas P50 Prospective Resources decreased 54% due to the relinquishment of acreage in Linxing East.

Reductions in Sino Gas Reserves and Resources are driven by the impact of MA11, a reduction in the expected ultimate recovery per well, a revised timing to reach plateau production in line with current ODP plans and the relinquishment of ~1,000km^2 of land in Linxing East.

Review of Operations[4]

Linxing and Sanjiaobei PSC field operations in the first half of 2018 consisted of ongoing pilot production and drilling and testing operations. The Company maintained top tier safety performance in the first half of 2018 with 471,909 Lost Time Injury free manhours recorded (1H 2017: 198,794 hours). There were no recorded environmental incidences.

Average gross production for the first half was approximately 24 Million standard cubic feet per day ("MMscf/d"). Sino Gas remains on track to deliver 2018 production guidance of a gross average rate of 22 - 27 MMscf/d and gross year-end exit rate of 38 - 42 MMscf/d.

Twenty-five wells were drilled in the first half of the year, sixteen in Linxing and nine in Sanjiaobei. This includes three horizontal wells in Linxing North which are expected to be tested in Q4 2018. Sino Gas remains on track to complete its planned 2018 drilling program of 40 - 50 wells.

As a result of land leasing delays, site preparation for the new Linxing North Central Gathering Station ("CGS") was completed in June 2018, leading to the deferral of commissioning of the Linxing North CGS to Q4 2018. The Linxing North CGS will increase total installed processing capacity in both Linxing and Sanjiaobei PSCs to 42 MMscf/d. A total of 21 production wells have been drilled in the Linxing North area, the majority of which are expected to be tied into the new CGS in Q4 2018 to support production ramp-up.

SGE, in conjunction with Linxing PSC partner CUCBM, extended two Gas Sales Agreements expiring on 31 March 2018 by one year at an average sales price of RMB1.61 per cubic metre (taking into account seasonal adjustments), representing a 5% increase from the previous contracts.

Financial Results and Position

For the six months ended 30 June 2018, the Company reported a net loss for the consolidated entity of US$2,350,890 (1H 2017: US$979,212), which included net income from the Joint Venture of US$4,604,332 (1H 2017: US$2,448,163).

Increased net income from the Joint Venture was more than offset by an increase in financing costs due principally to increased borrowings and the payment of stand-by fees on unutilised credit commitments, general and administration expenses related principally to the Lone Star scheme of arrangement and other commercial matters, and a loss from reporting the fair value of the loan to the Joint Venture in the Consolidated Statement of Financial Position which is a new requirement under AASB 9 Financial Instruments that was effective 1 January 2018.

SGE sales revenue for the first half of the year increased from US$15.2 million in 2017 to US$24.5 million in 2018, driven by an almost 50% increase in production and increased gas prices. The net margin in the first half was US$4.4/Mscf up from US$4.1/Mscf in the corresponding period in 2017[5].

Sino Gas and SGE's cash and cash equivalents at the end of the period were US$21.0 million and US$6.2 million, respectively. In the first half of the year, the Company drew down US$16 million of the new US$100 million Macquarie Bank ("Macquarie") debt facility principally to replace the previous debt facility and fund ongoing SGE cash calls and operating requirements (please refer to Note B2 of the Financial Statements for further details regarding this facility).

Total capital expenditures incurred by SGE were US$18.6 million for the first half of 2018, up from $7.0 million in 1H 2017 principally due to increased drilling activity. As a result of strong SGE EBITDA[5] of US$16.8 million in the first half of the year (1H 2017: US$10.2 million) that was reinvested into the projects, SGE cash call funding requirements have been modest, with Sino Gas paying US$4.6 million of cash calls in the first half of the year.

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 6.

