



Sino Gas & Energy Holdings Limited

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012



ABOUT US



SINO Gas & Energy

Sino Gas & Energy Holdings Limited ("Sino Gas" ASX: SEH) is an Australian energy company focused on developing Chinese unconventional gas assets. Sino Gas holds a 49% interest in Sino Gas & Energy Limited ("SGE") through a strategic partnership completed with MIE Holdings Corporation ("MIE" SEHK: 1555) in July 2012. 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's interest in the Linxing PSC with CUCBM is 64.75% and 49% for the Sanjiaobei PSC held with PCCBM. 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.

The PSCs are located in the Ordos Basin and cover an area of approximately 3,000km². The Ordos Basin is the second largest onshore oil and gas producing basin in China. The region has mature field developments with an established pipeline infrastructure to major markets. Rapid economic development is being experienced in the province in which Sino Gas' PSCs are located and natural gas is seen as a key component of clean energy supply in China.



Sino Gas & Energy Holdings Limited
ACN 124 242 422

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

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BUILDING A **BETTER** ENERGY FUTURE FOR **CHINA**

CHAIRMAN'S REPORT

Dear Shareholder,

2012 was a significant year of transformational change for your Company. While we started the year with some significant gas discoveries already in hand on our Sanjiaobei and Linxing blocks, the Board of Sino Gas recognised that we needed to improve in several key areas specifically;

- strengthening the Board,
- securing project funding,
- finding a strategic partner, and
- shoring up our resources to drive development approvals.

I am pleased to say that Sino Gas has met significant milestones in these areas during the year.

The appointment of Colin Heseltine as a Non-Executive Director has brought years of highly relevant regional experience to Sino Gas. Colin's 40 year career as a diplomat and his deep understanding of the region, adds a valuable perspective to an Australian company doing business in China.

Robert Bearden's commencement in May and subsequent appointment as Managing Director and CEO has delivered immense technical and operational expertise to both the Board and the Beijing team. Robert has over 30 years of leadership experience in major international oil and gas development and production operations, many of which have been in Asia.

Sino Gas entered into a Strategic Partnership with Hong Kong listed MIE Holdings Corporation in July, which provided Sino Gas with both US\$100 million in development funding for its projects and a partner that has extensive experience in delivering Sino-Foreign PSCs through regulatory approval to production.

RISC's independent evaluation in January 2012 confirmed 3.7 trillion cubic feet ("tcf") of total project reserves and resources, with a net present value attributable to Sino Gas of US\$1.1 billion. The key focus of the 2012 work program has been the gathering of data for the preparation and submission of the Chinese Reserve Report and also enabling Sino Gas to book reserves from resources.

I am pleased to confirm that RISC's most recent review in March of this year, identified 327 billion cubic feet ("bcf") of 2P Reserves that can be booked on the project with Sino Gas' share being 93 bcf, up from 6 bcf previously¹. This recognises our commitment to developing the PSCs based on the progress made on preparatory work on regulatory submissions, reserve planning and contractor scheduling for pilot plant production.

RISC's review also saw an increase of 56% in the total unrisks mid-case reserves & resources, to now sit at 5.7 tcf. Sino Gas' share of project NPV in developing the 2P Reserves and mid-case Contingent & Prospective resources has increased 66% to US\$1,863 million.¹

While inclement weather caused some operational challenges in the Ordos Basin this year, Sino Gas was able to carry out extensive work programs on its Linxing and Sanjiaobei blocks. In implementing the ambitious catch-up programs, the Operations team successfully executed almost more drilling and seismic work over the last few months of operations than previous work programs combined. It is within this context that I am particularly proud of the fact that the Operations team completed well over 500,000 man hours of incident-free field operations, continuing on from the outstanding record set in 2011.

Reflecting on our significant year of transformation and achievement of major milestones, the market capitalisation of Sino Gas has increased fourfold, starting the year at A\$35 million and finishing it at A\$140 million. It has also been pleasing to see a transitioning of the share register with an increasing proportion of institutional investors becoming shareholders in Sino Gas.

We remain well placed in 2013 to take advantage of the unique opportunity afforded to us in our Ordos Basin projects in relation to the size, scalability, market dynamics and pricing structure of natural gas in China.

I believe that we have the right team and right partnership in place to deliver on this opportunity within a supportive government regime. We are entering a significant de-risking phase in the Company's development as we head down the path of successfully implementing our projects.

I would like to take this opportunity to thank our new CEO and Managing Director, Robert Bearden, for his and his team's significant contribution to Sino Gas in 2012 and I look forward to another year of significant achievements.

And finally, to you, our shareholders, thank you for your support in 2012. I believe the opportunity we have in front of us in 2013 will provide another rewarding year for shareholders.

Yours sincerely,



Gavin Harper
Chairman

¹ Refer to Resource Statement for full disclosure.



CONVERSATION WITH ROBERT BEARDEN **MANAGING DIRECTOR AND CEO**

Q.

You were appointed CEO in May 2012, a year of transformation for Sino Gas. What has been your most important achievement since being appointed CEO?

I believe cementing the Strategic Partnership between Sino Gas and MIE Holdings Corporation has been our greatest achievement as it has put Sino Gas in a strong position to execute and deliver the potential of our Sanjiaobei and Linxing PSCs.

The partnership has combined MIE's financial position, on-ground operational capability and Chinese regulatory experience with our gas projects and technical expertise. The results of this have already become evident, with almost as many wells being drilled on our blocks in 2012 as the Company was able to achieve in the past five years.

The other key attraction of MIE was its proven ability to successfully deliver Sino-Foreign PSCs through the Chinese regulatory approval system including Chinese Reserve Report and Overall Development Plan, and then operate the projects in a highly efficient manner.

Looking back on our progress during 2012, it is very apparent what a difference a year makes with Sino Gas now in a significantly stronger position in terms of financial strength, operational capacity and regional expertise, compared with where we were 12 months ago.

Q.

2013 appears to be shaping up as another significant year in Sino Gas' development. Would you care to outline some of the key stages in the development of Sino Gas' PSCs to ultimately produce natural gas for the domestic Chinese market?

In the same way that 2012 was a transformational year for Sino Gas, 2013 will be about executing our strategy and delivering value to all stakeholders. The first stage in our drive towards full field development has been the commencement of the extensive fully funded 2013 work programs designed to gather seismic and drilling data required for Chinese Reserve Report preparation.

Our surveying for 2013 is already well progressed, we have batch flow testing teams onsite ready to test over 20 zones, and work programs are on track to have ten drill rigs in the field and up to 25 wells completed during the year.

The completion of the drilling and seismic work will then go into the preparation of the Chinese Reserve Reports on the Sanjiaobei and Linxing PSCs. This is expected to happen in the second half of 2013.

Finally, we expect to be signing gas sales agreements, completing pilot production design and commencing construction this year.

Q.

As a foreign owned entity operating in China, what do you see as some of the key attributes of Sino Gas that will enable you to successfully develop both of your PSCs?

Sino Gas has been operating in China since 2006 and I have worked in Central and Far East Asia for over 10 years. As a team, we endeavour to understand the culture of the environment that we operate in and to conduct ourselves well within the regulatory and governmental guidelines. To that end, we use local content as much as possible in assisting us in our activities.

In addition, I cannot emphasise enough the benefits of our strategic partnership with MIE, who currently have three PSCs in production in China. MIE operates over 2,000 wells on its Daan, Moliqing and Miao 3 PSCs in the Songliao Basin annually and produces over 10,000 barrels of oil per day.

Q.

What do you see as some of the key challenges for Sino Gas in 2013 and how do you propose to address them?

The drive towards submission of the China Reserve Report (CRR) and Overall Development Plan (ODP) remain our key focus for 2013 and beyond. The biggest challenge to move to full field development is our ability to successfully implement and execute our development plans. Our current work programs are focussed on gathering data to meet the Chinese government regulatory and environmental specifications on CRR and ODP.

Sino Gas in 2013 will be about the focussed execution of our development plans in a structured and disciplined way. To a large extent, we know what we have in our PSCs, and we know what we need to do in going through the appropriate channels, in the appropriate ways using the appropriate data. The focus will be on de-risking the development framework of the PSCs and, as a result, the range of uncertainties will become tighter. The control of our future remains in our hands and our ability to execute.

Q.

The Chinese Government recently released its 12th Five-Year plan, which included a commitment to reduce pollution by increasing the proportion of electricity generated by natural gas. How well do you believe Sino Gas is positioned to assist China in achieving these goals?

Of particular note in the Chinese Government's 12th Five-Year plan was the earmarking of the eastern fringe of the Ordos basin for accelerated development, on which Sino Gas' PSCs are located. In addition, the plan has been further supported by the outlining of a more favourable gas pricing regulation to be rolled out nationally, which will encourage domestic production.

The operating environment for Sino Gas is one of a supportive government regime in which we are in the fortunate position of being able to assist China in developing natural gas as a clean energy source. China is targeting an increase in production of domestic origin gas by 2.5 times in the next five years alone.

Q.

Sino Gas has an enviable safety record over the past two years, reflecting its strong commitment to occupational health and safety initiatives. To what do you attribute your success in this area?

I am particularly proud of our achievement in maintaining an unblemished safety record over the past two years. A culture of safety starts at the top and needs to filter its way down through an organisation. It essentially stems from a philosophy of caring for one another and looking out for one another; it is not just a passive philosophy but also encapsulates the need to take action when necessary to assist.

At an operational level, we continue to maintain high standards, employing dedicated personnel that are well trained and operating equipment that is of world class standards. We also endeavour to partner with skilled and diligent operators who balance a high regard for safety with an equal regard for getting the job done efficiently.

Q.

Sino Gas's share price performance during 2012 was very strong, with the Company now ranked in the top 25 Australian listed oil & gas explorers and producers by market capitalisation. What do believe has attracted investors to your share register?

The share price performance has been particularly pleasing for the management team and, I believe, reflects our efforts in progressing the Company along the development timeframe. The attaining of major milestones in our progression towards full field development has subsequently de-risked the investment proposition and begun to attract institutional investors onto the Sino Gas share register.

Sino Gas is a unique opportunity for investors to participate directly in China's growing domestic natural gas market. We have the benefit of a large resource base, with the scale to grow even larger and with the added benefit that the pipeline infrastructure and local market are already in place. Most importantly, our extensive 2013 work programs are fully funded.

Q.

RISC has recently completed its assessment of Sino Gas' reserves and resources. What is the significance of this assessment and how does it position Sino Gas to move into the production phase?

This assessment is a significant de-risking event for Sino Gas in that it allows us to book 327 bcf from contingent resources to 2P reserves.¹ We are very pleased that RISC has identified the efforts we have been through in forward planning and our commitment to develop the PSCs, to subsequently allow us to commence booking reserves.

RISC has also identified a higher probability of successful project development based on a larger and experienced joint venture partner in MIE joining the project, commencement of the Chinese reserve reporting process and the new wells from the 2012 work program supporting the previous analysis.

This independent and detailed assessment has crystallised all of our hard work over the past 12 months into a significant increase in both the total project resources and the expected realisable value to Sino Gas.

This is a world class project in terms of size and scale and our intention is to progress development as the economics of the domestic natural gas market in China continues to suggest attractive returns while existing pipeline infrastructure, which traverse our PSCs, present low cost access to market.

In partnership with MIE, we have a team with the expertise and experience to deliver a Tier 1 project of this nature while providing further upside with about half of the blocks yet to be explored.

¹ Refer to Resource Statement for full disclosure.

REVIEW OF OPERATIONS

Financial Performance

Operating Results for the Year

The Consolidated Entity made a profit for the year ended 31 December 2012 of \$463,206 (31 December 2011: loss of \$4,193,773). As at 31 December 2012, the Consolidated Entity had cash and cash equivalents of \$7,749,124 (31 December 2011: \$4,317,338) and net assets of \$39,568,361 (31 December 2011: \$35,534,516).

Dividends

No dividends were paid or declared by the Company during the year ended 31 December 2012. The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2012.

Corporate Activity

Occupational Health and Safety

Sino Gas was once again able to report an unblemished safety record for the twelve months to 31 December 2012. Despite adverse weather in the region and operations continuing through sub-zero temperatures, 598,000 OH&S incident free man hours were recorded this year (578,000 in 2011) in implementing the 2012 drilling and seismic work programs.

Strategic Partnership with MIE Holdings Corporation

In July 2012, Sino Gas closed its strategic partnership with Hong Kong listed MIE Holdings Corporation (MIE), which provided both US\$90 million in development funding for its projects and a partner that has extensive experience in delivering Sino-Foreign PSCs through regulatory approval to production in China.

Senior Management Appointments and Movements

Mr. Robert Bearden joined Sino Gas on 18 May 2012 as President & CEO and was later appointed to the board as Managing Director, effective 1 September 2012. Mr. Colin Heseltine joined the Sino Gas board as a Non-Executive Director on 30 January 2012. Stephen Lyons resigned as Managing Director on 15 May 2012 and continued on the executive team as VP Finance, before transferring to SGE upon completion of the strategic partnership with MIE on 6 July 2012. Mr. John Chandler, Non-Executive Director, retired from the board on 31 August 2012 having played a key role in Sino Gas' growth since becoming a Director in 2008.

REVIEW OF OPERATIONS (CONT'D)

Operational Performance

Exploration and Appraisal

Linxing PSC, Ordos Basin (Sino Gas 31.7%)

Substantial progress was made on seismic and drilling programs on the Linxing PSC, to support key requirements for Chinese Reserve Report (CRR) submission and boost capacity ahead of pilot production.

Seismic

During the year, 350km of the 650km of seismic work originally planned for 2013, commenced on Linxing West to enable further resource assessment and support the drilling and flow testing results required for a separate CRR. By the end of the year, surveying had been completed and seismic teams had started data acquisition. The additional 300km of seismic planned for 2013 is to further define the resource potential on the northern portion of Linxing West.

The 270km of seismic data successfully acquired in Q3 on Linxing East, covering both the infield drilling area in the north eastern corner, and a previously unexplored portion to the southwest was provided to RISC to be included in the reserves and resources assessment completed in March 2013.

Drilling

The Linxing East drilling work program, consisting of eight coal bed methane (CBM) shallow wells on the north-eastern portion of the PSC, was successfully completed by the end of the year. The final four wells were spudded during the last quarter of 2012, with initial results to date confirming expectations of coal seams in the area.

Late in the quarter, a fracturing and dewatering program commenced on 4 of the 8 wells.

The first of the two-well program on Linxing West was completed at TB-11, with initial electronic wire line logs results identifying significant intervals across multiple pay zones during drilling.

In January 2012, the Company received formal Ministry of Commerce (MOC) approval for the extension of the Linxing PSC exploration period to 31 August 2013.

Sanjiaobei PSC, Ordos Basin (Sino Gas 24%)

Following adverse weather conditions, which prevented operations crews from accessing drill locations within the Sanjiaobei PSC, road access was finally restored early in the fourth quarter of 2012, allowing drilling operations to recommence.

Seismic

Seismic teams commenced surveying on 300km of the 510km of seismic lines planned for 2013. This program is designed to acquire the data for the remaining north/south running lines to complete the seismic grid required for Chinese Reserve Report (CRR) submission on the western portion of the block.

The 100km of north/south running seismic lines acquired in Q3, which supplements existing seismic data, was provided to RISC for the inclusion in the reserves and resources assessment completed in March 2013.

Drilling

Three wells of the six-well program were spudded towards the end of the year and completed drilling. Initial mud log and wire line log results of the major pay zones identified are in line with expectations and consistent with previous gas discovery wells on Sanjiaobei.

Contract Modification

In October of 2012, China's Ministry of Commerce (MOFCOM) advised that it had approved the eighth and ninth Modification Agreements to the Sanjiaobei PSC.

The eighth Modification Agreement officially recognises the transfer of the interest in the Sanjiaobei PSC from Chevron China Energy Company to the PSC operator SGE. The ninth Modification Agreement extends the exploration period on the Sanjiaobei PSC to August 2015. This allows time to fully appraise and evaluate the 1,124km² of resource potential within the exploration period and advance plans for development of the Sanjiaobei block.

