

Sino Gas & Energy Holdings Limited
ACN 124 242 422

Financial Report for the
Half-Year ended 30 June 2011

Corporate Information

Directors	Gavin Harper – Executive Chairman Stephen Lyons – Managing Director John Chandler – Non Executive Director Bernard Ridgeway – Non Executive Director
Company Secretary	Harry Spindler
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ASX Code	SEH (ordinary shares), SEHOA (\$0.50, 2011 options); SEHOC (\$0.125, 2012 options)
Auditors	Deloitte Touche Tohmatsu Level 14 Woodside Plaza 240 St George's Terrace Perth, Western Australia 6000
Legal Advisors – Australia	Q Legal Level 4 105 St George's Terrace Perth, Western Australia 6000
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Directors' Report

The Directors of Sino Gas & Energy Holdings Limited (the "Company" or "SGEH" or the "Group" or "Sino Gas") present their report together with the half-year Financial Report of the Company and its controlled entities for the half-year ended 30 June 2011.

In order to comply with the provisions of the Corporations Act 2001, the Directors' report as follows:

(a) Directors and Company Secretary

The names of the Directors of the Company during or since the end of the financial half-year are:

Name	Role
G Harper	Executive Chairman (appointed on 1 January 2011)
S J Lyons	Managing Director
J Chandler	Non Executive Director
B W Ridgeway	Non Executive Director
H Spindler	Company Secretary

(b) Review of Operations

2011 Work Program

The work program for 2011 is a continuation of the 2010 work program being implemented by Sino Gas to generate the data to confirm gas reserves on its Linxing and Sanjiaobei PSC's.

Sino Gas is working with its partners to deliver the Reserves Reports on its Linxing and Sanjiaobei PSC's. As this process continues, Sino Gas will also engage appropriate consultants to assist in the preparation of the Overall Development Plan (ODP) report. These efforts are the centre piece of Sino Gas's 2011 work program on with all activities designed to support these objectives.

On 21 February 2011, Sino Gas announced its independent certification on initial reserves. The independent certification of 2P (100%) reserves of 19 Bcf under the rules of the Society of Petroleum Engineers Petroleum Resources Management System relates to the Pilot Development area which is 2% of Sino Gas's Discovered Area. In addition, a 62% increase in Sino Gas's share of the project risked value from US\$410 million to US\$664 million was confirmed.

Similarly, as disclosed in the directors' report section of the Annual Report, Sino Gas signed a Joint Gas Marketing Agreement (JGMA) with PetroChina Coal Bed Methane (PCCBM), a subsidiary of China National Petroleum Company (CNPC), on 24 February 2011 formalising the establishment of the joint team to manage gas sales from the Pilot. Sino Gas is also formalising the necessary agreements with PCCBM and the gas offtakers for the sale of Pilot gas.

On 12 April 2011, Sino Gas announced that it has successfully compressed first gas into a CNG tanker during Pilot commissioning of SJB-03 well with PCCBM following the signing of the JGMA above.

In May 2011, Sino Gas commenced its well testing program with the signing of the 2011 testing contract for the Linxing PSC with CCDG Changqing (CCDC), a subsidiary of PCCBM, which Sino Gas used extensively in its 2010 well testing campaign.

The TB-09 gas discovery well was the first well testing deployed since the commencement of the well testing program by CCDC. The TB-09 well achieved a pre-stimulated initial gas flow of 850,000 scf/day at a relatively high tubing head pressure (THP) of approximately 660 psi at 24 May 2011. Sino Gas completed the testing of the TB-09 well by 2 June 2011 and achieved a final flow rate of 1,150,500 scf/day at a pressure of 200 psi THP without the need for hydraulic fracture stimulation, which could increase the productivity of the well fourfold.

Directors' Report

Mobilisation to the TB-03 well continued following the completion of test on the TB-09 well. The TB-03 well achieved a pre-stimulated stable gas flow of 362,000 scf/day at approximately 160 psi THP at 7 June 2011. The completed testing of the TB-03 well by 16 June 2011 also confirmed a flow rate of 326,500 scf/day at a pressure of 200 psi THP.

Upon the completion of testing for the TB-03 well, CCDC mobilised to the TB-08 well for testing. The TB-08 well was reported at 27 July 2011 as flowing at a relatively stable flow rate of 706,000 scf/day at 200 psi THP.