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

Glenn Corrie
Managing Director
Perth, 16 August 2018

Notes to the Directors' Report

1. *Assumes SGE's PSC partners take up their full entitlements upon ODP approval by contributing development and operating costs in line with their PSC interest (i.e. CUCBM and PCCBM take up their respective 51% participating interest in the Linxing and Sanjiaobei PSCs) and excludes Sino Gas exercising its 3.675% option to acquire a direct interest in the Linxing PSC (by paying 7.5% of historical back costs to SGE). SGE has a 100% working interest during the exploration phase of the PSCs.*

2. *As disclosed in the Company's 25 July 2016 announcement, pilot production up to 3 Bcf prior to ODP is shared between PCCBM and SGE in accordance with PSC terms. Pilot production at Sanjiaobei is currently expected to exceed 3 Bcf in Q3 2018.*

3. *The statements of resources in this Release have been independently determined to SPE PRMS standards by internationally recognised oil and gas consultant RISC. 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 PCCBM and CUCBM. Reserves are based on a mid-case gas price of US$7.01/Mscf inflated at 2.5% per year and average lifting costs (opex+capex) inclusive of inflation of 2.5% per year of ~US$1.8/Mscf for 2P Reserves. All resource figures quoted are unrisked mid-case unless otherwise noted. Sino Gas' attributable net Reserves & Resources assumes full PSC partner back-in upon ODP approval and the reduction of SGE's contractor share in Linxing due to the exercise of the Linxing Option, however Sino's Gas is not credited with the acquired Reserve and Resources. Reserves & Resources are net of 4% in-field fuel for field compression and field operations. Reference point is defined to be at the field gate.*

   Information on the resources in this release 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 is a member of the SPE and MIChemE and is a qualified petroleum reserves and resources evaluator ("QPPRE") as defined by ASX listing rules. Mr. Stephenson consents to the form and context in which the estimated reserves and resources and the supporting information are presented in this announcement.

   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

4. *All production numbers are gross total field for both Sanjiaobei and Linxing PSCs, please refer to note A1 on page 11 for details of Sino Gas participating interests.*

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

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

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

Net Margin is calculated as the Joint Venture/SGE net revenue after VAT and partner share less operating expenses per Mscf of sales. The measure provides shareholders and potential investors with additional information to evaluate SGE's financial performance per unit of production before shareholding financing costs. The margin for the 2018 first half is calculated by dividing net revenue of US$24.5 million less operating expenses of US$5.2 million by total gross production of ~24 MMscf/d. The margin for the 2017 first half is calculated by dividing net revenue of US$15.2 million less operating expenses of US$3.0 million by total gross production of ~16 MMscf/d.

SGE EBITDA is reported by the Company to provide greater understanding of the underlying financial performance of SGE and the Group. SGE EBITDA is calculated by adding interest expense, income tax, depreciation and amortisation to net income. Statutory loss represents loss after tax attributable to SGE. The SGE EBITDA for the 2018 first half is calculated by adding interest expense of US$6.68 million, income tax of US$0 and Depreciation and Amortisation of US$7.47 million to net statutory profit of US$2.69 million. The SGE EBITDA for the 2017 first half is calculated by adding interest expense of US$5.75 million, income tax of US$0 and Depreciation and Amortisation of US$5.20 million to net statutory loss of US$0.8 million.

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

Please refer to Note A2 of the Financials Statements on page 12 for a full breakdown of SGE's operating performance.

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

As lead auditor for the review of Sino Gas & Energy Holdings Limited for the half-year ended 30 June 2018, 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 review; and

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

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

Ernst & Young

Darryn Hall
Partner
Perth
16 August 2018

Consolidated Statement of Loss and Other Comprehensive Loss
for the half-year ended 30 June 2018

		30 June 2018 US$	30 June 2017 US$
Revenue			
Interest Income		137,891	190,753
Interest income from loans to joint venture	A2	3,284,630	2,826,827
Share of net income / (loss) of joint venture accounted for using the equity method	A2	1,319,702	(378,664)
Net income from joint venture		4,604,332	2,448,163
Expenses			
Financing costs		1,193,385	539,641
Fair value loss of loans receivable held at fair value through profit and loss	A2	1,015,260	-
Depreciation and amortisation		30,488	37,055
Share-based compensation		490,568	424,534
General and administration		4,344,451	2,662,205
Foreign exchange loss / (gain)		12,339	(76,597)
Loss before income tax		(2,344,268)	(947,922)
Income tax expense		6,622	31,290
Loss for the period attributable to shareholders		(2,350,890)	(979,212)
Total comprehensive loss for the period		(2,350,890)	(979,212)
Loss per share for loss attributable to shareholders:		Cents	Cents
Basic loss per share		(0.11)	(0.05)
Diluted loss per share		(0.11)	(0.05)