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 2012.

On 6 July 2012, Sino Gas & Energy Limited (SGE), which holds interests in the Linxing (64.75%) and Sanjiaobei (49%) Production Sharing Contracts (PSCs) was deconsolidated from the group accounts as a result of the completion of the strategic transaction with MIE Holdings Corporation (MIE).

(a) Directors

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

G Harper	Chairman
R Bearden	Managing Director & CEO, was appointed as Managing Director on 1 September 2012
B Ridgeway	Non-Executive Director
P Mills	Non-Executive Director
C Heseltine	Non-Executive Director, was appointed on 30 January 2012
S Lyons	Resigned as Managing Director on 15 May 2012
J Chandler	Retired as Non-Executive Director on 31 August 2012

(b) Principal activities

The Company's principal continuing activities during the course of the financial year were appraising unconventional gas resources onshore China through its investment in Sino Gas & Energy Limited.

(c) Dividends

No dividends were paid or declared to members during the financial year (2011: nil).

(d) Operating Results for the year

The Consolidated Entity made a profit for the year ended 31 December 2012 of \$463,206 (2011: loss of \$4,193,773). As at 31 December 2012, the Consolidated Entity had cash and cash equivalents of \$7,749,124 (2011: \$4,317,338) and net assets of \$39,568,361 (2011: \$35,534,516).

(e) Review of Operations

The review of operations of the Group is contained in the Chairman's and Managing Director's Report on pages 3 and 4 respectively, and the Review of Operations on pages 6 to 7 of the Annual Report and forms part of this report.

(f) Significant changes in the state of affairs

The strategic partnership completed on 6 July 2012 with MIE was a landmark deal for the Company. It combined MIE's financial strength, on-ground operational capability and Chinese regulatory experience with Sino Gas' gas projects and technical expertise.

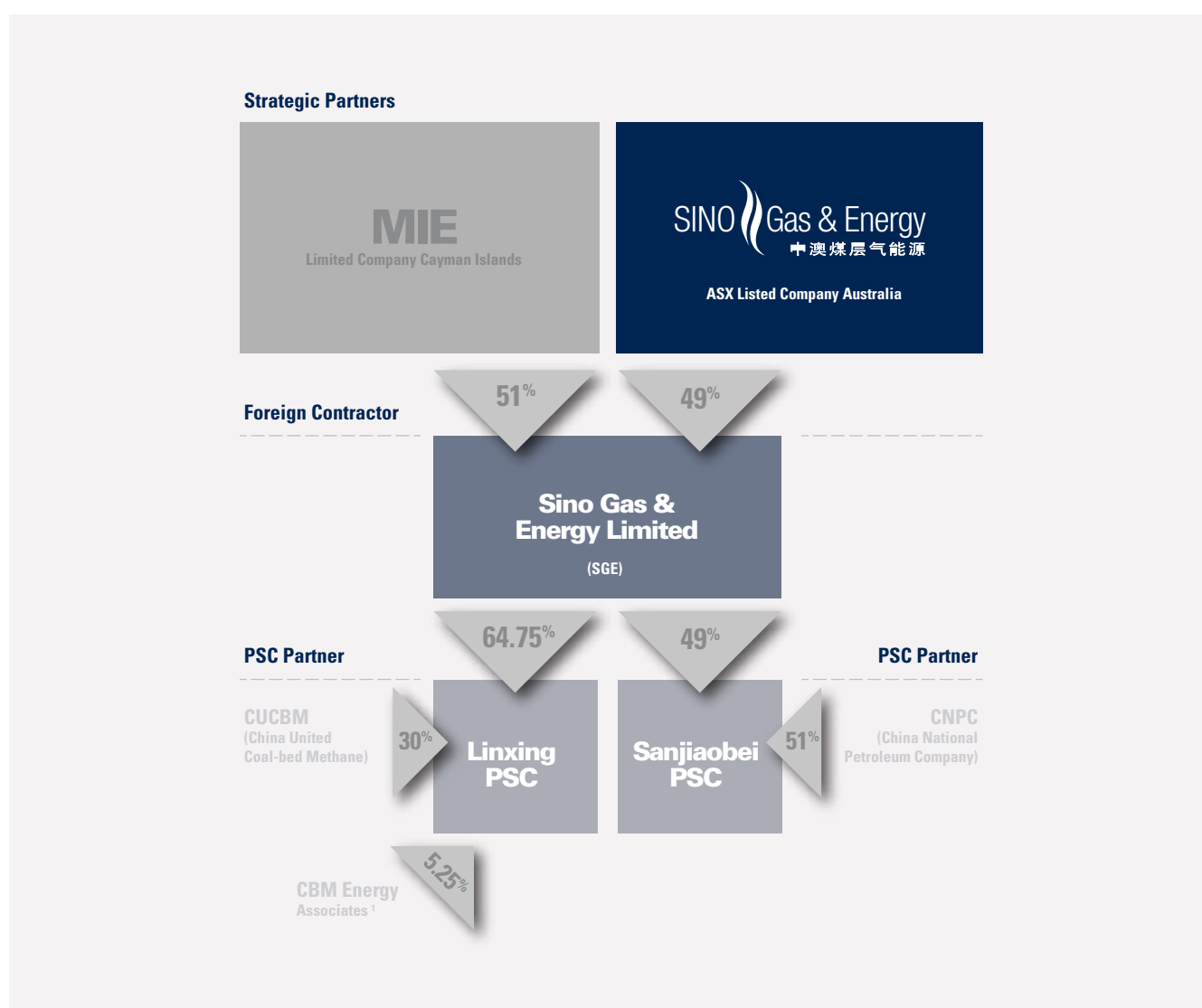
MIE is one of the leading independent onshore upstream oil companies in China. In 2011, MIE produced over 10,000 barrels of oil per day (net) and drilled over 450 wells in its China operation. Furthermore, MIE has extensive experience in delivering Sino-Foreign PSCs through regulatory approval to production. Upon completion MIE committed US\$100 million to acquire 51% of Sino Gas' subsidiary SGE that holds the Sanjiaobei and Linxing PSCs in Shanxi Province, People's Republic of China.

DIRECTORS' REPORT (CONT'D)

Completion of the strategic partnership with MIE delivered:

- US\$10 million in cash to Sino Gas for the sale of SGE shares to MIE. This was initially used for payments of financing, accounting, legal and transaction fees relating to the completion of the transaction.
- US\$90 million of SGE's Qualifying PSC expenditures to be funded by MIE, of which US\$16.5 million had been cash called at 31 December 2012.
- US\$2.1 million of Sino Gas' 49% share of SGE's non-qualifying PSC costs at the Beijing Head Office is to be offset against funds already contributed by Sino Gas.

Following the completion of the MIE strategic partnership illustrated below, a new SGE board was appointed, consisting of four MIE Directors and three Sino Gas Directors. The three Sino Gas Directors appointed were Mr Gavin Harper (Sino Gas Chairman), Mr Robert Bearden (Sino Gas Managing Director & CEO) and Mr Colin Heseltine (Sino Gas Non-Executive Director). The first two board meetings were held in August and September, with the board fully supporting the work programs underway and approving 2013 work programs.



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

¹ CBM Energy has an option to acquire 5.25% of Linxing by paying 7.5% of back costs

DIRECTORS' REPORT (CONT'D)

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

Subsequent to year end the following key events have occurred:

- On 3 January 2013, Sino Gas completed the placement of 82,448,979 new fully paid ordinary shares to two leading institutional investors at \$0.1225 per share to raise approximately A\$10.1 million, before costs. This placement was lead managed by the company's Corporate Advisor, Argonaut.
- On 8 January 2013, the Company completed the final conversion of its listed options (ASX: SEHOC) expiring on 31 December 2012, with the issue of 27,265,345 new fully paid ordinary shares at \$0.125 per share to raise A\$3,408,168. The remaining 303,751,716 listed options expired unexercised.
- On 13 March 2013, 1,310,000 unlisted options with an exercise price of \$0.50 per option expired unexercised.
- Receipt of an independent certification of Reserves and Resources from RISC on the Linxing and Sanjiaobei Production Sharing Contracts and an increase in the Company's share of the project net present value (NPV). The Reserves and Resource certification was completed by independent resource industry consulting firm, RISC Pty Ltd under the Society of Petroleum Engineers Petroleum Resource Management System (SPE PRMS).

The Project (100%) current Reserves & Resources are summarised below:

Project (100%) Reserves & Resources	Best Estimate Gas In Place (GIIP) (Bcf)	1P Reserves (Bcf)	2P Reserves (Bcf)	3P Reserves (Bcf)	2C Mid-case Contingent Resources (Bcf)	P50 Mid-case Prospective (Bcf)	Total Unrisked Mid-case Reserves & Resources (Bcf)
Linxing PSC	12,343	66	193	412	1,569	2,129	3,891
Sanjiaobei PSC	5,684	46	134	287	654	1,047	1,835
Total 2013	18,027	112	327	699	2,223	3,176	5,726
Total 2012	11,931	7	22	47	1,799	1,861	3,682
Change (+/-)%	+51%	+1386% (2P)			+24%	+71%	+56%

The Company's attributable net Reserves & Resources and Economic Evaluations are summarised below

Sino Gas' Attributable Net Reserves & Resources	1P Reserves (Bcf)	2P Reserves (Bcf)	3P Reserves (Bcf)	2C Mid-case Contingent Resources (Bcf)	P50 Mid-case Prospective (Bcf)	Total Un-risked Mid-case Reserves & Resources (Bcf)	NPV 10 Mid-case (US\$m)	EMV (US\$m)
Linxing PSC	21	61	130	494	638	1,193	1,307	1,078
Sanjiaobei PSC	11	33	69	159	247	439	556	478
Total 2013	32	94	199	653	885	1,632	1,863	1,556

Refer to Resources Statement for full disclosure.

(h) Future Developments

In the opinion of the Directors, disclosure of additional information, except as reported in this Directors' Report and the Annual Report, regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

DIRECTORS' REPORT (CONT'D)

(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:

G Harper

Chairman

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

Experience and expertise

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 has more than 36 years' experience in the oil and gas industry in a variety of leadership roles, primarily with Chevron Corporation for 25 years. He has broad experience of 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. As the Company has commenced its transition towards development on its projects, Gavin moved into a full time executive role on 1 November 2011.

Other current directorships

Gavin is also a director of Renewable Heat and Power Limited, a biomass renewable energy company, and of Green Energy Limited, a company focusing on CBM developments in Poland. Gavin is also a Non-Executive Director of Sino Gas & Energy Limited.

Former directorships in last 3 years

NuEnergy Capital Limited from 23 April 2007 to 30 April 2011 (ASX: NGY)

Special responsibilities

Chair of the board
Sino Gas & Energy Limited Non-Executive Director

Interests in Shares, Options and Performance Rights

1,515,000 Ordinary Shares
14,300,000 Performance Rights

R Bearden

Managing Director & CEO

Bachelor of Science degree from Texas A&M University (USA), Master of Engineering (Petroleum Engineering) from Tulane University (USA), a Master of Business Administration from Purdue University (USA) & International Masters of Management from the European School of Management in Paris (France).

Experience and expertise

Robert has 30 years' experience in the upstream petroleum industry, predominantly in the areas of field development and production operations at Chevron. His early career with Chevron included a variety of technical and operational roles, before moving onto various executive management roles including Senior Vice President Indonesia, General Manager Kazakhstan and Managing Director Mid-Africa. Since leaving Chevron, his most recent role has been as Operations Director for Addax Petroleum, a Sinopec subsidiary with substantial production operations in Africa and the Middle East.

Other current directorships

Non-Executive Director of Sino Gas & Energy Limited

Former directorships in last 3 years

None

Special responsibilities

Chief Representative of Beijing Representative Office
Sino Gas & Energy Limited Non-Executive Director

Interests in Shares, Options and Performance Rights

200,000 Ordinary Shares
11,000,000 Performance Rights.

DIRECTORS' REPORT (CONT'D)

B Ridgeway

Non-Executive Director

B. Bus (Accounting), ACA, AICD

Experience and expertise

Bernie was a foundation shareholder and Director of Sino Gas responsible for initially recognizing 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 25 year as owner, director and manager in which he has gained extensive experience and expertise in finance, administration, marketing and business development.

Bernie is the Managing Director of Imdex Limited (ASX:IMD), a successful drilling fluids and down hole instrumentation company servicing 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 Committee & Member of Nomination & Remuneration Committee

Interests in Shares, Options and Performance Rights

11,155,000 Ordinary Shares

P Mills

Non-Executive Director

BEng

Experience and expertise

Peter has extensive experience in the upstream Oil and Gas business in technical and general management roles working in Europe, Northern Africa, Asia and Australia. Over the past 29 years Peter has worked for Woodside, BHP Petroleum, Hess and Premier Oil in areas of field development, operations management, joint venture management and commercial negotiation.

Peter retains a strong technical involvement in oil and gas operations, particularly in field development, production optimisation and the application of technology to enhance production and value. His most recent work has focused on development of "unconventional" tight gas reservoirs.

Other current directorships

None

Former directorships in last 3 years

Managing Director of Eureka Energy Limited (ASX: EKA) from 19 October 2010 to 30 April 2012

Special responsibilities

Chair of Nomination & Remuneration Committee
Member of Audit Committee

Interests in Shares, Options and Performance Rights

3,000,000 Performance Rights

DIRECTORS' REPORT (CONT'D)

C Heseltine

Non-Executive Director

B. Bus

Experience and expertise

Colin had a forty year career with the Australian Department of Foreign Affairs and Trade (1969-2008), which included many postings in the Asian region and senior policy advisory positions in Australia.

Colin was appointed China Strategic Consultant to the Company on 22 July 2011 and both the board and China based management team have benefited from his extensive knowledge of doing business in the Asian region. Colin's expertise will be invaluable as the Company moves towards development of its Chinese gas assets.

Colin was appointed to the Board on 30 January 2012.

Other current directorships

Non-Executive Director of Sino Gas & Energy Limited

Former directorships in last 3 years

None

Special responsibilities

Member of Audit Committee

Member of Nomination & Remuneration Committee

Sino Gas & Energy Limited Non-Executive Director

Interests in Shares, Options and Performance Rights

3,000,000 Performance Rights

S Lyons

Previous Managing Director (resigned 15 May 2012)

B.Bus (Accounting), ACA, AICD

Experience and expertise

Stephen has acted in the roles of Company Secretary, VP Finance and Managing Director since joining the Company. As Managing Director he led the Beijing based finance and operations teams and reported to the Board in Australia.

Stephen has over 20 years' experience in accounting and corporate finance including 6 years in the upstream energy sector and has worked in Australia and London. He has been based with Sino Gas in Beijing since 2006.

Other current directorships

None

Former directorships in last 3 years

None

DIRECTORS' REPORT (CONT'D)

J Chandler

Previous Non-Executive Director (retired 31 August 2012)

LL.B. (Hons), Diploma in Business Administration, Solicitor of the Supreme Court of England and Wales, Barrister and Solicitor Western Australia, FAICD.

Experience and expertise

John is a lawyer with over 30 years' commercial, corporate and business experience. He has been a partner in major law firms including Freehills, KPMG Legal and Deacons, and now focuses on the oil and gas industry and corporate governance.

In the last 10 years, John has acted in acquisition, joint venture and project negotiations for, amongst others, Chinese and Japanese companies, including Sinosteel, Anshan, Tokyo Electric and Tokyo Gas. John holds a Bachelor of Law (Hons), a Diploma in Business Administration, and is a Solicitor of the Supreme Court of England and Wales, a Barrister and Solicitor in Western Australia, and a Fellow of the Australian Institute of Company Directors (FAICD).