On 24 June 2011, Sino Gas announced the signing of two key contracts relating to its Sanjiaobei PSC. The first contract, signed with BGP Seismic Cooperation Company (BGP), a subsidiary of CNPC, will see the commencement of an extensive seismic program designed to expand the potential development area from approximately 70km² to over 400km². The additional seismic is designed to provide additional data to support the Chinese Reserves report, enabling better well location selection and planning for potential horizontal wells on Sino Gas's acreage. The second contract, signed with the National Centre of Coal Bed Methane (NCCBM), relates to the appointment of a Chinese Reserves Consultancy to deliver the Chinese Reserves report and other services. Sino Gas is now working with NCCBM to frame out key steps required for the Chinese Reserves report on the Sanjiaobei PSC.

On 27 July 2011, Sino Gas announced that BGP had completed approximately 70% of the seismic work program.

Sino Gas also continues to strengthen its management team and technical resources to support its forward work programs.

During the period, a number of key technical personnel have joined Sino Gas, including a Chief Geologist, a Production Supervisor, a Senior Drilling Engineer, a Senior Reservoir Engineer and a Senior Well Integrity Engineer.

Sino Gas also continues to strengthen the organisation as it moves towards development, and is pleased to advise that it has appointed Mr Colin Heseltine as a Strategic Consultant to the Board.

Colin has a 40 year career with distinguished service as Australian Ambassador to the Republic of Korea from 2001 to 2005, director of the Australian Commerce and Industry Office in Taiwan from 1992 to 1997 and two extensive periods, between 1982 and 1992, as Deputy Head of Mission at the Australian Embassy in Beijing.

His many senior positions include heading the Asia Pacific Economic Cooperation (APEC) Secretariat in Singapore during Australia's host APEC year in 2007.

Mr Heseltine will assist the Company at Board level as it moves towards ODP approvals.

Capital Raising

Over the first-half of the year, the Sino Gas Board has been reviewing its capital management program in order to provide funding to maximise the potential of its asset portfolio and provide a strong base to drive shareholder value.

Pursuant to the Share Purchase and Convertible Security Agreement (the Agreement) announced by the Company on 27 April 2011, the Company has a commitment to issue shares to SpringTree Special Opportunities Fund LP ("SpringTree") for the tranches of capital received from SpringTree over the next 24 months since the date of execution of the Agreement. Under the terms of the Agreement, the Company will receive up to AU\$29.4 million. The Company will issue a minimum of AU\$600,000 of shares to SpringTree approximately monthly, which may be increased to AU\$1.2 million by mutual consent.

The Facility enables Sino Gas to conduct the high impact appraisal program being planned for 2011 and 2012. Success in this program is expected to result in substantial increases in gas sales as Sino Gas moves towards developing its substantial asset portfolio.

Whilst the Facility allows the Company to confidently implement its commercialisation plans, it also preserves flexibility to continue to explore investment arrangements with potential strategic partners.

Up to the date of this report, a total of A\$1.8 million under the Facility has now been received.

Financial Result and Financial Position

The consolidated entity made a net loss for the six months ended 30 June 2011 of \$2,430,537 (half-year ended 30 June 2010: profit of \$558,319).

As at 30 June 2011 the consolidated entity cash position was \$2.61 million (31 December 2010: \$8.28 million) and had net assets of \$29.84 million (31 December 2010: \$31.12 million).

Directors' Report

(c) Auditor's Independence Declaration

The auditor's independence declaration is included on page 7 of the Financial Report.

Signed in accordance with a resolution of the directors made pursuant to s306(3) of the Corporations Act 2001.

On behalf of the Directors



Mr Stephen J Lyons

Managing Director

PERTH, Western Australia, 29 July 2011

Independent Auditor's Review Report to the Members of Sino Gas & Energy Holdings Limited

We have reviewed the accompanying half-year financial report of Sino Gas & Energy Holdings Limited, which comprises the condensed statement of financial position as at 30 June 2011, and the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 18.

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, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Sino Gas & Energy Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Sino Gas & Energy Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its 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*.



DELOITTE TOUCHE TOHMATSU



Neil Smith
Partner
Chartered Accountants
Perth, 29 July 2011

The Board of Directors
Sino Gas & Energy Holdings Limited
311-313 Hay Street
SUBIACO WA 6008

29 July 2011

Dear Board Members

Sino Gas & Energy Holdings Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Sino Gas & Energy Holdings Limited.

As lead audit partner for the review of the financial statements of Sino Gas & Energy Holdings Limited for the financial half-year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Neil Smith
Partner
Chartered Accountants

Directors' Declaration

The directors declare that:

- (a) in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s303(5) of the Corporations Act 2001.