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 30 June 2018

	Notes	**30 June 2018**	31 December 2017
		US$	**US$**
ASSETS			
Current assets			
Cash and cash equivalents	B1	20,989,744	27,972,052
Prepayment of financing related costs		-	1,540,627
Deposits and other receivables		569,784	605,975
Total current assets		21,559,528	30,118,654
Non-current assets			
Interest in joint venture accounted for using equity method	A2	56,259,727	53,376,240
Loan receivable from joint venture measured at amortised cost	A2	-	70,240,975
Loan receivable from joint venture measured at FV through profit and loss	A2, F	74,968,610	-
Exploration and evaluation assets	C	4,382,956	4,165,573
Property, plant and equipment		382,056	399,997
Total non-current assets		135,993,349	128,182,785
Total assets		157,552,877	158,301,439
LIABILITIES			
Current liabilities			
Trade and other payables		3,299,528	3,852,408
Borrowings	B2	-	10,000,000
Total current liabilities		3,299,528	13,852,408
Non-current liabilities			
Borrowings	B2	13,246,373	-
Total liabilities		16,545,901	13,852,408
Net assets		**141,006,976**	**144,449,031**
EQUITY			
Issued capital	B3	177,164,771	177,164,771
Reserves	B3	11,511,975	11,240,812
Accumulated losses	E2	(47,669,770)	(43,956,552)
Total equity		**141,006,976**	**144,449,031**

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

Consolidated Statement of Changes in Equity

for the half-year ended 30 June 2018

	Notes	Contributed equity	Equity settled benefits reserves	Accumulated losses	Total attributable to equity holders of the Company
		US$	US$	US$	US$
Balance at 1 January 2018	E2	177,164,771	11,240,812	(45,318,880)	143,086,703
Loss for the half-year		-	-	(2,350,890)	(2,350,890)
Total comprehensive loss for the half-year		-	-	(2,350,890)	(2,350,890)
Transactions with owners in their capacity as owners:					
Performance rights expense	B3	-	344,173	-	344,173
Cash-settled performance rights	B3	-	(126,499)	-	(126,499)
Deferred shares expense	B3	-	53,489	-	53,489
Balance at 30 June 2018		177,164,771	11,511,975	(47,669,770)	141,006,976
Balance at 1 January 2017		174,892,183	10,407,482	(39,459,676)	145,839,989
Loss for the half-year		-	-	(979,212)	(979,212)
Total comprehensive loss for the half-year		-	-	(979,212)	(979,212)
Transactions with owners in their capacity as owners:					
Issue of shares	B3	2,272,588	-	-	2,272,588
Performance rights expense		-	404,776	-	404,776
		2,272,588	404,776	-	2,677,364
Balance at 30 June 2017		177,164,771	10,812,258	(40,438,888)	147,538,141