Other current directorships

Director of Catalyst Composites Limited

Former directorships in last 3 years

Non-Executive Director & Chairman of WHL Energy Limited (ASX WHN) from 17 August 2011 to 3 June 2012

H Spindler

Company Secretary

B. Bus, CA, A Fin

Experience and expertise

Harry has over 10 years experience with major Corporate Recovery and Advisory Firms. Harry is a member of the Institute of Chartered Accountants in Australia and a member of the Financial Services Institute of Australia. In September 2008, Harry joined Indian Ocean Advisory Group who specialized in growth, corporate and taxation matters. During his career, Harry has worked on high profile restructuring engagements in mining and assists in advising a number of ASX listed mining companies.

Other current directorships

None

Former directorships in last 3 years

None

DIRECTORS' REPORT (CONT'D)

(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, pages 11 to 14.3

(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, 9 Board meetings were held.

	Meetings of Directors		Meetings of Audit Committee		Meetings of Nomination & Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
G Harper	9	9	-	-	-	-
B Ridgeway	9	8	4	4	4	4
P Mills	9	8	3	2	4	4
C Heseltine - appointed 30 January 2012	9	9	3	3	1	1
S Lyons - resigned 15 May 2012	2	2	-	-	-	-
R Bearden - appointed 1 September 2012	2	2	-	-	-	-
J Chandler - retired 31 August 2012	7	7	2	2	3	2

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

Audit Committee	Nomination and Remuneration Committee
B Ridgeway (Chair)	P Mills (Chair)
P Mills	B Ridgeway
C Heseltine	C Heseltine

A Planning Committee (PC) was established to assist the Board in six main areas: strategic planning, business development, major operational and technical decisions, technical and operational competency, key relationship management and risk management. During the year, the PC comprised of G Harper (Chairman), R Bearden (Managing Director & CEO), S Lyons (former VP Finance), F Fu (former VP Operations), and Non-Executive Directors C Heseltine and P Mills. Others join the PC by invitation as required. The PC was chaired by G Harper and took advice from other parties as required in fulfilling its objectives. Following the completion of the strategic partnership with MIE, the PC was dissolved in August 2012. Three Sino Gas directors were appointed to the board of SGE, along with four directors from MIE to provide oversight over the operations of SGE and make strategic and planning decisions in the interests of the shareholders.

DIRECTORS' REPORT (CONT'D)

(I) Remuneration report

The Directors are pleased to present your company's 31 December 2012 remuneration report which sets out remuneration information for Sino Gas & Energy Holdings Limited's non executive directors, executive directors and other key management personnel.

Director and senior management details

The following persons acted as directors during the financial year:

G Harper	Chairman
R Bearden (appointed on 1 September 2012)	Managing Director & CEO
B Ridgeway	Non-Executive Director
P Mills	Non-Executive Director
C Heseltine (appointed 30 January 2012)	Non-Executive Director
J Chandler (retired on 31 August 2012)	Non-Executive Director
S Lyons (resigned on 15 May 2012)	Managing 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:

S Lyons (appointed 15 May 2012)	VP Finance
F Fu	VP Operations
N Bong	Chief Financial Officer
H Spindler	Company Secretary

Following the completion of the strategic partnership with MIE on 6 July 2012, the VP Finance, VP Operations and Chief Financial Officer were allocated management roles within SGE. VP Finance was the only member of the aforementioned staff who was previously employed by the parent company. Following the deconsolidation of SGE from the group these persons are no longer considered to meet the definition of senior management of the parent company.

Remuneration Policy

The performance of the Company largely depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives. The remuneration policies of the Company are framed accordingly. The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered and aimed to align executive reward with the achievement of strategic objectives and the creation of value for shareholders.

The Company has a Nomination and Remuneration Committee. The Nomination and Remuneration committee is responsible for reviewing and making recommendations to the Board on compensation arrangements for the directors and the executive team of both the Group and the Company. The remuneration committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis. The overall objective is the retention of a high quality board and executive team, to maximise value of the shareholders' investment.

Share options and performance rights may also be issued as an added inducement to directors and senior management to maximise their efforts in achieving the highest possible return for shareholders. Details regarding the issue of share options and performance rights are provided below within this report.

Non-Executive Directors' fees

Fees and payments to non-executive directors reflect the demands made on, and the responsibilities of, the directors. The cash remuneration of non-executive directors is not linked to the company's performance in order to preserve independence. Remuneration of non-executive Directors is determined by the Board within the aggregate Directors' fee pool limit which is periodically recommended for approval by the shareholders. The aggregate total fees payable was last considered by shareholders in 2012 and capped at a maximum of \$750,000 per year and non-executive directors are not provided with

DIRECTORS' REPORT (CONT'D)

any retirement benefits other than superannuation. In addition, the Board seeks shareholder approval for any options or performance rights that may be issued to directors.

The amount of aggregate remuneration and the manner in which it is apportioned amongst directors is reviewed annually by the Board. Shareholder approval is sought where there is a proposed change in the total remuneration paid to non-executive directors. The Board considers the Company's particular circumstances as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Senior Management Salary and Fees

The remuneration of senior management is generally reviewed annually taking into consideration the contribution of the individual commensurate with the performance of the Company and comparable employment market conditions.

Relationship between the remuneration policy and company performance

The performance of the Company largely depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors (both executive and non-executive) and executives. The Board of the Company believes that in order to retain quality directors and executives, some incentive to maintain their future services, involvement, commitment and loyalty to the Company, is required on certain occasions over and above nominal Directors' and executive fees and salaries.

Shareholders have approved the implementation a Performance Rights plan. The rights to be granted under this plan are dependent on company performance. Each performance right is conditional upon the achievement of certain performance hurdles, which are linked to the company's overall performance on its exploration and development plans. The specific performance hurdles which have been set to date (which are detailed further in the Financial report) and are linked to the Company achieving an Overall Development Plan to a certain minimum level and share price performance, take account of the achievement of the Overall Development Plan on the Company's prospects of monetization its assets and the likely impact this will have on the company. Each of these performance hurdle steps is of importance in its own right as well as being on the critical path to full commercial production. Accordingly each performance hurdle has been set as a hurdle as the Company builds momentum to achieve full commercial production and in parallel an anticipated increase in shareholder value.

In prior financial years, options were granted to senior management personnel under the employee share option plan. Under this plan options generally vest over a three year period and vesting is subject to these persons remaining employed with the Group during the vesting period, unless otherwise agreed by the Board, not in relation to the Company's performance.

The table below sets out summary information about the Consolidated Entity's earnings and movements in shareholder wealth for the five years to 31 December 2012. On 23 December 2009, the Australian Securities & Investments Commission (ASIC) granted relief to change the Company's financial year end from 30 June to 31 December. The change of financial year end has resulted in a transitional financial period for the six months from 1 July 2009 to 31 December 2009.

	2009*	2009	2010	2011	2012
Revenue	32,246	137,382	172,422	79,164	75,578
Net profit / (loss) before tax	(7,969,410)	(2,300,720)	1,067,377	(4,193,773)	463,206
Net profit / (loss) after tax	(7,969,410)	(2,300,720)	1,067,377	(4,193,773)	463,206
Share price at the start of the year (cents)	-	19*	14	7	3
Share price at the end of the year (cents)	-	14	7	3	13
Dividends	-	-	-	-	-
Basic earnings per share	(7.07)	(1.69)	0.19	(0.43)	0.04
Diluted earnings per share	(7.07)	(1.69)	0.19	(0.43)	0.03

* This price represents the Company's closing share price on its official listing on the ASX on 15 September 2009.

DIRECTORS' REPORT (CONT'D)

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 financial year.

	Short-term employee benefits			Post-employment benefits		Share-based payments		% relating to options & performance rights
2012	Cash salary and fees	Cash bonus	Non-monetary	Other benefits	Superannuation	Equity options	Performance rights	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Directors								
G Harper, Chairman (i)	413,292	-	-	-	-	-	454,480	867,772
R Bearden, Managing Director (ii)	304,291	-	84,940	-	-	-	155,151	544,382
J Chandler, Non-Executive Director	70,750	-	-	-	5,625	-	233,513	309,888
C Heseltine, Non-Executive Director	84,837	-	-	-	27,550	-	87,132	199,519
B Ridgeway, Non-Executive Director	80,000	-	-	-	7,200	-	-	87,200
P Mills, Non-Executive Director	78,333	-	-	-	7,050	-	31,914	117,297
S Lyons, Managing Director (iii)(v)*	153,000	-	114,429	7,055	13,656	-	(60,295)	227,845
Subtotal of directors	1,184,503	-	199,369	7,055	61,081	-	901,895	2,353,903
Executives								
F Fu, Chief Operating Officer*	118,752	-	-	5,519	-	-	(35,566)	88,705
N Bong, Chief Financial Officer*	96,390	10,710	-	1,824	-	-	22,318	131,242
H Spindler, Company Secretary (iv)	66,000	-	-	-	-	-	-	66,000
Total key management personnel compensation (group)	1,465,645	10,710	199,369	14,398	61,081	-	888,647	2,639,850

* Amounts include remuneration up to 6 July 2012, upon which SGE was deconsolidated as a result of completion of the strategic transaction with MIE.

DIRECTORS' REPORT (CONT'D)

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 previous financial year.

	Short-term employee benefits				Post-employment benefits	Share-based payments			
2011	Cash salary and fees	Cash bonus	Non-monetary	Other benefits	Superannuation	Equity options	Performance rights	Total	% relating to options & performance rights
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors									
G Harper, Chairman	417,458	-	-	-	12,000	-	170,556	600,014	28
J Chandler, Non-Executive Director	125,950	-	-	-	15,000	-	122,093	263,043	46
B Ridgeway, Non-Executive Director	75,000	-	-	-	6,750	-	-	81,750	-
P Mills, Non-Executive Director	12,500	-	-	-	1,125	-	-	13,625	-
S Lyons, Managing Director	301,405	25,000	189,145	1,820	26,834	3,398	162,791	710,393	23
Sub-total of directors	932,313	25,000	189,145	1,820	61,709	3,398	455,440	1,668,825	
Executives									
F Fu, Chief Operating Officer	215,709	70,749	-	9,696	-	-	35,566	331,720	11
N Bong, Chief Financial Officer	94,281	10,495	-	1,820	-	-	-	106,596	-
H Spindler, Company Secretary	91,500	-	-	-	-	-	-	91,500	-
Total key management personnel compensation (group)	1,333,803	106,244	189,145	13,336	61,709	3,398	491,006	2,198,641	

DIRECTORS' REPORT (CONT'D)

- (i) G Harper was appointed Chairman on 1 January 2011 and transitioned to full-time Chairman on 1 November 2011. He is party to a consultancy agreement effective from 1 November 2011 and, unless extended, expiring on 30 June 2013 that sets out a fixed compensation package denominated in Australian Dollars and reviewable annually. Unless there is an event of serious misconduct or default, the contract provides that Mr Harper or the Company may terminate the agreement on 6 months notice. The contract also provides that, subject to necessary shareholder approvals, Mr Harper shall be granted performance rights equating to 1% of the issued capital of the Company.
- (ii) R Bearden was appointed President & CEO of Sino Gas and SGE on 18 May 2012 under a three year contract. He was later appointed to the board on 1 September 2012 as Managing Director & CEO. The contract sets out a fixed compensation package denominated in United States Dollars, is reviewable annually and extendable by agreement. The contract also provides for the provision of necessary housing, a vacation travel allowance, tax equalisation between US and China, and other benefits normal in arrangements for an expatriate employee based in Beijing. In the event that employment is terminated by Sino Gas without cause, Mr Bearden is entitled to a payment of 6 months salary. Amount shown above include all of Mr Bearden's remuneration during the reporting period, whether as a director or an executive. Amounts received in his position as a director amounted to \$222,001 made up of cash fees of \$160,908 and non-monetary benefits of \$61,093. Amounts shown above include all of Mr Bearden's remuneration during the reporting period.
- (iii) S Lyons resigned as Managing Director on 15 May 2012 and continued on the executive team as VP Finance. Following the completion of the strategic partnership with MIE on 6 July 2012, Mr Lyons' employment contract was transferred to SGE. Amounts received in his position as a director amounted \$210,722 made up of cash salary and fees of \$114,330, non-monetary benefits of \$80,915 and superannuation and social insurance of \$15,477. Amounts shown above include all of Mr Lyons remuneration during the reporting period.
- (iv) H Spindler was appointed Company Secretary on 2 November 2010. Fees were paid to Indian Ocean Advisory Group Pty Ltd, a related entity of Mr Spindler, of which he is an employee, for Company Secretary, consulting and administrative services.
- (v) Following the completion of the strategic partnership with MIE on 6 July 2012, the VP Finance, VP Operations and Chief Financial Officer were allocated roles within SGE and are no longer considered key management personnel.

The Performance Rights amount recorded above for the financial year ended 31 December 2012 and 31 December 2011 represents the performance rights expense recognised during the vesting period in relation to the performance rights granted, as approved by shareholders. The Equity Options amounts recorded above for the financial year ended 31 December 2011 represents the employee options expense in relation to the share options granted.

During the year ended 31 December 2012, due to the level of activity, it has been necessary for board members to perform and devote more time and resources than what would ordinarily be required of a non-executive director. Accordingly, additional consulting fees have been paid to these non-executive directors. These amounts are included in the total of cash salary and fees above. No director or member of senior management appointed during the year received a payment as part of consideration for agreeing to hold the position.

DIRECTORS' REPORT (CONT'D)

Share-based payments granted as compensation in the current financial year

Performance rights plan

The Group has an ownership-based compensation scheme for executives and senior employees of the Group.

Under the performance rights plan, each performance right converts to one ordinary share of Sino Gas & Energy Holdings Limited 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. Refer to "Relationship between the remuneration policy and company performance" above for details of the basis for granting performance rights and vesting criteria.

During the financial year ended 31 December 2012, the Company issued 22,050,000 Performance Rights to the following Directors and senior employees:

Name	Exercise price	Grant date	Issue date	Expiry date	Key terms (refer to Note 17 of financial statements)	Performance Rights at 31 Dec 2012 No.
G Harper	Nil	30 May 2012	29 June 2012	31 March 2014	(cc)	3,300,000
C Heseltine	Nil	30 May 2012	29 June 2012	29 September 2015	(bb) (ii) & (iii)	2,000,000
P Mills	Nil	30 May 2012	29 June 2012	29 September 2015	(bb) (ii) & (iii)	3,000,000
N Bong	Nil	29 June 2012	29 June 2012	29 September 2015	(bb) (ii) & (iii)	1,750,000
R Bearden	Nil	30 July 2012	30 July 2012	31 March 2014	(dd)	5,500,000
R Bearden	Nil	30 July 2012	30 July 2012	1 September 2015	(ee)	5,500,000
F Fu	Nil	29 June 2012	29 June 2012	29 September 2015	(ff)	1,000,000

During the financial year ended 31 December 2012, 4,500,000 Performance Rights to the following senior employee lapsed due to termination of employment:

Name	Exercise price	Grant date	Issue date	Expiry date	No of Performance Rights lapsed
F Fu	Nil	16 May 2011 & 29 June 2012	16 May 2011 & 29 June 2012	16 May 2016 & 29 September 2015	4,500,000

DIRECTORS' REPORT (CONT'D)

As at 31 December 2012, 38,300,000 Performance Rights are on issue to the following directors:

Director	Exercise price	Grant date	Issue date	Expiry date	Key terms (refer to Note 17 of financial statements)	Performance Rights at 31 Dec 2012 No.
G Harper	Nil	8 Nov 2010	8 Nov 2010	8 Nov 2015	(aa)	750,000
S Lyons	Nil	8 Nov 2010	8 Nov 2010	8 Nov 2015	(aa)	1,000,000
G Harper	Nil	14 Dec 2010	22 Feb 2011	8 Mar 2014	(bb)	6,250,000
S J Lyons	Nil	14 Dec 2010	22 Feb 2011	8 Mar 2014	(bb)	6,000,000
G Harper	Nil	5 Dec 2011	12 Dec 2011	26 Dec 2014	(bb) (ii) & (iii)	4,000,000
C Heseltine	Nil	17 Nov 2011	17 Nov 2011	17 Nov 2016	(bb) (ii) & (iii)	1,000,000
G Harper	Nil	30 May 2012	29 Jun 2012	31 Mar 2014	(cc)	3,300,000
C Heseltine	Nil	30 May 2012	29 Jun 2012	29 Sept 2015	(bb) (ii) & (iii)	2,000,000
P Mills	Nil	30 May 2012	29 Jun 2012	29 Sept 2015	(bb) (ii) & (iii)	3,000,000
R Bearden	Nil	30 Jul 2012	30 Jul 2012	31 Mar 2014	(dd)	5,500,000
R Bearden	Nil	30 Jul 2012	30 Jul 2012	1 Sept 2015	(ee)	5,500,000
Total						38,300,000

For details regarding the key terms of the above performance rights, refer to Note 17 & 22 to the financial statements.