On behalf of the Directors



Mr Stephen J Lyons

Managing Director

Perth, Western Australia, 29 July 2011

Condensed Consolidated Statement of Comprehensive Income

for the half-year ended 30 June 2011

		Six months ended 30 June 2011	Six months ended 30 June 2010
	Notes	\$	\$
Continuing Operations			
Other revenue	2	50,274	60,894
Other gains and losses	2	(625,067)	1,848,260
Financing costs		(264,600)	(889,078)
Depreciation and amortisation expense		(25,199)	(21,715)
Operating expenses		(199,347)	(40,125)
Share-based payment		(279,623)	(19,778)
Foreign exchange (loss)/gain		(100,252)	283,923
General and administration expenses		(986,723)	(664,062)
(Loss)/profit before income tax expense		(2,430,537)	558,319
Income tax expense		-	-
(Loss)/profit for the period		(2,430,537)	558,319
Other comprehensive income			
Exchange differences arising from translation of foreign operations		(1,129,800)	708,923
Total comprehensive (loss)/income for the period		(3,560,337)	1,267,242
Earnings per share:			
Basic (loss)/earnings per share (cents)		(0.26)	0.32
Diluted (loss)/earnings per share (cents)		(0.26)	0.32

The condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	30 June 2011 \$	31 December 2010 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	2,606,570	8,278,256
Trade and other receivables		157,492	135,307
Other current assets		100,812	199,854
Total current assets		2,864,874	8,613,417
Non-current assets			
Plant and equipment		129,309	134,952
Deferred exploration and evaluation expenditure	3	30,455,648	28,656,049
Total non-current assets		30,584,957	28,791,001
Total assets		33,449,831	37,404,418
LIABILITIES			
Current liabilities			
Trade and other payables		2,951,647	6,229,376
Provisions		62,792	50,695
Financial liabilities and borrowings	4	600,000	-
Total current liabilities		3,614,439	6,280,071
Total liabilities		3,614,439	6,280,071
Net assets		29,835,392	31,124,347
EQUITY			
Issued capital	5	54,415,302	52,808,853
Reserves		(3,906,573)	(3,245,767)
Accumulated losses		(20,673,337)	(18,438,739)
Total equity		29,835,392	31,124,347

The condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Cash Flows

for the half-year ended 30 June 2011

	Six months ended 30 June 2011	Six months ended 30 June 2010
Notes	\$	\$
Cash Flows From Operating Activities		
Receipts from customers	-	-
Payments to suppliers and employees	(1,489,713)	(440,236)
Interest received	50,274	60,894
Interest and financing costs paid	-	-
Net cash used in Operating Activities	(1,439,439)	(379,342)
Cash Flows From Investing Activities		
Payment for plant and equipment	(24,780)	(7,754)
Payment for exploration expenditure	(5,827,206)	(2,755,519)
Net cash used in Investing Activities	(5,851,986)	(2,763,273)
Cash Flows From Financing Activities		
Proceeds from issue of equity securities	1,200,000	25,622,126
Share issue costs (net of tax)	(85,240)	(2,003,580)
Proceeds from issue of convertible security	600,000	-
Repayment of borrowings	-	(13,599,583)
Net cash provided by Financing Activities	1,714,760	10,018,963
Net increase/(decrease) in Cash Held	(5,576,665)	6,876,348
Cash at the beginning of the Period	8,278,256	5,829,527
Effects of exchange rate changes on the balance of cash held in foreign currencies	(95,021)	77,616
Cash at the end of the Period	7	12,783,491

The condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity

for the half-year ended 30 June 2011

	Notes	Ordinary Shares \$	Equity Settled Benefits Reserve \$	Foreign Currency Translation Reserve \$	Equity Component Reserve \$	Accumulated Losses \$	Total Attributable to Equity Holders of the Company \$
Balance at 1 January 2010		30,435,715	1,310,861	(1,031,806)	195,939	(19,506,116)	11,404,593
Profit for the period		-	-	-	-	558,319	558,319
Exchange differences arising on translation of foreign operations		-	-	708,923	-	-	708,923
Total comprehensive income for the period		-	-	708,923	-	558,319	1,267,242
<i>Transactions with owners in their capacity as owners</i>							
Issue of shares		25,906,655	-	-	-	-	25,906,655
Share issue costs		(2,948,543)	-	-	-	-	(2,948,543)
Share based payments		-	1,124,517	-	-	-	1,124,517
Balance at 30 June 2010		53,393,827	2,435,378	(322,883)	195,939	(18,947,797)	36,754,464
Balance at 1 January 2011		52,808,853	3,068,354	(6,510,060)	195,939	(18,438,739)	31,124,347
Loss for the period		-	-	-	-	(2,430,537)	(2,430,537)
Exchange differences arising on translation of foreign operations		-	-	(1,129,800)	-	-	(1,129,800)
Total comprehensive income for the period		-	-	(1,129,800)	-	(2,430,537)	(3,560,337)
<i>Transactions with owners in their capacity as owners</i>							
Transfer to Retained Earnings		-	-	-	(195,939)	195,939	-
Issue of shares		1,704,357	-	-	-	-	1,704,357
Share issue costs		(97,908)	-	-	-	-	(97,908)
Performance Rights expense		-	258,518	-	-	-	258,518
Share based payments		-	406,415	-	-	-	406,415
Balance at 30 June 2011		54,415,302	3,733,287	(7,639,860)	-	(20,673,337)	29,835,392

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 30 June 2011

1 Significant Accounting Policies

Corporate Information

The financial report of Sino Gas & Energy Holdings Limited (the Company) for the half-year ended 30 June 2011 was authorised for issue in accordance with a resolution of directors on the date of approval of the Directors' Report.

The Company is a company limited by shares incorporated and domiciled in Australia, which is publicly traded on the Australian Securities Exchange. The financial report covers Sino Gas & Energy Holdings Limited and its controlled entities, Sino Gas and Energy Limited and Sino Gas and Energy Nominees Pty Ltd (collectively the Consolidated Entity).

Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 "Interim Financial Reporting". Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 "Interim Financial Reporting". The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluations of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian Dollars unless otherwise noted.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

Going Concern Basis of Accounting

The Consolidated Entity has experienced net cash outflows from operations of \$1,439,439 (six months ended 30 June 2010: \$379,342) and net cash outflows from investing activities of \$5,851,986 (six months ended 30 June 2010: \$2,763,273) for the half-year ended 30 June 2011. As at 30 June 2011, the Consolidated Entity has net current liabilities of \$749,565 (31 December 2010: net current assets of \$2,333,346).

The directors have prepared a cash flow forecast for the period of the date of the half year financial report through to 30 September 2012 based on the committed work program and including receipt of financing referred to below.

Based on the cash flow forecasts, the directors are satisfied that the going concern basis of preparation is appropriate, and that the Consolidated Entity will be able to realise its assets and to settle its liabilities through normal business processes.

As disclosed in Note 6 to the financial statements, the Consolidated Entity has in place a flexible financing facility with SpringTree Special Opportunities Fund LP ("SpringTree") for up to \$29.4 million.

The financial report has therefore been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 30 June 2011

Accounting Policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 31 December 2010, except for the impact of the standards and interpretations described below. These accounting policies are consistent with Australian Accounting Standard and with International Financial Reporting Standards.

From 1 January 2011 the Consolidated Entity has adopted the following Standards and Interpretations:

- AASB 124 Related Party Disclosures (2009) and AASB 2009-12 Amendments to Australian Accounting Standards
- AASB 2010-3 Amendments to Australian Accounting Standards arising from Annual Improvements Project
- AASB 2010-4 Further Amendments to Australian Accounting Standards arising from Annual Improvements Project
- AASB 2010-5 Amendments to Australian Accounting Standards

The adoption of these standards and interpretations did not have any effect on the financial position or performance of the Consolidated Entity.

Certain Australian Accounting Standards and Australian Accounting Interpretations have recently been issued or amended but are not yet effective. The consolidated entity has not elected to early adopt any new standards or amendments.

2 Other Revenues and Other Gains and Losses

		Six months ended 30 June 2011	Six months ended 30 June 2010
	Notes	\$	\$
Other revenue			
Other revenue consisted of the following:			
Finance revenue		50,274	60,894
Other gains and losses			
Other gains and losses consisted of the following:			
Net gain arising on derivative liabilities		-	297,119
Net (loss) on initial recognition of financial liabilities	(i)	(385,310)	-
Net (loss)/gain on settlement of financial liabilities		(239,757)	1,551,141
		(625,067)	1,848,260

- (i) Net loss on initial recognition of financial liabilities represented option expense for 8,750,000 options issued to SpringTree, exercisable at \$0.0793 per share and expiring on 25 November 2013, using a volatility of 111%.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 30 June 2011