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

Consolidated Statement of Cash Flows
for the half-year ended 30 June 2018

	Notes	30 June 2018 US$	30 June 2017 US$
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		(3,715,097)	(2,836,464)
Income tax paid		(64,374)	(186,753)
Interest received		146,036	216,659
Financing costs		(1,107,878)	(624,756)
Net cash used in operating activities		(4,741,313)	(3,431,314)
Cash flows from investing activities			
Payments for equipment		(12,547)	(323,507)
Purchase of exploration and evaluation assets		(89,039)	(3,059,565)
Loans to joint venture	A2	(4,606,000)	(5,390,000)
Additional contribution to SGE		(804,669)	(600,943)
Net cash used in investing activities		(5,512,255)	(9,374,015)
Cash flows from financing activities			
Proceeds from issue of equity securities		-	1,425,656
Draw-down of New Facility	B2	16,000,000	-
Repayment of cancelled debt facility	B2	(10,000,000)	-
Borrowing related transaction costs		(2,722,841)	-
Net cash provided by financing activities		3,277,159	1,425,656
Decrease in cash and cash equivalents		(6,976,409)	(11,379,673)
Cash and cash equivalents at the beginning of the half-year		27,972,052	44,233,179
Effects of exchange rate changes on cash and cash equivalents		(5,899)	72,605
Cash and cash equivalents at end of the half-year	B1	**20,989,744**	**32,926,111**

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

Notes to the Financial Statements

General information

These financial statements are general purpose condensed financial statements prepared in accordance with the Corporations Act 2001, and comply with other requirements of the law.

These financial statements are the consolidated financial statements of the Group consisting of Sino Gas & Energy Holdings Limited ("Sino Gas", "SEH") and its subsidiaries ("the Group"). Sino Gas is a for profit entity for the purpose of preparing the consolidated financial statements.

These general purpose condensed financial statements were authorised for issue by the directors on 16 August 2018.

Basis of Preparation

The condensed consolidated interim financial report for the half-year reporting period ended 30 June 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Act 2001*.

These financial statements have been prepared under a historical cost basis, except for some financial assets, share-based compensation reserves and liabilities that have been measured at fair value. Refer to *Section E* and *F* for details. All amounts are presented in United States dollars, unless otherwise noted.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by Sino Gas during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the previous interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year, except for the new or revised accounting standards which became effective for the annual reporting period commencing 1 January 2018.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. Refer to *Section E* for the disclosure of the impact of the Group applying IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments for the first time, the new accounting policies applicable from 1 January 2018 onwards and the impact of any required restatement of previous financial statements.

A – Joint Venture

A1 Establishment of SGE and its shareholding

In 2012, the Company entered into agreements with Asia Gas and Energy Limited ("Asia Gas") to establish a jointly controlled corporation between Sino Gas and Asia Gas in Sino Gas & Energy Limited ("SGE") for the principal purpose of the exploration, development and production of unconventional gas pursuant to two production sharing contracts ("PSCs"), Linxing and Sanjiaobei, 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 30 June 2018 was 49% (2017: 49%). Information regarding the statement of financial position and performance of SGE is set out in A2.

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.

The investment in SGE is classified as a joint venture in that parties to the joint arrangement share joint control by virtue that unanimous consent is required for the venture to undertake key activities. Accordingly, Sino Gas accounts for its interest in SGE using the equity method, after initially being recognised at cost in the consolidated statement of financial position.

Sino Gas' equity investment in the SGE joint venture	**30 June 2018**	31 December 2017
	US$	**US$**
Balance at the beginning of the financial period	53,376,240	53,739,414
SEH's share of net Income / (loss) of equity accounted joint venture	1,319,702	(2,335,019)
Beneficial financial terms contribution	785,407	853,950
Other capital costs	778,378	1,117,895
Balance at the end of the financial period	**56,259,727**	**53,376,240**

No dividends were paid by SGE for the half year ended 30 June 2018 (2017: Nil).

A2 SEH's interests in SGE (cont'd)

Information regarding the joint venture is set out below:

Statement of Financial Position	30 June 2018 US$	31 December 2017 US$
Cash and cash equivalents	6,249,513	3,270,916
Current assets	22,123,483	15,108,775
Non-current assets	315,941,191	305,622,941
Total assets	**344,314,187**	**324,002,632**
Current liabilities	45,869,745	42,392,492
Borrowings from shareholders	156,834,637	143,486,577
Non-current liabilities	307,352	292,716
Total liabilities	**203,011,734**	**186,171,785**
Net assets	**141,302,453**	**137,830,847**
SEH's interest	49%	49%
SEH's share of net assets in SGE	**69,238,202**	**67,537,115**
Capitalised interest	(5,245,124)	(5,245,124)
Asia gas loan note	(11,593,890)	(11,593,890)
Other capital costs	3,860,539	2,678,139
Investment in SGE	**56,259,727**	**53,376,240**