During the financial year, the following share-based performance rights payment arrangements were in existence in relation to directors and senior employees:

Performance Right series	Grant date per accounting standards	Expiry date	Grant date fair value	Vesting date (Refer above)
Performance rights issued on 8 Nov 2010	8 Nov 2010	8 Nov 2015	\$0.07	(aa)
Performance rights issued on 22 Feb 2011	14 Dec 2010	8 Mar 2014	\$0.07	(bb)
Performance rights issued on 16 May 2011	16 May 2011	16 May 2016	\$0.058	(bb)
Performance rights issued on 12 Dec 2011	5 Dec 2011	26 Dec 2014	\$0.038	(bb) (ii) & (iii)
Performance rights issued on 17 November 2011	17 Nov 2011	17 Nov 2016	\$0.041	(bb) (ii) & (iii)
Performance rights issued on 29 June 2012	30 May 2012	31 Mar 2014	\$0.013, \$0.005 & \$0.002	(cc)
Performance rights issued on 29 June 2012	30 May 2012 & 29 June 2012	29 Sept 2015	\$0.053 & \$0.071	(bb) (ii) & (iii) & (ff)
Performance rights issued on 30 July 2012	30 Jul 2012	31 Mar 2014	\$0.007, \$0.002 & \$0.075	(dd)
Performance rights issued on 30 July 2012	30 Jul 2012	1 Sept 2015	\$0.075	(ee)

DIRECTORS' REPORT (CONT'D)

The following grants of share-based performance rights payment compensation to directors and senior employee relate to the current financial year:

Name	No. Granted	Grant date fair value	Value include in remuneration	% of compensation for the year consisting of performance rights
		\$	\$	
G Harper	3,300,000	26,757	26,757	3%
R Bearden	11,000,000	632,156	155,151	28%
C Heseltine	2,000,000	105,300	55,477	28%
P Mills	3,000,000	157,950	31,914	27%
N Bong	1,750,000	123,637	22,318	17%
F Fu	1,000,000	71,100	-	-

During the year, 5,250,000 performance rights were exercised by a director that were granted to him as part of his compensation. Further details of the performance rights plan are disclosed in Note 17 & 22 to the financial statements.

Employee share option plan

The Group has an ownership-based compensation scheme for executives and senior employees of the Group, although the employee Share Option Plan has now been effectively replaced by the Performance Rights Plan (as detailed above).

Under the employee share option plan, each employee share option converts to one ordinary share of Sino Gas & Energy Holdings Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of expiry. Refer to "Relationship between the remuneration policy and company performance" earlier for details of the basis for granting options and vesting criteria.

During the financial year, the following share-based option payment arrangements were in existence:

Options series	Grant date per accounting standards	Expiry date	Grant date fair value	Vesting date
(i) Unlisted 50 cents issued 14 Mar 2008	14 Mar 2008	13 Mar 2013	\$0.28	1 Mar 2009, 1 Mar 2010 & 1 Mar 2011
(ii) Unlisted 50 cents issued 14 Mar 2008	14 Mar 2008	13 Mar 2013	\$0.30	1 Sept 2008, 1 Sept 2009 & 1 Sept 2010

No options were issued under the employee share option plan during the current financial year. Further details of the employee share option plan are disclosed in Notes 17 & 22 to the financial statements.

DIRECTORS' REPORT (CONT'D)

(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 a premium in respect of a contract insuring the Directors, Company Secretary, and all executive officers of the Company against a liability incurred as such a Director, Secretary or Executive Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has entered into Deeds of Insurance, Access and Indemnity with the Directors and Company Secretary of the Company.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such an officer or auditor

(o) Environmental Regulation

The Company's jointly controlled entity 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. 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) Shares under Options

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

Expiry Date	Exercise price	Number on issue
25 November 2013	\$0.0793	8,750,000
15 February 2017	\$0.075	30,000,000
Total		38,750,000

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

Shares issued on the exercise of options

The following ordinary shares were issued during the year ended 31 December 2012 on the exercise of options:

Date issued	Issue price of Shares	Number of Shares issued
14 December 2012	\$0.125	2,504,696
28 December 2012	\$0.125	762,000
Total		3,266,696

The following ordinary shares have been issued since 31 December 2012 upon the exercise of options:

Date issued	Issue price of Shares	Number of Shares issued
8 January 2013	\$0.125	27,265,345
Total		27,265,345

DIRECTORS' REPORT (CONT'D)

Movement in Share Options

The following share options were issued during the year ended 31 December 2012. No further share options have been issued since that date.

Date issued	Option Exercise Price	Number of Options
15 February 2012	\$0.075	30,000,000
Total		30,000,000

No share options expired during the year ended 31 December 2012. The following options have expired since that date.

Date expired	Option Exercise Price	Number of Options
31 December 2012	\$0.125	303,751,716
13 March 2013	\$0.50	1,310,000
Total		305,061,716

(q) Performance Rights

Shareholders have approved the implementation of a Performance Rights plan. The rights to be granted under this plan are dependent on Company performance. Each Performance Right is a personal contractual right to be satisfied through the issue or procurement of shares in the Company. A Performance Right may be exercised if it has not otherwise lapsed in accordance with the Executive, Officer and Employee Performance Rights Plan on the satisfaction of prescribed performance criteria within the performance period.

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

Class of shares	Exercise price	Grant date	Issue date	Expiry date	Key terms (refer to Note 17 in the financial statements)	No. of shares under performance rights
Ordinary shares	Nil	8 Nov 2010	8 Nov 2010	8 Nov 2015	(aa)	1,750,000
Ordinary shares	Nil	14 Dec 2010	22 Feb 2011	8 Mar 2014	(bb)	12,250,000
Ordinary shares	Nil	30 Aug 2011	30 Aug 2011	30 Aug 2016	(bb)	3,750,000
Ordinary shares	Nil	17 Nov 2011	17 Nov 2011	17 Nov 2016	(bb)	750,000
Ordinary shares	Nil	17 Nov 2011	17 Nov 2011	17 Nov 2016	(bb) (ii) & (iii)	1,000,000
Ordinary shares	Nil	5 Dec 2011	12 Dec 2011	26 Dec 2014	(bb) (ii) & (iii)	4,000,000
Ordinary shares	Nil	29 Jun 2012	29 Jun 2012	29 Sept 2015	(bb) (ii) & (iii)	1,750,000
Ordinary shares	Nil	30 May 2012	29 Jun 2012	29 Sept 2015	(bb) (ii) & (iii)	5,000,000
Ordinary shares	Nil	30 May 2012	29 Jun 2012	31 Mar 2014	(cc)	3,300,000
Ordinary shares	Nil	30 Jul 2012	30 Jul 2012	31 Mar 2014	(dd)	5,500,000
Ordinary shares	Nil	30 Jul 2012	30 Jul 2012	1 Sept 2015	(ee)	5,500,000
Total						44,550,000

DIRECTORS' REPORT (CONT'D)

Movement in Performance Rights

During the financial year ended 31 December 2012, the Company issued 22,800,000 Performance Rights to the following Directors and senior employees:

Exercise price	Grant date	Issue date	Expiry date	Key terms (refer to Note 17 in the financial statements)	Performance Rights at 31 Dec 2012 No.
Nil	30 May 2012	29 June 2012	31 March 2014	(cc)	3,300,000
Nil	30 May 2012	29 June 2012	29 September 2015	(bb) (ii) & (iii)	2,000,000
Nil	30 May 2012	29 June 2012	29 September 2015	(bb) (ii) & (iii)	3,000,000
Nil	29 June 2012	29 June 2012	29 September 2015	(bb) (ii) & (iii)	2,500,000
Nil	30 July 2012	30 July 2012	31 March 2014	(dd)	5,500,000
Nil	30 July 2012	30 July 2012	1 September 2015	(ee)	5,500,000
Nil	29 June 2012	29 June 2012	29 September 2015	(ff)	1,000,000

During the financial year ended 31 December 2012, the following 8,000,000 Performance Rights lapsed due to termination of employment:

Exercise price	Grant date	Issue date	Expiry date	No of Performance Rights lapsed
Nil	16 May 2011 & 29 June 2012	16 May 2011 & 29 June 2012	16 May 2016 & 29 September 2015	4,500,000
Nil	29 June 2012	29 June 2012	29 September 2015	750,000
Nil	30 August 2011	30 August 2011	30 August 2016	2,750,000

No performance rights lapsed since the end of the financial year.

During the financial year ended 31 December 2012, the following ordinary shares were issued on the exercise of performance rights:

Exercise date	Issue price of Shares	Number of Shares issued
7 September 2012	Nil	5,250,000
		5,250,000

There have been no shares issued since the end of the financial year as a result of exercise of any performance rights.

DIRECTORS' REPORT (CONT'D)

(r) 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.

Details of the amounts paid or payable to the auditor (PwC) for audit and non audit services provided during the year are set out in Note 20 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

(s) 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 28.

(t) Auditor

PwC continues in office in accordance with section 327 of the Corporations Act 2001.

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



Robert Bearden

Managing Director

Perth
28 March 2013

AUDITOR'S INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the audit of Sino Gas & Energy Holdings Limited for the year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in blue ink, appearing to read 'Henry'.

Nick Henry
Partner
PricewaterhouseCoopers

Perth
28 March 2013

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FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS (CONT'D)

Consolidated statement of comprehensive income for the year ended 31 December 2012

	Notes	2012 \$	2011 \$
Revenue from continuing operations			
Other revenue	4	75,578	79,164
Other Income			
Net gain on dilution of equity interest in jointly controlled entity	5	5,651,915	-
Foreign exchange (loss)/gain	5	181,523	(75,287)
Other gains and losses	5	-	(625,067)
Expenses			
Fundraising costs expensed	6	(4,809,404)	(264,600)
Depreciation and amortisation expense	6	(1,364)	-
Share-based payment expense	27	(912,474)	(529,497)
General and administration expenses	6	(3,070,287)	(1,697,452)
Share of net loss of associates accounted for using the equity method	23	(550,525)	-
Loss before income tax		(3,435,038)	(3,112,739)
Income tax expense	7	-	-
Loss from continuing operations		(3,435,038)	(3,112,739)
Profit/(loss) from discontinued operations	8	3,898,244	(1,081,034)
Profit/(loss) for the year attributable to shareholders		463,206	(4,193,773)
Other comprehensive income / (expense)			
Exchange differences on translation of foreign operations	17	(717,079)	155,717
Total comprehensive expense for the period attributable to shareholders		(253,873)	(4,038,056)
		Cents	Cents
Earnings/(loss) per share for earnings/(loss) from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	26	(0.31)	(0.43)
Diluted earnings per share	26	(0.31)	(0.43)
Earnings/(loss) per share for earnings/(loss) attributable to the ordinary equity holders of the Company:			
Basic earnings per share	26	0.04	(0.43)
Diluted earnings per share	26	0.03	(0.43)

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

FINANCIAL STATEMENTS (CONT'D)

Consolidated statement of financial position as at 31 December 2012

	Notes	2012 \$	2011 \$
Assets			
Current assets			
Cash and cash equivalents	9	7,749,124	4,317,338
Trade and other receivables	10	174,105	193,610
Other current assets		-	185,055
Total current assets		7,923,229	4,696,003
Non-current assets			
Interest in jointly controlled entity accounted for using equity method	23	31,831,076	-
Property, plant and equipment	11	9,886	116,155
Exploration and evaluation expenditure	12	-	39,589,959
Loan receivable	13	2,112,281	-
Total non current assets		33,953,243	39,706,114
Total assets		41,876,472	44,402,117
Liabilities			
Current liabilities			
Trade and other payables	14	1,174,509	8,748,875
Provisions	15	170,582	118,726
Total current liabilities		1,345,091	8,867,601
Non-current liabilities			
Other payables	14	963,020	-
Total non-current liabilities		963,020	-
Total liabilities		2,308,111	8,867,601
Net assets		39,568,361	35,534,516
Equity			
Contributed equity	16	62,748,848	60,321,166
Reserves	17	(1,207,120)	(2,350,077)
Accumulated losses	18	(21,973,367)	(22,436,573)
Total equity		39,568,361	35,534,516

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

FINANCIAL STATEMENTS (CONT'D)

Consolidated statement of changes in equity

	Notes	Contributed equity \$	Equity settled benefits reserves \$	Foreign currency translation reserves \$	Equity component reserves \$	Accumulated losses \$	Total attributable to equity holders of the Company \$
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 year	18	-	-	-	-	(4,193,773)	(4,193,773)
Other comprehensive income	17	-	-	155,717	-	-	155,717
Total comprehensive expense for the year		-	-	155,717	-	(4,193,773)	(4,038,056)
Transactions with owners in their capacity as owners:							
Transfer to retained earnings		-	-	-	(195,939)	195,939	-
Issue of shares	16	8,017,107	-	-	-	-	8,017,107
Share issue costs	16	(504,794)	-	-	-	-	(504,794)
Issue of performance rights	17	-	529,497	-	-	-	529,497
Share-based payment	17	-	406,415	-	-	-	406,415
		7,512,313	935,912		(195,939)	195,939	8,448,225
Balance at 31 December 2011		60,321,166	4,004,266	(6,354,343)	-	(22,436,573)	35,534,516
Balance at 1 January 2012		60,321,166	4,004,266	(6,354,343)	-	(22,436,573)	35,534,516
Profit for the year	18	-	-	-	-	463,206	463,206
Other comprehensive expense	17	-	-	(717,079)	-	-	(717,079)
Total comprehensive expense for the year		-	-	(717,079)	-	463,206	(253,873)
Transactions with owners in their capacity as owners:							
Issue of shares	16	408,337	-	-	-	-	408,337
Pending issue of shares	16	2,019,345	-	-	-	-	2,019,345
Performance rights expense	17	-	912,474	-	-	-	912,474
Option expense	17	-	947,562	-	-	-	947,562
		2,427,682	1,860,036	-	-	-	4,287,718
Balance at 31 December 2012		62,748,848	5,864,302	(7,071,422)	-	(21,973,367)	39,568,361

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

FINANCIAL STATEMENTS (CONT'D)

Consolidated statement of cash flows

	Notes	2012 \$	2011 \$
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		(3,937,111)	(2,629,460)
Interest received		75,578	87,203
Net cash used in operating activities	25	(3,861,533)	(2,542,257)
Cash flows from investing activities			
Proceeds on sale of discontinued operations net of cash disposed		9,460,728	-
Payment of costs associated with sale of assets held for sale		(2,795,598)	-
Payments for plant and equipment		(20,555)	(41,378)
Payments for exploration expenditure		(1,778,577)	(8,391,997)
Net cash provided by/(used in) investing activities		4,865,998	(8,433,375)
Cash flows from financing activities			
Proceeds from issue of equity securities		2,430,682	7,512,750
Share issue costs (net of tax)		-	(504,794)
Proceeds from borrowings		-	600,000
Repayment of borrowings		-	(600,000)
Net cash provided by financing activities		2,430,682	7,007,956
Net increase/(decrease) in cash and cash equivalents		3,435,147	(3,967,676)
Cash and cash equivalents at the beginning of the year		4,317,338	8,278,256
Effects of exchange rate changes on cash and cash equivalents		(3,361)	6,758
Cash and cash equivalents at end of the year	9	7,749,124	4,317,338

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

1 Summary of significant accounting policies

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 are for the consolidated entity consisting of Sino Gas & Energy Holdings Limited and its subsidiaries.