3 Deferred Exploration and Evaluation Expenditure

	30 June 2011	31 December 2010
	\$	\$
Exploration		
At cost	30,455,648	28,656,049
Provision for impairment	-	-
Written down value	30,455,648	28,656,049

Reconciliation of the carrying amount of exploration expenditure at the beginning and end of the financial period

	6 months ended 30 June 2011	12 months ended 31 December 2010
Exploration		
Carrying amount at the beginning of the financial period	28,656,049	22,139,076
Additions	2,983,594	10,231,475
Impairment	-	-
Impact of foreign exchange	(1,183,995)	(3,714,502)
Carrying amount at the end of the financial period	30,455,648	28,656,049

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration, development and commercial exploitation or sale of the Production Sharing Contracts (PSC's). Amortisation of the costs carried forward for the production phase is not being recognised pending commencement of production.

The carrying amounts above represent SGE's interests in the Linxing and Sanjiaobei PSC's. The PSC contracts regulate the cooperation between SGE and the Chinese partners to the contracts. The PSC's are 30-35 year contracts divided into three periods: exploration, development and production. SGE is currently in the exploration period on both PSC's.

In respect to the Linxing PSC the exploration period has been formally extended through to 31 August 2011 after which a further extension or an ODP (Overall Development Plan) application would be required to move into the development period. At the current time SGE is working with CUCBM to apply for an extension period prior to submitting the ODP.

The exploration period in respect to the Sanjiaobei PSC expired on 31 August 2008. The Chinese CBM industry is being restructured such that certain assets held by CUCBM will now be held by both CUCBM and CNPC. The Sanjiaobei PSC is one such asset that is being transferred from CUCBM to CNPC. This restructuring however has caused delays in the approval of the extension of the exploration period.

During December 2010, CNPC received its foreign cooperation exclusive right, enabling it to formally deal with foreign companies on CBM in China. Now that this has been obtained, CNPC is moving to formalise the transition of the Sanjiaobei PSC from CUCBM to CNPC. SGE and CNPC are also in discussion and negotiation in respect to the extension of the exploration period.

Following the execution of the necessary Modification Agreements between SGE, CNPC and Chevron to effect the above and also deal with the formal transfer of Chevron's 50% gross working interest to SGE it will be lodged with MOFCOM for approval. The Modification Agreements will be effective following MOFCOM approval.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 30 June 2011

4 Borrowings

		30 June 2011 \$	31 December 2010 \$
Convertible note	(i)	600,000	-
		<u>600,000</u>	<u>-</u>

- (i) The convertible note issued to SpringTree is interest-free, subordinated, and will not be converted until 26 July 2011. The convertible note may be converted at 92.5% of the average of the five daily consecutive daily volume-weighted prices during a specified period prior to the date of conversion, and expires on 25 April 2013.

5 Issuance of Equity Securities

		30 June 2011 \$	31 December 2010 \$
Issued and Paid Up Capital			
Fully paid ordinary shares		54,415,302	52,808,853
		<u>54,415,302</u>	<u>52,808,853</u>
Movement in ordinary share capital			
		30 June 2011 Number of shares	\$
Balance at the beginning of the period		934,771,569	52,808,853
Issue of shares pursuant to SpringTree Agreement	(i)	35,645,551	1,704,357
Share issue costs		-	(97,908)
Closing balance at end of the period		<u>970,417,120</u>	<u>54,415,302</u>

- (i) On 27 April 2011, the Company issued 4,140,846 and 7,500,000 shares for the payment of the commencement fee of \$264,600 and as collateral security, respectively. On 25 May 2011 and 27 June 2011, the Company issued 11,834,320 and 12,170,385 shares for settlement of two \$600,000 monthly tranches of capital received from SpringTree. The difference of \$239,757 between the fair value of the ordinary shares issued and the financial liabilities has been recognised in the Condensed Consolidated Statement of Comprehensive Income.

SpringTree may, at any time, and in any event no later than five business days after the date of termination of the Share Purchase and Convertible Security Agreement (the Agreement), either return the collateral shares by way of buy-back or reduction of capital of the Company, or purchase the shares at 92.5% of the average of the five daily consecutive daily volume-weighted prices during a specified period prior to the date on which such payment is made by SpringTree.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 30 June 2011

6 Commitments for Expenditure and Contingencies

(a) Commitments for expenditure

SGE intends to continue the appraisal of its Linxing and Sanjiaobei PSC's. Under the terms of the PSC's, SGE has minimum spend obligations on the Linxing and Sanjiaobei PSC's and the requirements of the Ministry of Land & Resources (MOLAR), as described in more detail below.