Statement of Income / (Loss) and Other Comprehensive Income / (Loss)	For the six months ended 30 June 2018	30 June 2017
Revenue		
Sales	24,478,624	15,179,167
Expenses		
Operating	5,188,753	3,049,319
General and administration	2,500,340	1,409,290
Depreciation and amortisation	7,467,664	5,201,227
Interest on Shareholders' loans	6,684,396	5,750,725
Exchange (gain)/loss and other	(55,799)	541,389
Profit / (loss) before income tax	**2,693,270**	**(772,783)**
Income tax expense	-	-
Profit / (loss) for the year	**2,693,270**	**(772,783)**
SEH's interest	**49%**	**49%**
Profit / (loss) for the year attributable to SEH	**1,319,702**	**(378,664)**

Over and above the direct equity investment in SGE, SEH finances SGE by way of shareholder loans that may include 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. No interest has been capitalised to qualifying assets for the half year ended 30 June 2018 (2017: nil).

Interest-bearing loan to Sino Gas & Energy Limited

	30 June 2018 US$	31 December 2017 US$
Carrying amount at the beginning of the period RESTATED (Note E2)	68,878,647	59,690,712
Advances to SGE	4,606,000	5,390,000
Interest on principal	3,284,630	6,014,213
Fair value adjustment on initial recognition	(785,407)	(853,950)
Fair value adjustment in accordance with AASB9	(1,015,260)	-
Interest bearing loan receivable	**74,968,610**	**70,240,975**

At initial recognition, loans are measured at fair value plus transaction costs that are directly attributable to the loans. Loans are subsequently carried at fair value through profit and loss.

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.

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 30 June 2018 the rate was 4.9% (2017: 4.9%). It has been classified as non-current based on the repayment terms of the loan agreement. The weighted average interest rate ("WAIR") is 9.35% (2017: 9.45%).

Also refer to *Section E* for details.

B – Liquidity, debt and capital

B1 Cash and cash equivalents

	30 June 2018 US$	31 December 2017 US$
Cash and cash equivalents	20,989,744	27,972,052

Cash and cash equivalents 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 cash flow statement, cash and cash equivalents include cash and cash equivalents as set out above.

Foreign denomination of cash and cash equivalents held	30 June 2018 US$	31 December 2017 US$
In AUD	202,805	1,050,689
In USD	20,589,226	25,841,537
In HKD	59,260	120,952
In CNY	138,453	958,874
Total in USD	**20,989,744**	**27,972,052**

B2 Borrowings

	30 June 2018 US$	31 December 2017 US$
Current borrowings		
Principal	-	10,000,000
Non-current borrowings		
Principal	16,000,000	-
Transaction costs (less amortisation)	(2,753,627)	-
Total non-current borrowings	13,246,373	-
Total borrowings	**13,246,373**	**10,000,000**

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 was 10.36% (2017: 10.79%) entirely denominated in USD.

In December 2017, Sino Gas entered into a new five-year senior secured US$100 million debt facility ("New Facility") agreement with Macquarie Bank ("Macquarie"), which replaced the previous debt facility agreement. Conditions precedent related to the new facility were satisfied in January 2018.

Key terms of the New Facility include:

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

Transaction costs of US$2,839,134 were incurred in establishing the New Facility and are amortised over the term of the new facility.

The outstanding amount at 31 December 2017 has been repaid through the proceeds of a drawdown from the New Facility.

Upon the drawdown of Tranche A of the previous debt facility, 30 million four-year options were issued with an exercise price of A$0.25 per share, of which 15 million options have vested with no conditions attached and 15 million options vest pro rata based on the drawdown of the first US$10 million of Tranche B funds. Since it is no longer possible to drawdown Tranche B of the previous facility, the 15 million options will not vest. The options expire 1 September 2018. 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 reporting period.