(a) 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 & Energy Holdings Limited is a for profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Sino Gas & Energy Holdings Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(iii) Early adoption of standards

The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 January 2012.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(v) Critical accounting judgements and key sources of estimation uncertainty

Australian Accounting Standards management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, 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.

(vi) Share based payment and performance rights transactions

The Company measures the cost of equity-settled transactions with employees and financiers by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes valuation model, with the assumptions detailed in Note 27. The accounting estimates and assumptions relating to equity-settled share-based payments impact the carrying amounts of assets and liabilities, expenses and equity in the current and future reporting periods.

(vii) Recoverability of the investment in the joint venture

The Company undertakes a review of the investment in joint venture accounted for under equity method whenever events or changes indicate that its carrying value may exceed its estimated net recoverable amount. The process of estimating the recoverable amount requires significant judgement in evaluation and assessing future commodity prices, production costs, sustainable capital requirements, foreign exchange rates, discount rates and income tax rates. If it is determined that the carrying value of the investment cannot be recovered the unrecovered amounts are recorded in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Sino Gas & Energy Holdings Limited ("company" or "parent entity") as at 31 December 2012 and the results of all subsidiaries for the year then ended. Sino Gas & Energy Holdings Limited and its subsidiaries together are referred to in these financial statements as the group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de consolidated from the date that control ceases.

Where subsidiaries of the group are contributed to jointly controlled entities upon establishment, guidance under Standing Interpretations Committee Interpretation UIG-113 Jointly-Controlled Entities - *Non-Monetary Contributions by Venturers* is followed to eliminate transactions to the extent of the group's ownership interest until such time as they are realised by the joint venture on sale. Refer to Note 1(b)(ii).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Joint Ventures

Jointly controlled entities

The interest in a joint venture is accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of the partnership is recognised in profit or loss, and the share of post acquisition movements in reserves is recognised in other comprehensive income. Details relating to the joint venture are set out in Note 23.

Profits or losses on transactions establishing the joint venture and transactions with the joint venture are eliminated to the extent of the group's ownership interest until such time as they are realised by the joint venture on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

If the ownership interest in a jointly controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company.

(d) Foreign currency translation

(i) Functional and presentation currency

The presentation currency of the Company is Australian dollars. The functional currency of the Company is United States dollars. The functional currency of the Chinese representative office, the Chinese PSC Operations and the corporate office is United States dollars.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. 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 retranslated at the rate of exchange ruling at the statement of financial position date and recognised in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

As at the reporting date the assets and liabilities of foreign operations are translated into the presentation currency of the Company at the rate of exchange ruling at the statement of financial position date and the statement of comprehensive income is translated at the weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. However, exchange differences relating to intra-group monetary assets (or liability) have been recognised in the statement of comprehensive income, as they do not form a net investment in a foreign operation.

(ii) Transactions and balances

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, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non monetary assets such as equities classified as available for sale financial assets are recognised in other comprehensive income.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(e) Revenue recognition

Revenue 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 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.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(g) Leases

- (i) 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.
- (ii) 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.

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell 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.

(i) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(j) 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.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(k) Non current assets (or disposal groups) held for sale and discontinued operations

Non current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets and financial assets that are carried at fair value which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non current asset (or disposal group) is recognised at the date of derecognition.

Non current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of comprehensive income.

(l) Financial assets

Financial assets in the scope of *AASB 139 Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit / loss including financial assets held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income.

(ii) Held-to-maturity investments

Bills of exchange and debentures are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter year.

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally of marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(m) Financial Instruments Issued by the Company

Debt and equity instruments

- (i) Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

- (ii) Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(n) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation 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. Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting year.

The depreciation rate applicable to plant and equipment is generally 38% per annum.

(o) Exploration and Evaluation Expenditure

Areas of interest are recognised at the cash generating unit level, being the smallest grouping of assets generating independent cash inflows, which usually is represented by an individual gas field. For the group this is determined at the level of each Production Sharing Contract (PSC).

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

- (i) such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- (ii) exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable reserves, and active and significant operations in relation to the area are continuing.

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

(p) 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.

(q) Financial liabilities

Financial liabilities are measured at amortised cost using the effective interest rate method, except for financial liabilities at fair value through profit and loss and derivatives that are liabilities measured at fair value.

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or uncollectability.

Where financial liabilities are extinguished by the Company issuing its own equity instruments, it recognises a gain or loss in statement of comprehensive income which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(r) Employee Benefits

(i) Wages, salaries, annual leave and sick leave

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.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(s) Share Based Payments

(i) Employee Share Options

Equity-settled share-based payments in the form of employee share options are measured at fair value at grant date. Fair value is measured by the use of the Black-Scholes option pricing model. The various assumptions used in the model have been adjusted based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations. Further details can be found at Note 27 to the financial statements. The fair value at grant date is expensed on a straight line basis over the vesting period, based on management's estimate of the employee share options that will eventually vest. At each reporting date, the Company revises its estimates of the number of employee share options expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss of the respective period, with a corresponding adjustment to the equity settled employee benefits reserve.

(ii) Performance Rights

Equity-settled share-based payments in the form of performance rights are measured at fair value at the date of grant. Fair value is measured by the use of the Black-Scholes option pricing model. The fair value is expensed on a straight line basis over the vesting period and the probability of achieving the various conditions for the meeting the performance conditions and the conversion of the performance rights.

(iii) Share-based payments to Corporate Advisors

Equity-settled share-based payments to consultants are measured at the fair value at grant date. The fair value is measured by the use of the Black-Scholes option pricing model or the securities quoted price.

The fair value of options granted to the Company's Corporate Advisor is recognised as an option expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(t) Borrowing costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(u) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of each reporting period. The discount rate used to determine the present value is a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(v) Contributed equity

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.

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 equity attributable to the owners of Sino Gas & Energy Holdings Limited 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 & Energy Holdings Limited.

(w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares from continuing operations and discontinued operations disclosed separately
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (Note 26(d)).

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(y) 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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2012 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

- (i) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective from 1 January 2015)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The group has not yet decided when to adopt AASB 9.

- (ii) *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in *AASB 127 Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

The group's investment in the joint venture will be classified as a joint venture under the new rules. As the group already applies the equity method in accounting for this investment, AASB 11 will not have any impact on the amounts recognised in its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments.

The group will adopt the new standards from their operative date. They will therefore be applied in the financial statements for the annual reporting period ending 31 December 2013.

- (iii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards* arising from AASB 13 (effective 1 January 2013) AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group will adopt the new standard from its operative date, which means that it will be applied in the annual reporting period ending 31 December 2013.
- (iv) *Revised AASB 119 Employee Benefits* and AASB 2011-10 *Amendments to Australian Accounting Standards* arising from AASB 119 (September 2011) In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method), the immediate recognition of all past service cost in profit or loss and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. The group is still assessing the impact of these amendments.

The Group will apply the new standard when it becomes operative, being from 1 January 2013. There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(aa) Parent entity financial information

The financial information for the parent entity, Sino Gas & Energy Holdings Limited, disclosed in Note 28 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) 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.

(ii) Share-based payments

The grant by the company of options over its equity instruments to the employees of subsidiary or joint venture or associate is treated as a capital contribution to that subsidiary or joint venture or associate undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised in the current period profit and loss as an increase to investment in subsidiary or joint venture or associate undertakings, with a corresponding credit to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2 Financial risk management

(a) Capital risk management

The Group manages its capital to ensure the Group will be able to continue as a going concern while maximising the return to stakeholders. In that respect, the Group's overall strategy remains unchanged from the previous financial year.

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

The Company has also has a representative office in China while its jointly controlled entity SGE operates as a registered foreign business and is not subject to externally imposed capital requirements.

SGE is in the exploration phase on its PSCs with equity funding and debt being having been used to fund the operations of the Group to date.

(b) Categories of financial instruments

The categories of financial instruments are as per those disclosed in the statement of financial position.

(c) Financial risk management objectives

The Group is exposed to financial risks through the normal course of its business operations. The key risks impacting the Group's financial instruments 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 and payables.

The Board of the Company and the Managing Director & CEO monitor the Group's risks on an ongoing basis and report to the Board. The Group does not use derivative financial instruments as part of its risk management process.

(d) Foreign currency risk management

The Group has significant operations operated from Beijing, Peoples Republic of China. The functional currency of the subsidiaries and associates in China is US dollars. The financial instruments of the Group are therefore exposed to movements in the US dollar, the Chinese Renminbi (CNY) against the Australia dollar resulting from the translation of financial statements of subsidiaries into the Group's presentation currency of Australian dollars. 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 at the reporting date is as follows:

	In AUD	In USD	In CNY	Total in AUD
31 December 2012				
Assets				
Cash and cash equivalents	5,063,402	2,685,722	-	7,749,124
Trade and other receivables	91,811	31,753	50,541	174,105
Other non-current assets	-	2,112,281	-	2,112,281
Liabilities				
Trade and other payables (short term)	87,480	1,070,239	16,790	1,174,509
Trade and other payables (long term)	-	963,020	-	963,020
31 December 2011				
Assets				
Cash and cash equivalents	4,177,392	69,991	69,955	4,317,338
Trade and other receivables	108,915	11,194	73,501	193,610
Liabilities				
Trade and other payables	215,199	576,899	7,956,777	8,748,875

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The following exchange rates applied during the year:

	Average rate		Reporting date	
	Dec-12	Dec-11	Dec-12	Dec-11
	\$	\$	\$	\$
1 AUD equates to USD	1.036	1.033	1.038	1.018
1 CNY equates to USD	0.159	0.158	0.160	0.158

Foreign currency sensitivity

The following table details the Group's sensitivity to a 10% increase in the Australian dollar or Chinese Renminbi against the US dollar:

	Dec-12		Dec-11	
	AUD	CNY	AUD	CNY
	\$		\$	
Impact on profit for the year	(506,773)	(3,375)	(407,111)	781,332

(e) Interest rate risk management

The Group are exposed to interest rate risk as entities in the Group deposit funds at floating rates of interest.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity

A change in interest rates would have no material impact (2011: nil) on the profit and loss as at the current or prior year end.

(f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of the Company, who oversee a liquidity risk management framework for the management of the Group's funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring there are appropriate plans in place to finance these future cash flows.

The following table sets out a maturity analysis of the Groups Financial Liabilities:

	< 6 months	6-12 months	1-5 years	> 5 years	Total
	\$	\$	\$	\$	\$
December 2012 Consolidated					
Trade and other payables	986,139	88,756	99,614	-	1,174,509
Other payables	-	-	963,020	-	963,020
	986,139	88,756	1,062,634		2,137,529
December 2011 Consolidated					
Trade and other payables	8,308,828	440,047	-	-	8,748,875

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Liquidity and interest rate tables:

	Weighted average interest rate	Floating interest rate	Less than 1 year	1 to 5 years	More than 5 years	Non- interest bearing	Total
		\$	\$	\$	\$	\$	\$
31 December 2012							
Cash and cash equivalents	1%	7,749,124	-	-	-	-	7,749,124
Trade and other receivables		-	-	-	-	174,105	174,105
Loan to jointly controlled entity		-	-	-	-	2,112,281	2,112,281
		7,749,124	-	-	-	2,286,386	10,035,510
Financial Liabilities		-	-	-	-	-	-
Trade and other payables		-	-	-	-	1,174,509	1,174,509
Other payables		-	-	-	-	963,020	963,020
		-	-	-	-	2,137,529	2,137,529
31 December 2011							
Cash and cash equivalents	4%	4,317,338	-	-	-	-	4,317,338
Trade and other receivables		-	-	-	-	193,610	193,610
		4,317,338	-	-	-	193,610	4,510,948
Financial liabilities		-	-	-	-	-	-
Trade and other payables		-	-	-	-	8,748,875	8,748,875
		-	-	-	-	8,748,875	8,748,875

(g) Credit risk management

The Group's maximum exposure to credit risk without taking account of the value of any collateral obtained at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position. Credit risk on unrecognised financial instruments refers to the potential financial loss to the Group that may result from counter parties failing to meet their contractual obligations. The Group manages its counterparty credit risk by limiting its transactions to counterparties of sound credit worthiness and by ensuring a diversified number of counterparties, avoiding undue exposure to any single counterparty. The Group faced no significant credit exposures at balance date.

(h) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

3 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 allocated their resources.

4 Revenue

	2012	2011
	\$	\$
From continuing operations		
Other revenue		
Interest income	75,578	79,164
Total other revenue	75,578	79,164

5 Other income & expenses

	2012	2011
	\$	\$
Foreign exchange gain/(loss)	181,523	(75,287)
Net gain on dilution of equity interest in jointly controlled entity (Note 23)	5,651,915	-
Net (loss) on initial recognition of financial liabilities (i)	-	(385,310)
Net (loss) on settlement of financial liabilities (ii)	-	(239,757)
Total other gains and losses	5,833,438	(700,354)

- (i) Net loss on initial recognition of financial liabilities represented option expense for 8,750,000 options issued to SpringTree on 27 April 2011, exercisable at \$0.0793 per share and expiring on 25 November 2013, using a volatility of 111 %.
- (ii) Net loss on settlements of financial liabilities represented the difference of \$(239,757) between the fair value of the ordinary shares issued and the financial liabilities which was due to the Company issued 11,834,320 and 12,170,385 shares for settlement of two \$600,000 monthly tranches of capital received from Spring Tree on 25 May 2011 and 27 June 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

6 Expenses

	2012 \$	2011 \$
Profit/(loss) before income tax from continuing operations includes the following specific expenses:		
Fundraising costs expensed		
Commencement fee	-	264,600
Financing fees	3,861,842	-
Options expense for corporate advisors	947,562	-
Total financing costs	4,809,404	264,600
Depreciation		
Plant and equipment	1,364	-
Total depreciation	1,364	-
General and administration expenses		
Administration expenses	234,245	215,727
Professional fees	771,416	542,589
Employment costs	1,623,087	695,156
Travel	236,517	197,428
Insurance	39,039	41,746
Office expenses	54,772	-
Other	111,211	4,806
Total General and administration expenses	3,070,287	1,697,452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

7 Income tax expense

	2012 \$	2011 \$
(a) Income tax expense:		
Current Tax	-	-
Deferred tax	-	-
	-	-
Income tax expense is attributed to:		
Profit/(Loss) from continuing operations	-	-
Loss from discontinued operations	-	-
Aggregate income tax expense	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	(3,435,038)	(3,112,739)
Profit/(loss) from discontinued operation before income tax expense	3,898,244	(1,081,034)
	463,206	(4,193,773)
Tax at the Australian tax rate of 30% (2011: 30%)	138,962	(1,258,132)
Recognition of DTL on jointly controlled entity and prepayments	2,272,096	-
Previously unrecognised tax losses and deferred tax asset used to reduce deferred tax expense	(2,272,096)	-
Previously unrecognised tax losses and deferred tax asset used to reduce current tax expense.	(138,962)	-
Tax losses not recognised	-	1,258,132
Income tax expense	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	2,579,874	18,953,682
Potential tax benefit @ 30%	773,962	5,686,105

All unused tax losses were incurred by Australian entities that are not part of the tax consolidated group.

(d) Unrecognised temporary differences

Temporary differences for which no deferred tax asset has been recognised	170,582	-
Unrecognised deferred tax liabilities relating to the above temporary differences	51,175	-

Deferred tax balances relating to tax losses and timing differences have not been brought to account as it is not probable that they will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make estimates related to expectations of future taxable income.

e) Deferred tax balances

Tax losses	2,272,096	-
Deferred tax asset	2,272,096	-
Prepayments	(506)	-
Investments under equity accounting	(2,271,590)	-
Deferred tax liability	(2,272,096)	-
Net deferred tax balance	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

8 Assets and liabilities classified as held for sale and discontinued operation

(a) Description

As a result of the strategic partnership with MIE Holdings Corporation (MIE), the operating results of SGE for the period to 6 July 2012 have been treated as a discontinued operation and the assets and liabilities of SGE held for sale at the lower of their carrying amount and fair value less costs to sell. Upon establishment of the jointly controlled entity in SGE, Sino Gas and Energy Holdings Limited contributed the existing assets and liabilities of SGE to the joint venture at cost. Unrealised gains or losses on non-monetary assets contributed to SGE are eliminated against the investment under the equity method.