Annual Minimum Spend per 2011

	Remaining Minimum Spend	Full year
	\$	\$
PSC		
Linxing	2,742,293	3,820,374
Sanjiaobei	522,125	1,643,691
Total	3,264,418	5,464,065

The amounts set out in the table above do not include general and administrative expenses. The minimum spend noted above is determined in Chinese Renminbi and have been converted to Australian Dollars at the rate prevailing at balance sheet day. The minimum spend amounts reflect SGE's 100% gross working interest in the Linxing and Sanjiaobei PSC's.

(b) Lease commitments

Operating leases relate to premises used by the Consolidated Entity in its operations, generally with terms between 1 and 3 years. Some of the operating leases contain options to extend for further periods and an adjustment to bring the lease payments into line with market rates prevailing at that time. The leases do not contain an option to purchase the leased property.

	30 June 2011	31 December 2010
	\$	\$
Non-cancellable operating lease commitments		
Not longer than 1 year	196,487	160,313
Longer than 1 year and not longer than 5 years	81,409	128,887
Longer than 5 years	-	-
	277,896	289,200

(c) Commitment to issue shares

Pursuant to the Agreement announced by the Company on 27 April 2011, the Company has a commitment to issue shares to SpringTree for the tranches of capital received from SpringTree over the next 24 months since the date of execution of the Agreement. Under the terms of the Agreement, the Company will receive up to AU\$29.4 million. The Company will issue a minimum of AU\$600,000 of shares to SpringTree approximately monthly, which may be increased to AU\$1.2 million by mutual consent.

The monthly tranches of shares will be issued at the price equal to 92.5% of the average of the five daily consecutive daily volume-weighted prices during a specified period prior to the date of issuance of the shares. SpringTree has the right to set the purchase price at \$0.0973 for one monthly tranche only.

Pursuant to the Agreement with SpringTree, the Company has the rights to terminate the Agreement, and if it does so, subject to fulfilling certain conditions, the Company is either required to settle the termination cost by way of the issuance of shares, or by way of a cash payment of \$250,000.

Notes to the Condensed Consolidated Financial Statements

for the half-year ended 30 June 2011

(d) Contingencies

- (i) In respect to the Linxing PSC the exploration period has been formally extended through to 31 August 2011 after which a further extension or an ODP (Overall Development Plan) application would be required to move into the development period. At the current time SGE is working with CUCBM to apply for an extension period prior to submitting the ODP;
- (ii) The exploration period in respect to the Sanjiaobei PSC expired on 31 August 2008. The Chinese CBM industry is being restructured such that certain assets held by CUCBM will now be held by both CUCBM and CNPC. The Sanjiaobei PSC is one such asset that is being transferred from CUCBM to CNPC. This restructuring however has caused delays in the approval of the extension of the exploration period.

During December 2010, CNPC received its foreign cooperation exclusive right, enabling it to formally deal with foreign companies on CBM in China. Now that this has been obtained, CNPC is moving to formalise the transition of the Sanjiaobei PSC from CUCBM to CNPC. SGE and CNPC are also in discussion and negotiation in respect to the extension of the exploration period.

Following the execution of the necessary Modification Agreements between SGE, CNPC and Chevron to effect the above and also deal with the formal transfer of Chevron's 50% gross working interest to SGE it will be lodged with MOFCOM for approval. The Modification Agreements will be effective following MOFCOM approval.

7 Notes to the Condensed Consolidated Statement of Cash Flows

For the purposes of the Condensed Consolidated Statement of Cash Flows, cash and cash equivalents includes cash on hand and in banks and investment in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the period as shown in the Condensed Consolidated Statement of Cash Flows is reconciled to the related items in the Condensed Consolidated Statement of Financial Position as follows:

	30 June 2011	30 June 2010
	\$	\$
Cash and cash equivalents	2,606,570	12,783,491

Cash on short-term deposit earns interest at floating rates based on daily bank deposit rates.

8 Segment Information

Operating segments have been identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The chief operating decision maker has been identified as the Board of Directors. On a regular basis, the Board receives financial information on a consolidated basis similar to the financial statements presented in the financial report, to manage and allocate their resources.

9 Subsequent Events

Subsequent to the half-year end the Consolidated Entity:

- (i) On 22 July 2011, the Company announced the appointment of Mr. Colin Heseltine as a Strategic consultant to the Board.

No other matter or circumstance has arisen that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in subsequent periods that is not otherwise disclosed in the Condensed Consolidated Financial Statements.