The loan is secured against the Company's assets including its shares in SGE.

B3 Issued capital and reserves

		30 June 2018 US$	31 December 2017 US$
Equity and reserves			
Issued Capital	(a)	177,164,771	177,164,771
Reserves	(b)	11,511,975	11,240,812

a) 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 2018	2,113,697,633	177,164,771
Issue of shares	5,156,652	-
Balance at 30 June 2018	2,118,854,285	177,164,771

Issued and Paid Up Capital	No. of Shares	US$
Balance at 1 January 2017	2,074,373,953	174,892,183
Issue of shares	39,323,680	2,272,588
Balance at 30 June 2017	2,113,697,633	177,164,771

b) Reserves

The reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. The reserve initially arises on the grant of the equity settled benefits. As part of the revised remuneration framework adopted in 2014, the Company no longer offers equity benefits to Non-Executive Directors.

	30 June 2018 US$	31 December 2017 US$
Option Reserve	5,788,508	5,788,508
Performance Rights Reserve	5,325,293	5,107,619
Deferred shares Reserve	398,174	344,685
Equity Settled Benefits Reserve	**11,511,975**	**11,240,812**

C – Exploration and evaluation assets

In 2017, SEH purchased an option to acquire from SGE 7.5% (reduced to 3.675% on full PSC Partner back-in) of SGE's participating interest in the Linxing PSC at ODP approval. To exercise the Option, Sino Gas would be required to reimburse SGE 7.5% of all historical costs and expenses incurred under the Linxing PSC at the time of exercise.

The costs to acquire the option have been capitalised as exploration and evaluation assets in the financial statements (US$4,165,573) based on the fair value of consideration given up, consisting of cash and ordinary shares and other costs directly related to the transaction.

In the half year ended 30 June 2018, the Company entered into certain Joint Study Agreements ("JSA"). For each JSA, Sino Gas will be the operator on a 100% basis and have the exclusive right to progress the blocks into PSCs if prospectivity is demonstrated. Relevant costs incurred in connection with the JSAs have been capitalised as exploration and evaluation assets (US$217,383).

The Company periodically undertakes a review of the recoverability of the exploration and evaluation assets. Management has determined that the assets are not impaired.

D – Lone Star Scheme of Arrangement

On 31 May 2018, Sino Gas entered into a Scheme Implementation Agreement ("SIA") with LSF10 Summertime Investments, Ltd, a wholly-owned subsidiary of Lone Star Fund Acquisitions, LLC (together with its affiliates, "Lone Star"). Pursuant to this agreement, Lone Star proposes to acquire 100% of the issued share capital of Sino Gas by way of a scheme of arrangement ("Scheme"). Under the terms of the Scheme, Sino Gas shareholders will receive cash consideration of A$0.25 per Sino Gas share, subject to all applicable conditions being satisfied or waived and the Scheme being implemented.

A meeting of Sino Gas shareholders is scheduled for 5 September 2018 ("Scheme Meeting") to vote on the Scheme. If the Scheme is approved by the requisite majorities of Sino Gas shareholders and all other conditions precedent are satisfied or waived (where capable of waiver), Sino Gas intends to apply to the Federal court of Australia for orders to approve the Scheme. Once approved, Sino Gas shareholders would receive A$0.25 per Sino Gas share and the company would cease to be traded on the ASX.

E – Impact of new standards applied for the first time

E1 AASB 15 Revenue from contracts with customers (AASB 15)

AASB 15, the Australian equivalent of IFRS 15 *Revenues from contracts with customers,* supersedes AASB 111 Construction Contracts (IAS 11), AASB 118 Revenue (IAS 18) and related Interpretations and applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted AASB 15 using the modified retrospective method of adoption. There was no impact on the Group in adopting AASB 15. Based on the nature and status of the investments in projects, the Group does not have any direct contracts with customers and accordingly has no revenue impacted by the Standard. The Group has considered the adoption of the Standard on the accounting policies applied by the joint venture (SGE) in earning its revenues and accordingly the share of profit or loss of the joint venture recognised by the Company. In undertaking that assessment, it was noted that the Standard had no impact on the recognition or measurement of revenue earned in the current or comparative periods from the sale of pilot gas to its customers. The Group has set out below its accounting policy with respect to the sale of gas by the joint venture under AASB15.