Financial information relating to the discontinued operation for the period up to the date of the transaction and the assets and liabilities held for resale is set out below.

(b) Financial performance and cash flow information

Financial performance and cash flow information of the discontinued operation for the year to 6 July 2012 are set out below:

	Period ended 6 July 2012	Year ended 31 December 2011
	\$	\$
Other revenue	358	8,039
Other income	223	-
Financing costs	(1,923)	(4)
Depreciation and amortisation expense	(25,227)	(60,009)
Share-based payment	-	(21,105)
Foreign exchange loss	(33,534)	(139,743)
General and administration expenses	(362,941)	(868,212)
Loss before tax for the period from discontinued operations	(423,044)	(1,081,034)
Income tax expense	-	-
Loss after tax for the period from discontinued operations	(423,044)	(1,081,034)
	Period ended 6 July 2012	Year ended 31 December 2011
	\$	\$
Net cash outflow used in operating activities	(1,028,763)	(762,297)
Net cash outflow used in investing activities	(1,794,437)	(8,433,375)
Net cash provided by financing activities	2,861,617	2,009,010
Net increase/(decrease) in cash generated by the discontinued operation	38,417	(7,186,662)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Carrying amounts of assets and liabilities

Carrying amounts of assets and liabilities classified as held for sale as at 6 July 2012:

	6 July 2012
	\$
Plant and equipment	100,168
Exploration and evaluation expenditure	41,708,982
Cash and cash equivalents	193,876
Trade and other receivables	103,508
Other current assets	256,673
Total assets	42,363,207
Trade and other payables	8,213,018
Provisions	104,287
Intercompany loan from parent	2,134,520
Total liabilities	10,451,825
Net assets	31,911,382

(d) Net gain on sale of assets held for sale

	Period ended 6 July 2012	Year ended 31 December 2011
	\$	\$
Loss after tax for the period from discontinued operations	(423,044)	-
Cash consideration received	9,654,604	-
Carrying amount of net assets sold	(31,911,382)	-
Interest in jointly controlled entity received	27,442,743	-
Accounting and legal fees	(864,677)	-
Gain on sale before income tax	3,898,244	-
Income tax expense (i)	-	-
Gain on sale after income tax	3,898,244	-

(i) The income tax expense has been set off against deferred tax assets, refer to Note 7.

9 Cash and cash equivalents

	2012	2011
	\$	\$
Cash at bank	7,749,124	4,317,388
	7,749,124	4,317,338

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

10 Trade and other receivables

	2012	2011
	\$	\$
Rental and utility deposits	71,005	79,995
Goods and services tax	42,085	99,327
Other deposits	61,015	-
Employee travel advances	-	14,288
	174,105	193,610

11 Property, plant and equipment

	2012	2011
	\$	\$
Plant and equipment		
Carrying amount at the end of the financial year	9,886	116,155
	9,886	116,155
Reconciliation of the carrying amount of plant and equipment at the beginning and end of the financial year		
Cost of plant and equipment		
Carrying amount at the beginning of the year	530,154	488,942
Additions	20,555	41,313
Classified as held for sale (Note 8)	(539,394)	-
Impact of foreign exchange	(68)	(101)
Carrying amount at the end of the financial year	11,247	530,154
Accumulated depreciation plant and equipment		
Carrying amount at the beginning of the year	413,999	353,990
Depreciation expense	26,588	60,009
Classified as held for sale (Note 8)	(439,226)	-
Carrying amount at the end of the financial year	1,361	413,999

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

12 Exploration and development expenditure

	2012 \$	2011 \$
Exploration		
At cost	-	39,589,959
	-	39,589,959
Reconciliation of the carrying amount of exploration and development expenditure at the beginning and end of the financial year		
Exploration		
Carrying amount at the beginning of the year	39,589,959	28,656,049
Additions	2,036,327	10,740,422
Impact of foreign exchange	82,696	193,488
Classified as held for sale (Note 8)	(41,708,982)	-
Carrying amount at the end of the financial year	-	39,589,959

13 Loan receivable

	2012 \$	2011 \$
Loan receivable – Sino Gas & Energy Limited	2,112,281	-

This loan is interest free, unsecured and repayable on demand. It has been classified as non-current based on management's proposed settlement plans.

14 Trade and other payables

	2012 \$	2011 \$
Trade payables	88,756	2,306,287
Creditors and accruals	122,733	6,442,588
Accrued fundraising costs - current	963,020	-
Current trade & other payables	1,174,509	8,748,875
Accrued fundraising costs – non-current	963,020	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

15 Provisions

	2012	2011
	\$	\$
Other Provisions	102,856	-
Employee entitlements	67,726	118,726
	170,582	118,726
Reconciliation of provisions at the beginning and end of the financial period		
Carrying amount at the beginning of the financial year	118,726	50,695
Discontinued operation	(104,287)	-
Provision addition	156,143	68,031
Carrying amount at the end of the financial year	170,582	118,726

16 Contributed equity

	2012	2011
	\$	\$
Issued and Paid Up Capital		
Fully paid ordinary shares	62,748,848	60,321,166
	62,748,848	60,321,166
Movement in ordinary share capital		
	Number of shares	\$
Balance at 1 January 2012	1,120,417,120	60,321,166
Issue of shares through conversion of performance rights (i)	5,250,000	-
Issue of shares through conversion of options (ii)	3,266,696	408,337
Proceeds received for shares issued subsequent to year end (iii)	-	2,019,345
Closing balance at 31 December 2012	1,128,933,816	62,748,848
Balance at 1 January 2011	934,771,569	52,808,853
Issue of shares pursuant to the SpringTree Agreement (iv)	35,645,551	2,017,107
Issue of shares pursuant to placement (v)	150,000,000	6,000,000
Share issue costs	-	(504,794)
Closing balance at 31 December 2011	1,120,417,120	60,321,166

- (i) On 7 September 2012 the Company issued 5,250,000 fully paid ordinary shares to Non-executive Director John Chandler following the exercise of Performance Rights under the Company's Performance Rights Plan.
- (ii) On 14 December 2012 and 28 December 2012, the Company received a total of \$408,337 representing funds pursuant to the exercise of 3,266,696 listed options (ASX: SEHOC) at \$0.125 per share.
- (iii) Cleared proceeds from options exercised prior to year end for which ordinary shares were not yet issued.
- (iv) 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 for the SpringTree Special Opportunities Fund, LP (SpringTree) funding facility. 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 statement of comprehensive income. On 26 October 2011, SpringTree purchased all the collateral shares for \$312,750.
- (v) On 26 October 2011 and 6 December 2011, the company issued 90,000,000 and 60,000,000 ordinary shares raising gross funds of \$3.6 million and \$2.4 million, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

17 Reserves

	2012 \$	2011 \$
(a) Other reserves		
Foreign Currency Translation Reserve (i)	(7,071,422)	(6,354,343)
Equity Settled Benefits Reserve (ii)	5,864,302	4,004,266
	(1,207,120)	(2,350,077)
(i) Movements in Foreign Currency Translation Reserve		
Foreign currency translation		
Balance at the beginning of the financial year	(6,354,343)	(6,510,060)
Translation of foreign operations	(717,079)	155,717
Balance at the end of the financial year	(7,071,422)	(6,354,343)
(ii) Movements in Equity Settled Benefits Reserve		
Movements in options during the year		
Balance at the beginning of the financial year	3,431,188	3,024,773
Issue of options expense	947,562	385,310
Employee option expense	-	21,105
Balance at the end of the financial year	4,378,750	3,431,188
Movements in performance rights during the year		
Balance at the beginning of the financial year	573,078	43,581
Movement in performance rights	912,474	529,497
Balance at the end of the financial year	1,485,552	573,078
Total	5,864,302	4,004,266

Nature and purpose of other reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences relating to the translation from United States Dollars, being the functional currency of the Company's foreign operations in China and its corporate office, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve, as described in Note 1 to the financial statements.

Equity settled benefits reserve

This reserve is used to record the value of equity benefits provided to employees and 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 senior executives under the Employee Share Option Plan, performance rights to senior executives under the Performance Rights Plan and share-based payments. Refer to Note 22 to the financial statements for further information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The terms of the options noted above, and their listed/unlisted status, is as follows:

Listed / Unlisted	Number on issue	Exercise price	Expiry Date
Listed	331,017,061	\$0.125	31 December 2012
Unlisted	1,310,000	\$0.50	13 March 2013
Unlisted	8,750,000	\$0.0793	25 November 2013
Unlisted	30,000,000	\$0.075	15 February 2017

During the financial year:

- (i) 3,266,696 listed options with an exercise price of \$0.125 were exercised on 14 & 28 December 2012; and
- (ii) 30,000,000 unlisted options with an exercise price of \$0.075 were issued on 15 February 2012.

The terms of the performance rights noted above is as follows:

Class	Class of shares	Exercise price	Grant date	Issue date	Expiry date	Key terms (refer to Note 17 of financial statements)	No. of shares under performance rights
Performance Rights	Ordinary shares	Nil	8 Nov 2010	8 Nov 2010	8 Nov 2015	(aa)	1,750,000
Performance Rights	Ordinary shares	Nil	14 Dec 2010	22 Feb 2011	8 Mar 2014	(bb)	12,250,000
Performance Rights	Ordinary shares	Nil	30 Aug 2011	30 Aug 2011	30 Aug 2016	(bb)	3,750,000
Performance Rights	Ordinary shares	Nil	17 Nov 2011	17 Nov 2011	17 Nov 2016	(bb)	750,000
Performance Rights	Ordinary shares	Nil	17 Nov 2011	17 Nov 2011	17 Nov 2016	(bb) (ii) & (iii)	1,000,000
Performance Rights	Ordinary shares	Nil	5 Dec 2011	12 Dec 2011	26 Dec 2014	(bb) (ii) & (iii)	4,000,000
Performance Rights	Ordinary shares	Nil	30 May 2012	29 June 2012	31 March 2014	(cc)	3,300,000
Performance Rights	Ordinary shares	Nil	30 May 2012	29 June 2012	29 September 2015	(bb) (ii) & (iii)	5,000,000
Performance Rights	Ordinary shares	Nil	29 June 2012	29 June 2012	29 September 2015	(bb) (ii) & (iii)	1,750,000
Performance Rights	Ordinary shares	Nil	30 July 2012	30 July 2012	31 March 2014	(dd)	5,500,000
Performance Rights	Ordinary shares	Nil	30 July 2012	30 July 2012	1 September 2015	(ee)	5,500,000
Total							44,550,000

* Performance rights issued with key terms of (bb)(ii) and (bb)(iii) are exercisable at 50% on respective hurdle.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(aa) The Performance Rights are to be satisfied by the issue or procurement of fully paid ordinary shares in the Company when the applicable performance hurdle is met. The Performance Rights are exercisable into fully paid ordinary shares of the Company with 1/3 being exercisable on satisfying the performance hurdle and 1/3 lots annually thereafter. The performance hurdle is the approval by the relevant Chinese authorities of an Overall Development Plan (ODP) to enable the Company to proceed to development on the PSC with such ODP to include a minimum 100 billion cubic feet of gas and to provide a minimum 12% internal rate of return (such minimum thresholds being calculated by the Board of Directors of the Company based on reports from suitably qualified experts). This performance hurdle must be met within 3 years from the date of grant of the performance right.

(bb) The Performance Right are to be satisfied by the issue or procurement of fully paid ordinary shares in the respective portions when the applicable performance hurdle is met, as detailed below:

(i) Performance Hurdle 1: Start of sale of gas under a Pilot Development Program approved by the relevant Chinese authorities. Approximately 2/7 of the Performance Rights will be exercisable when the start of sale of gas occurs on a Pilot Development Program approved by the relevant Chinese authorities in connection with the Company's interests in the PSC.

(ii) Performance Hurdle 2: Approval of a Reserves Report by the relevant Chinese authorities. Approximately 2/7 of the Performance Rights will be exercisable when a Reserves Report is approved by the relevant Chinese authorities in connection with the Company's interests in the PSC. If the Company decides not to proceed to a Pilot Development Program then those Performance Rights exercisable under Performance Hurdle 1 will be exercisable upon satisfaction of Performance Hurdle 2.

(iii) Performance Hurdle 3: Approval of Overall Development Plan by the relevant Chinese authorities. Approximately 3/7 of the Performance Rights will be exercisable on approval by the relevant Chinese authorities of an ODP to enable the Company to proceed to development on the PSC, with such ODP to include a minimum 100 billion cubic feet of gas and a minimum 12% internal rate of return (such minimum thresholds being calculated by the Board of Directors of the Company based on reports from suitably qualified experts). If the Company does not proceed to either or both of a Pilot Development Program and approval of a Reserves Report, Performance Rights exercisable under Performance Hurdle 1 and Performance Hurdle 2 will be exercisable upon satisfaction of Performance Hurdle 3.

(cc) The Performance Rights are exercisable into fully paid ordinary shares of the Company when the applicable performance hurdle is met,

(i) Options Exercise Performance Hurdle: The number of Performance Rights which will become exercisable after the expiry date of the Listed Options will be calculated using the formula $NPR = ((OE / 334,283,757) * 1,650,000)$, where, NPR = Number of exercisable Performance Rights, provided that such number shall have a maximum of 1,650,000 and OE = Number of Listed Options exercised between 19 April 2012 and 31 December 2012.

(ii) Options Exercise / \$0.25c Performance Hurdle: The number of Performance Rights which will become exercisable after the expiry date of the Listed Options and subject to the Company's Share price on ASX having reached at least \$0.25 for 5 continuous trading days will be calculated using the formula $NPR = ((OE / 334,283,757) * 825,000)$, where, NPR = Number of exercisable Performance Rights, provided that such number shall have a maximum of 825,000 and OE = Number of Listed Options exercised between 19 April 2012 and 31 December 2012.

(iii) Options Exercise / \$0.40c Performance Hurdle: The number of Performance Rights which will become exercisable after the expiry date of the Listed Options and subject to the Company's Share price on ASX having reached at least \$0.40 for 5 continuous trading days are exercised will be calculated using the formula $NPR = ((OE / 334,283,757) * 825,000)$, where, NPR = Number of exercisable Performance Rights, provided that such number shall have a maximum of 825,000 and OE = Number of Listed Options exercised between 19 April 2012 and 31 December 2012.

(dd) The Performance Right are to be satisfied by the issue or procurement of fully paid ordinary shares in the respective portions when the applicable performance hurdle is met, as detailed below:

(i) 1,375,000 Performance Rights will become exercisable if the Company's share price on ASX reaches at least \$0.40 for 5 continuous trading;

(ii) 1,375,000 Performance Rights will become exercisable if the Company's share price on ASX reaches at least \$0.25 for 5 continuous trading;

(iii) 1,375,000 Performance Rights will become exercisable if the Chinese Reserve Reports for each of Sanjiaobei, Linxing East and Linxing West are submitted; and

(iv) 1,375,000 Performance Rights will become exercisable if a Pilot Production approved by one of the PSC partners in connection with either Sanjiaobei or Linxing and supported by a Gas Sales Agreement is producing 100,000 cubic meters per day on at least 5 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (ee) The Performance Rights are to be satisfied by the issue or procurement of fully paid ordinary shares in the respective portions when the applicable performance hurdle is met, as detailed below:
- (i) 1,375,000 Performance Rights will become exercisable if the Company has been successfully relisted or dual listed on a stock exchange selected by the Board of the Company no later than 1 February 2015;
 - (ii) 1,375,000 Performance Rights will become exercisable if a debt financing facility (or such other alternative financing as may have been agreed by the Board of the Company) is in place for the Company to provide adequate funding for the Company's obligations for full field development of either or both of Sanjiaobei or Linxing;
 - (iii) 1,375,000 Performance Rights will become exercisable if, post approval of the Overall Development Plan, production has been established for both the Sanjiaobei PSC and Linxing PSC;
 - (iv) 1,375,000 Performance Rights will become exercisable if initial exploration work programs, sufficient to provide a preliminary assessment of resource potential and to avoid the relinquishment of any prospective areas, have been completed for all of Sanjiaobei PSC and for all of Linxing PSC.

As regards the Performance Criteria set out above, the Board may in its discretion at any time prior to 31 December 2013 determine that any one or more of the Performance Criteria are not appropriate based on the Company's then prevailing performance, activities or status during the prior year, and may vary or substitute those criteria for such other performance criteria, as may be set by the Board at the end of 2013 by written notice to the individual (after due consultation).

- (ff) The Performance Criteria (as that term is defined in the PRP) required to be fulfilled within the Performance Period to enable exercise of the Performance Rights are:
- (i) 200,000 Performance Rights exercisable on achieving top quartile safety metrics by end 2013 or such other date as the Executive Chairman (EC) and Chief Executive Officer (CEO) may agree. Exact metrics and peer group to be developed by the EC and CEO;
 - (ii) 200,000 Performance Rights exercisable on achieving pilot production target.
 - (iii) 200,000 Performance Rights exercisable on approval of SJB Reserves Report by end 2012 or such other date as the EC and CEO may agree;
 - (iv) 200,000 Performance Rights exercisable on approval of Linxing shallow CBM Reserves Report by the end of 2013; and
 - (v) 200,000 Performance Rights exercisable on approval of Linxing Reserves Report by the end of 2013.

18 Accumulated losses

Movements in accumulated losses were as follows:

	2012	2011
	\$	\$
Balance at the beginning of the financial year	(22,436,573)	(18,438,739)
Net profit/(loss) for the year from continuing operations	463,206	(4,193,773)
Transfers from equity	-	195,939
Balance at the end of the financial year	(21,973,367)	(22,436,573)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

19 Key management personnel disclosures

(a) Key management personnel compensation

	2012	2011
	\$	\$
Shortterm employee benefits	1,690,122	1,642,528
Postemployment benefits	61,081	61,709
Sharebased payments	888,647	494,404
	2,639,850	2,198,641

Detailed remuneration disclosures are provided in the remuneration report on pages 16 to 23.

(b) Equity instrument disclosures relating to key management personnel

(i) Shareholdings / Option Holding / Performance Rights Holding

The shareholdings, performance rights and option holdings of Directors and Executives are set out below and in Notes 22 and 27 to the financial statements.

(ii) Remuneration options: granted and vested during the year

No options were granted as equity compensation benefits under the employee share option plan (ESOP) during the year. Further details of the options are set out below and in Note 27 to the financial statements.

(iii) Performance rights: granted and vested during the year

Shareholders have approved the Performance Rights Plan. During the financial year ended 31 December 2012, the Company issued 22,050,000 Performance Rights to the following Directors and senior employees:

Name	Exercise price	Grant date	Issue date	Expiry date	Key terms (refer to Note 17 of financial statements)	Performance Rights at 31 Dec 2012 No.
G Harper	Nil	30 May 2012	29 June 2012	31 March 2014	(cc)	3,300,000
C Heseltine	Nil	30 May 2012	29 June 2012	29 September 2015	(bb) (ii) & (iii)	2,000,000
P Mills	Nil	30 May 2012	29 June 2012	29 September 2015	(bb) (ii) & (iii)	3,000,000
N Bong	Nil	29 June 2012	29 June 2012	29 September 2015	(bb) (ii) & (iii)	1,750,000
R Bearden	Nil	30 July 2012	30 July 2012	31 March 2014	(dd)	5,500,000
R Bearden	Nil	30 July 2012	30 July 2012	1 September 2015	(ee)	5,500,000
F Fu	Nil	29 June 2012	29 June 2012	29 September 2015	(ff)	1,000,000

During the financial year ended 31 December 2012, 4,500,000 Performance Rights to the following senior employee lapsed due to termination of employment:

Name	Exercise price	Grant date	Issue date	Expiry date	No. of Performance Rights lapsed
F Fu	Nil	16 May 2011 & 29 June 2012	16 May 2011 & 29 June 2012	16 May 2016 & 29 September 2015	4,500,000

Please refer to Note 17 to the financial statements for further details on the terms and conditions of the performance rights issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

20 Remuneration of auditors

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

	2012	2011
	\$	\$
(a) PwC Australia		
Audit and review of financial statements	84,615	-
International tax consulting and tax advice on mergers and acquisitions	96,938	-
Total remuneration of PwC Australia	181,553	-
(b) PwC Beijing		
Audit and review of financial statements	5,622	19,720
International tax consulting and tax advice on mergers and acquisitions	-	16,322
Other Non-Audit Services: Other consulting services	33,993	-
Total remuneration of network firms of PwC Australia	39,615	36,042
(c) Previous Auditors		
Audit and review of financial statements - Deloitte Touche Tohmatsu	3,936	103,621
Taxation Services – BDO / PKF	-	51,725
Total remuneration of previous auditors	3,936	155,346
Total auditors' remuneration	225,104	191,388

It is the group's policy to employ PwC on assignments additional to their statutory audit duties where PwC's expertise and experience with the group are important. These assignments are principally related to international tax consulting and tax advice on mergers and acquisitions tax advice and assistance for expatriate staff in Beijing with visa and tax filing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

21 Commitments

(a) Lease commitments: group as lessee

(i) Noncancellable operating leases

Operating leases relate to premises used by the group in its operations, generally with terms between 1 and 2 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.

	2012 \$	2011 \$
Commitments for minimum lease payments in relation to noncancellable operating leases are payable as follows:		
Within one year	222,144	191,602
Later than one year but not later than five years	171,378	30,060
	393,522	221,662

22 Related party transactions

(a) Equity interests in related parties

As at 31 December 2012, Sino Gas & Energy Holdings Limited has a 75.36% economic interest and 49% of the voting rights in its jointly controlled entity Sino Gas & Energy Limited and a 100% interest in Sino Gas & Energy Nominees Pty Ltd. Both companies are incorporated in Australia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Key management personnel

Details of Key Management Personnel are detailed in the Directors' Report.

(i) Key Management Personnel Equity Holdings

Fully paid ordinary shares issued by Sino Gas & Energy Holdings Limited

Year ended 31 December 2012	Balance at 1 January 2012	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 31 December 2012
	No.	No.	No.	No.	No.
Directors					
G Harper	1,415,000	-	-	100,000	1,515,000
R Bearden	-	-	-	200,000	200,000
J Chandler	350,000	-	(350,000)	-	-
C Heseltine	-	-	-	-	-
B Ridgeway	11,155,000	-	-	-	11,155,000
P Mills	-	-	-	-	-
S Lyons	5,249,265	-	(5,249,265)	-	-
Executives					
N Bong	-	-	-	-	-
F Fu	-	-	-	-	-
H Spindler	-	-	-	-	-
Total	18,169,265	-	(5,599,265)	300,000	12,870,000

Year ended 31 December 2011	Balance at 1 January 2011	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 31 December 2011
	No.	No.	No.	No.	No.
Directors					
S Lyons	3,898,158	-	-	1,351,107	5,249,265
G Harper	540,000	-	-	875,000	1,415,000
J Chandler	280,000	-	-	70,000	350,000
B Ridgeway	10,780,000	-	-	375,000	11,155,000
P Mills	-	-	-	-	-
Executives					
N Bong	-	-	-	-	-
F Fu	-	-	-	-	-
H Spindler	-	-	-	-	-
Total	15,498,158	-	-	2,671,107	18,169,265

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Option Holdings of Key Management Personnel

Year ended 31 December 2012	Balance at 1 January 2012	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 31 December 2012
	No.	No.	No.	No.	No.
Directors					
G Harper	100,000	-	-	(100,000)	-
R Bearden	-	-	-	-	-
J Chandler	48,000	-	(48,000)	-	-
C Heseltine	-	-	-	-	-
B Ridgeway	20,000	-	-	-	20,000
P Mills	-	-	-	-	-
S Lyons	1,677,692	-	(1,677,692)	-	-
Executives					
N Bong	-	-	-	-	-
F Fu	-	-	-	-	-
H Spindler	-	-	-	-	-
Total	1,845,692	-	(1,725,692)	(100,000)	20,000

Year ended 31 December 2011	Balance at 1 January 2011	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 31 December 2011
	No.	No.	No.	No.	No.
Directors					
G Harper	140,000	-	-	(40,000)	100,000
J Chandler	88,000	-	-	(40,000)	48,000
B Ridgeway	200,000	-	-	(180,000)	20,000
P Mills	-	-	-	-	-
S Lyons	1,917,692	-	-	(240,000)	1,677,692
Executives					
N Bong	-	-	-	-	-
F Fu	-	-	-	-	-
H Spindler	-	-	-	-	-
Total	2,345,692	-	-	(500,000)	1,845,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Performance Rights holdings of Key Management Personnel

Year ended 31 December 2012	Balance at 1 January 2012	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 31 December 2012
	No.	No.	No.	No.	No.
Directors					
G Harper	11,000,000	3,300,000	-	-	14,300,000
R Bearden	-	11,000,000	-	-	11,000,000
J Chandler	5,250,000	-	(5,250,000)	-	-
C Heseltine	-	2,000,000	-	1,000,000	3,000,000
B Ridgeway	-	-	-	-	-
P Mills	-	3,000,000	-	-	3,000,000
S Lyons	7,000,000	-	(7,000,000)	-	-
Executives					
N Bong	-	1,750,000	-	-	1,750,000
F Fu	3,500,000	1,000,000	(4,500,000)	-	-
H Spindler	-	-	-	-	-
Total	26,750,000	22,050,000	(16,750,000)	1,000,000	33,050,000

Year ended 31 December 2011	Balance at 1 January 2011	Granted as remuneration	Ceasing to be key management person	Net other change	Balance at 31 December 2011
	No.	No.	No.	No.	No.
Directors					
S Lyons	1,000,000	6,000,000	-	-	7,000,000
G Harper	750,000	10,250,000	-	-	11,000,000
J Chandler	750,000	4,500,000	-	-	5,250,000
B Ridgeway	-	-	-	-	-
P Mills	-	-	-	-	-
Executives					
N Bong	-	-	-	-	-
F Fu	-	3,500,000	-	-	3,500,000
H Spindler	-	-	-	-	-
Total	2,500,000	24,250,000	-	-	26,750,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Transactions with jointly controlled entities

	2012	2011
	\$	\$
Loans to Sino Gas & Energy Limited		
Beginning of the year	-	-
Intercompany loan recognised on deconsolidation	2,134,520	-
Impact of foreign exchange	(22,239)	-
End of year	2,112,281	-
Loans from Sino Gas & Energy Limited		
Beginning of the year	-	-
Loans advanced	99,614	-
End of year	99,614	-

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

(d) Other transactions with key management personnel

In December 2012, the company paid an income tax liability on behalf of all expatriate staff in Beijing. This was performed as the payment arose during a holiday period and required urgent settlement to avoid potential excessive fees and penalties. All amounts were promptly repaid with all amounts repaid by 31 December 2012.

Payments of \$95,818 (2011: \$nil) were made to Indian Ocean Advisory Group Pty Ltd, an entity which Mr Harry Spindler is a employee of for the provision of consulting and administrative services, including rent. These services were provided on normal commercial terms and conditions and at market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

23 Interests in joint ventures

(a) Jointly controlled entity

On 6 July 2012, the Company entered into agreements with MIE Holdings Corporation (MIE) which established joint control between Sino Gas and MIE over SGE as a jointly controlled entity. MIE acquired 39 million ordinary shares (14.29% interest of existing shares) in SGE from Sino Gas for a consideration of \$9.7 million (US\$10 million). In addition, MIE will progressively invest a further US\$90 million into SGE as described below to secure an interest of 51% in the issued share capital of SGE.

The US\$90 million investment to be made by Asia Power and Energy Corporation (Asia Power, a wholly owned MIE subsidiary) is comprised of converting redeemable preference shares (CRPS) in SGE (to be held in escrow pending completion of Asia Power's funding obligations and then released proportionally from escrow and converted into ordinary shares in SGE on a 6 monthly basis, or alternatively, redeemed by SGE if Asia Power defaults on its funding obligations) and in part in the form of a loan note repayable by SGE from recovered Qualifying Expenditure on the PSC blocks once commercial production commences (such loan mechanism to ensure that Sino Gas and Asia Power recover agreed portions – US\$63 million and US\$90 million respectively, as may be adjusted under the terms of the Purchase and Subscription Agreement – via the cost recovery model under the PSCs).

The converting redeemable preference shares issued to Asia Power, when combined with the purchase of existing ordinary shares from the Company, results in Asia Power holding 51% of the issued share capital of SGE from closing (with Sino Gas holding the remaining 49%).

As at 31 December 2012, \$15.9 million (US\$16.5 million) dollars had been cash called representing \$4.2 million (US\$4.4 million) in loan notes and \$11.7 million (US\$12.1 million) in CRPS converted into 349,741,486 ordinary shares, bringing Sino Gas, economic interest in SGE to 75.36%.

The interest in SGE is accounted for in the financial statements using the equity method of accounting at the cost of the investment.

Information relating to the joint venture is set out below.

	2012 \$	2011 \$
Share of joint venture assets and liabilities		
Current assets	5,328,216	-
Non-current assets	41,283,443	-
Total assets	46,611,659	-
Current liabilities	9,721,191	-
Non-current liabilities	5,059,392	-
Total liabilities	14,780,583	-
Net assets	31,831,076	-
Share of joint venture revenue, expenses and results		
Revenues	738	-
Expenses	(551,263)	-
Profit before income tax	(550,525)	-
Share of joint venture's capital commitments	3,454,371	-

SGE had no recorded contingent liabilities as at 31 December 2012 (2011: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Net gain on dilution of equity interest in jointly controlled entity

	2012	2011
	\$	\$
Share of equity contributed into jointly controlled entity	9,741,362	-
Dilution of interest in net assets	(4,089,447)	-
Net gain on dilution of equity interest in jointly controlled entity	5,651,915	-

24 Events occurring after the reporting period

Subsequent to year end there has been a number of key events, including:

- On 3 January 2013, Sino Gas completed the placement of 82,448,979 new fully paid ordinary shares to two leading institutional investors at \$0.1225 per share to raise approximately A\$10.1 million, before costs. This placement was lead managed by the company's Corporate Advisor, Argonaut.
- On 8 January 2013, Sino Gas completed the final conversation of its listed options (ASX: SEHOC) expiring on 31 December 2012, with this issue of 27,265,345 new fully paid ordinary shares at \$0.125 per share to raise \$3,408,168. The remaining 303,751,716 listed options expired unexercised.
- On 13 March 2013, 1,310,000 unlisted options with an exercise price of \$0.50 per option expired unexercised.