Revenue accounting policy

Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. If the consideration promised includes a variable amount, the Group estimates the amount of consideration to which it will be entitled.

Revenue from the sale of produced hydrocarbons is recognised as and when control of the asset is transferred to the customer, which is typically on delivery of gas.

E2 AASB 9 Financial Instruments (as revised in 2014) (AASB 9)

AASB 9, the Australian equivalent to IFRS 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* (IAS 39) for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

AASB 9 and the related amendments to other accounting standards introduced three significant areas of change from AASB 139 Financial Instruments: Classification and Measurement:

- a new model for classification and measurement of financial assets and liabilities;
- a new expected loss impairment model for determining impairment allowances; and
- a redesigned approach to hedge accounting.

The standard has been applied as at 1 January 2018 without adjusting comparatives.

The impact on elements of the statement of financial position (increase/(decrease)) as at 1 January 2018:

	1 January 2018 US$ RESTATED	31 December 2017 US$
ASSETS		
Non-current assets		
Loan receivable from joint venture measured at amortised cost	-	70,240,975
Loan receivable from joint venture measured at fair value (a)	68,878,647	-
Total non-current assets	**126,820,457**	**128,182,785**
Total assets	**156,939,111**	**158,301,439**
Net assets	**143,086,703**	**144,449,031**
EQUITY		
Accumulated losses	(45,318,880)	(43,956,552)
Total equity	**143,086,703**	**144,449,031**

Classification and measurement

Under AASB 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under AASB 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets (whether to hold the financial assets in order to collect contractual cash flows); and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

As a result of this re-assessment, the loan to the Sino Gas and Energy joint venture was classified at fair value through profit and loss. Accordingly, the statement of financial position as at 31 December 2017 was restated, resulting in an increase in accumulated losses amounting to US$1,362,328 with a corresponding decrease to the value of the loan receivable from the joint venture of an equal amount and reclassifying it as being measured at fair value through profit and loss.

The accounting for the Group's financial liabilities remains largely the same as it was under AASB 139.

F – Financial assets

Fair values

Loan receivable from joint venture with a fair value of US$74,968,610 had a face value of US$86,264,489 as at 30 June 2018.

The fair value measurement falls into level 2.

Inputs utilised in assessing the fair value of the Loan receivable from joint venture:

Loan receivable from joint venture:	30 Jun 2018	1 Jan 2018
Interest rate %	4.9%	4.9%
Face value	US$86,264,489	US$79,650,625
Discount rate %	10.54%	9.89%

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 2 fair value measurements during the six months ended 30 June 2018.

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Valuation processes

For recurring fair value measurements categorised within Level 2 of the fair value hierarchy, the Group uses its valuation processes to decide its valuation policies and procedures and analyse changes in fair value measurements from period to period.

The Group's fair value methodology and the governance over its models includes a number processes including:

- Benchmarking prices against observable market prices or other independent sources
- Re-performing model calculations
- Evaluating and validating input parameters.

G – Events occurring after the reporting date

Apart from what was disclosed above, no other events have occurred which materially impact the financial statements for the reporting period.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 7 to 16 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 30 June 2018 and of its performance for the half-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 directors have been given declarations by the Managing Director and Chief Financial Officer that the financial records of the Company have been properly maintained in accordance with the Corporations Act 2001 and that company's financial statements give a true and fair view of the consolidated entity's financial position and performance for the financial period.

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

Glenn Corrie
Managing Director
Perth

16 August 2018

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Sino Gas and Energy Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, 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 half-year ended on that date, notes comprising a summary of significant accounting and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Ernst & Young

Ernst & Young

Darryn Hall

Darryn Hall
Partner
Perth
16 August 2018