25 Reconciliation of profit/(loss) after income tax to net cash inflow from operating activities

	2012	2011
	\$	\$
Profit/(loss) for the year	463,206	(4,193,773)
Depreciation and amortisation of non-current assets	26,588	60,009
Share-based payments expense	912,474	550,602
Fundraising costs expensed	4,809,404	-
Unrealised foreign exchange	(68,932)	(2,351)
Interest received (investing)	-	264,600
Net loss on recognition and settlement of financial liabilities	-	625,067
Net gain on sale of assets held for sale	(4,321,288)	-
Net gain on dilution of equity interest in jointly controlled entity	(5,651,915)	-
Share of loss from joint venture	550,525	-
(Increase) decrease in trade and other receivables	(84,003)	(58,177)
(Increase) decrease in other assets	(71,618)	14,981
(Increase) decrease in current payables	(582,117)	128,801
(Increase) decrease in provisions	156,143	67,984
Net cash outflow from operating activities	(3,861,533)	(2,542,257)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

26 Earnings per share

	2012	2011
	Cents	Cents

(a) Basic earnings per share

From continuing operations attributable to the ordinary equity holders of the company	(0.31)	(0.43)
From discontinued operation	0.35	-
Total basic earnings per share attributable to the ordinary equity holders of the company	0.04	(0.43)

(b) Diluted earnings per share

From continuing operations attributable to the ordinary equity holders of the company	(0.31)	(0.43)
From discontinued operation	0.26	-
Total diluted earnings per share attributable to the ordinary equity holders of the company	0.03	(0.43)

(c) Reconciliations of earnings used in calculating earnings per share

	2012	2011
	\$	\$
Basic earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share		
From continuing operations	(3,435,038)	(3,112,739)
From discontinued operation	3,898,244	(1,081,034)
	463,206	(4,193,773)
Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company:		
Used in calculating basic earnings per share	(3,435,038)	(4,193,773)
Add: interest savings on convertible notes	-	-
Used in calculating diluted earnings per share	(3,435,038)	-
Profit from discontinued operation	3,898,244	-
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	463,206	(4,193,773)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(d) Weighted average number of shares used as the denominator

	2012	2011
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,122,194,150	976,432,780
Adjustments for calculation of diluted earnings per share:		
Amounts uncalled on partly paid shares and calls in arrears	-	-
Options	369,294,399	-
Convertible notes	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,491,488,549	976,432,780

(e) Information concerning the classification of securities

The performance rights have been excluded for diluted earnings per share as they are anti-dilutive as at 31 December 2012. The performance rights over ordinary shares could potentially dilute basic earnings per share in the future however they have been excluded from the calculation of diluted earnings per share because they are anti-dilutive as at 31 December 2012.

27 Share-based payments

(a) Share-based payment expenses

The expense recognised for share-based payments during the financial year ended 31 December 2012, is as follows:

	2012	2011
	\$	\$
Performance rights expense (b)	912,474	529,497
Options expense (c)	947,562	21,105
Total share-based payments	1,860,036	550,602

(b) Share-based payment plans

Employee performance rights plan

The Company has an employee Performance Rights plan (PRP) for the granting of Performance Rights to Director's, Officer's and Employee's of the Company.

Under the PRP, the Directors are responsible for determining those eligible to receive performance rights, the conditions attaching to the performance rights and, generally, other matters associated with the performance rights that the Directors consider appropriate to take into account.

The other main terms that apply in the PRP include that:

- Performance Rights shall not be issued (when added to other securities or rights issued under an employee equity scheme) which would exceed more than 5% of the total number of shares in the Company at the time of issue;
- The Performance Rights are not transferable without the approval of the Board, except to a legal personal representative of the Performance Right holder;
- The Performance Right may be exercisable if the performance criteria relating to the Performance Right has been met with the performance period and any vesting conditions set out in the offer have been met;
- The board will set performance criteria to be met before the Performance Right may be exercised;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- Performance Rights expire when a person leaves the employment of the Company and for reasons other than the following;
 - a) the death, Total and Permanent Disability, Retirement or redundancy of the Participant as determined by the Board in its absolute discretion;
 - b) the Participant ceasing to be employed by a company within the Group as a result of a company ceasing to be a member of the Group, or a company in the Group selling a business it conducts to someone other than to another company in the Group;
 - c) the Participant ceasing to hold office in a company within the Group as a result of retirement by rotation and not being re-elected as a Director or in the event of removal by the shareholders of the Participant as a Director of the Company;
 - d) any other reason as determined by the Board in its absolute discretion (Qualifying reasons).

If the cessation of the Participant's employment or office is due to a Qualifying Reason and provided that the cessation date is in excess of 6 months after the date of grant, that number of Performance Rights which is proportional to the number of days the Participant was employed or in office as compared to the applicable performance period for the Performance Right will become immediately exercisable (provided that such number of Performance Rights are exercised within 3 months of the date of cessation), save that in circumstances where the cessation is due to a Qualifying Reason and such cessation occurs after all Performance Criteria have been satisfied, other than any criteria that is solely attributable to the Participant's tenure with the Company in employment or office (e.g. vesting conditions which require the passage of time after all other Performance Criteria have already been satisfied), all Performance Rights held by such Participant will become immediately exercisable.

- Performance Rights expire should the holder act fraudulently, dishonestly or acts in breach of the holders obligations to the company; and
- The exercise period for each Performance Right shall be determined by the Board in its absolute discretion. Notwithstanding this, the Board, in their discretion, may declare all Performance Rights to be free of any restrictions on exercise if the Board are of the opinion that a specified Event has occurred. An Event occurs when:
 - a) a takeover bid is made to the holders of Shares;
 - b) a statement is lodged with the ASX to the effect that a person has become entitled to not less than 50% of the Shares;
 - c) pursuant to an application made to the court, the court orders a meeting to be held in relation to a proposed compromise or arrangement for the purpose of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other companies;
 - d) the Company passes a resolution for voluntary winding up; or
 - e) an order is made for the compulsory winding up of the Company.
- Performance Rights may not be offered to a director or his or her associates without prior shareholder approval.
- A Performance Right does not entitle a participant to participate in new issues of securities to holders of Shares, unless the Performance Right has been exercised and a Share has been issued or transferred to the Participant in respect of that Performance Right, before the record date for determining entitlements to securities under the new issue.
- If the Company makes a bonus issue, the number of Shares over which a Performance Right is exercisable will be increased by the number of Shares which the holder of the Performance Right would have received if the Performance Right had been exercised before the record date for the bonus issue. The exercise price will not change.
- If the Company makes a rights issue, the number of Shares over which a Performance Right is exercisable will not be increased by the number of Shares which the holder of the Performance Right would have received if the Performance Right had been exercised before the record date for the rights issue. The exercise price will also not change.
- Shares provided to a Participant on the exercise of Performance Rights will be held on trust for that Participant by the Trustee for the duration of the restriction period (as determined by the Board) in accordance with the terms of the PRP and the trust deed to be established for the purposes of the PRP.
- Please refer to Notes 17 to the financial statements for further details on the terms and conditions of the performance rights issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Employee share option plan

The Company has an employee share option plan (ESOP) for the granting of non-transferable options to Directors, Officers and Employees of the Company.

Under the ESOP, the Directors are responsible for determining those eligible to receive options, the conditions attaching to the options and, generally, other matters associated with the options that the Directors consider appropriate to take into account.

The other main terms that apply in the ESOP include that:

- Options shall not be issued which would exceed more than 5% of the total number of shares in the Company at the time of issue;
- The options will have a maximum 5 year life;
- The options are not transferable without the approval of the Board, except to the spouse of the option holder or to a company the majority of shares in which are owned (or taken to be owned) by the option holder;
- Options expire when a person leaves the employ of the Company, unless the Directors decide otherwise; and
- On a change of control event, the Directors will declare that the options to be free of any conditions of exercise.

During the year ended 31 December 2012, there have been no employee share options issued. The Performance Rights Plan has now effectively superseded the ESOP.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

(c) Summary of options granted

The following table illustrates the number and weighted average exercise prices of share options issued as share-based payments to employees and suppliers which are outstanding at 31 December 2012.

	Number of options	Exercise price per option	Latest exercise date	Fair value at grant date
Employee options	390,000	\$0.50	13 Mar 2013	\$0.28
Employee options	920,000	\$0.50	13 Mar 2013	\$0.30
\$0.125 Options expiring 31 Dec 2012 *	140,000,000	\$0.125	31 Dec 2012	\$0.008
\$0.125 Options expiring 31 Dec 2012 *	38,998,190	\$0.125	31 Dec 2012	\$0.015
\$0.0793 Options expiring 25 Nov 2013 **	8,750,000	\$0.079	25 Nov 2013	\$0.056
\$0.075 Options expiring 15 Feb 2017 ***	10,000,000	\$0.075	15 Feb 2017	\$0.049
\$0.075 Options expiring 15 Feb 2017 ***	10,000,000	\$0.075	15 Feb 2017	\$0.049
\$0.075 Options expiring 15 Feb 2017 ***	5,000,000	\$0.075	15 Feb 2017	\$0.027
\$0.075 Options expiring 15 Feb 2017 ***	5,000,000	\$0.075	15 Feb 2017	\$0.031
Total options	219,058,190			

* These options have been issued to underwriters and sub-underwriters of the Company's past capital raisings. These options have now expired.

** These options were issued to SpringTree, as part of the financing facility entered into by the Company in April 2011.

*** These options were issued to Argonaut, as part of an agreement with Argonaut Capital Limited (Argonaut) for provision of corporate and financial advisory services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The movements in options during the financial year ended 31 December 2012 is as follows:

	31-Dec-12 No	31-Dec-12 Weighted average exercise price	31-Dec-11 No	31-Dec-11 Weighted average exercise price
Outstanding at the beginning of the year	189,058,190	\$0.12	202,208,190	\$0.14
Granted during the year	30,000,000	\$0.075	8,750,000	\$0.08
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	(21,900,000)	\$0.30
Outstanding at the end of the year	219,058,190	\$0.12	189,058,190	\$0.12
Exercisable at the end of the year	199,058,190	\$0.12	189,058,190	\$0.12

During the financial year 31,664,345 listed options with an exercise price of \$0.50 expired unexercised on 31 December 2011.

Options expiring 15 February 2017

In January 2012 the Company entered into an agreement with Argonaut Capital Limited (Argonaut) for provision of corporate and financial advisory services (Agreement). Argonaut is a technically driven specialist based out of Perth and Hong Kong with an established track record in the natural resources sector. Argonaut has been engaged by the Company to assist the board and management in the areas of strategy and financing solutions with the aim of pursuing non-dilutive funding opportunities to progress the existing and future exploration projects towards development.

On 15 February 2012, in connection with the appointment of Argonaut, the Company issued to Argonaut's nominee, Argonaut Investments Pty Ltd, 30 million Options, each exercisable at 7.5 cents on or before 15 February 2017, such Options only being exercisable if performance related vesting conditions are met, including achieving share price thresholds of \$0.15 and \$0.25 and funding to achieve field development of the Linxing and Sanjiaobei projects as listed below:

- 10 million Options shall vest upon the Company completing a financing of at least \$25 million (or such other amount agreed between the Company and Argonaut Capital Limited);
- 10 million Options shall vest upon the Company completing, subsequent to the financing in (a) above, a financing of at least \$100 million (or such other amount agreed between the Company and Argonaut Capital Limited);
- 5 million Options shall vest upon the closing share price of the Company being at least \$0.15 for a continuous 30 day period;
- 5 million Options shall vest upon the closing share price of the Company being at least \$0.25 for a continuous 30 day period;
- In the event of the occurrence of a change of Control of the Company, all Options not already vested, immediately vest. For the purposes of these terms, Control has the same meaning as in the Corporations Act (Cth) 2001; and upon the termination of the mandate between the Company and Argonaut Securities dated 24 January 2012 under clause 11, all Options which have not yet vested shall immediately lapse; and
- in the event of the occurrence of a change of Control of the Company, all Options not already vested, immediately vest. For the purposes of these Vesting Conditions, Control has the same meaning as in the Corporations Act (Cth) 2001.

If the applicable Vesting Conditions are not satisfied prior to the date which is 24 January 2014, the Options will lapse, save for the Vesting Conditions referred to in tranche (d) above which if not satisfied prior to the date which is 24 January 2015, the Options will lapse.

An Option holder may exercise any of its Options at any time prior to their expiration, by delivery of (a) an Option Exercise Form to the Company during normal business hours on any Business Day at the Company's principal executive offices on or prior to the Option Expiration Date; and (b) payment of an amount equal to the Option Exercise Price multiplied by the number of Shares in respect of which the Options are being exercised at the time. Options granted carry no dividend or voting rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Fair value of options granted

Tranche	No. of Options	Vesting Price	Last Vesting Date	Value per Option \$	Value per Tranche \$
A	10,000,000	N/A	24/01/2014	0.049	490,000
B	10,000,000	N/A	24/01/2014	0.049	490,000
C	5,000,000	0.15	24/01/2014	0.0267	133,500
D	5,000,000	0.25	24/01/2015	0.031	155,000

Tranches A to D have been valued using the Black-Scholes option valuation model. This model determines the value of an option as a function of the following variables:

- 1) the current share price of the underlying shares - \$0.074 per share
- 2) exercise price of the option - \$0.075 per share.
- 3) volatility of the share price - 80%
- 4) vesting conditions (refer to (a) to (f) overleaf)
- 5) time to maturity - 15 February 2017.
- 6) risk free rate of interest - 3.665%
- 7) expected dividend yield – none.

Tranches C & D, also factor in the barrier price based on the vesting price one month prior to the last vesting date. By way of example it is assumed that the Tranche C options with a barrier price of \$0.15 per share will be exercised on 24 December 2013, being 30 days before 24 January 2014, as the share price must reach the barrier price by no later than that date.

As the issue of these options to Argonaut related to an expense associated with the raising of equity and funding for the Company, that expense is recorded against fundraising expenses .

(d) Summary of Performance Rights granted

The following table illustrates the number and weighted average exercise prices of Performance Rights granted as share-based payments and outstanding at 31 December 2012.

Class	Exercise price	Grant date	Expiry date	Key terms (refer to Note 17 of financial statements)	No. of shares under performance rights	Fair Value at Grant Date
Performance Rights	Nil	08-Nov-10	08-Nov-15	(aa)	1,750,000	\$0.070
Performance Rights	Nil	14-Dec-10	08-Mar-14	(bb)	12,250,000	\$0.070
Performance Rights	Nil	30-Aug-11	30-Aug-16	(bb)	3,750,000	\$0.056
Performance Rights	Nil	17-Nov-11	17-Nov-16	(bb)	750,000	\$0.041
Performance Rights	Nil	17-Nov-11	17-Nov-16	(bb) (ii) & (iii)	1,000,000	\$0.041
Performance Rights	Nil	05-Dec-11	26-Dec-14	(bb) (ii) & (iii)	4,000,000	\$0.038
Performance Rights	Nil	30-May-12	31-Mar-14	(cc)	3,300,000	\$0.013, \$0.005 & \$0.002
Performance Rights	Nil	30-May-12	29-Sep-15	(bb) (ii) & (iii)	5,000,000	\$0.053
Performance Rights	Nil	29-Jun-12	29-Sep-15	(bb) (ii) & (iii)	1,750,000	\$0.071
Performance Rights	Nil	30-Jul-12	31-Mar-14	(dd)	5,500,000	\$0.0075, \$0.00225 & \$0.075
Performance Rights	Nil	30-Jul-12	01-Sep-15	(ee)	5,500,000	\$0.075
Total					44,550,000	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The movements in Performance Rights during the financial year ended 31 December 2012 is as follows:

	31-Dec-12	31-Dec-12	31-Dec-12	31-Dec-11	31-Dec-11	31-Dec-11
	No	Weighted average exercise price	Weighted average grant fair value	No	Weighted average exercise price	Weighted average grant fair value
Outstanding at the beginning of the year	35,000,000	-	\$0.06	19,250,000	-	\$0.07
Granted during the year	22,800,000	-	\$0.05	15,750,000	-	\$0.05
Forfeited during the year	(8,000,000)	-	\$0.06	-	-	-
Exercised during the year	(5,250,000)	-	\$0.07	-	-	-
Outstanding at the end of the year	44,550,000	\$-	\$0.06	35,000,000	\$-	\$0.06

Please refer to Note 17 & 22 to the financial statements for further details on the terms and conditions of the Performance Rights issued.

The fair value of these Performance Rights issued during the year at grant date is set out in the table above with the following table settling out the key inputs into the Performance Right valuation model:

Assumptions:

Number issued	1,650,000	825,000	825,000	5,000,000	3,500,000	1,375,000	1,375,000	8,250,000
Valuation date	30/05/2012	30/05/2012	30/05/2012	30/05/2012	29/06/2012	30/07/2012	30/07/2012	30/07/2012
Share price 1	0.0585	0.0585	0.0585	0.0585	0.0785	0.075	0.075	0.075
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expiry date	31/03/2014	31/03/2014	31/03/2014	29/09/2015	29/09/2015	31/03/2014	31/03/2014	31/03/2014 & 1/9/2015
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Market base probability of vesting	22%	22%	22%	N/A	N/A	10%	3%	N/A
Market based Hurdle Discount	0%	37%	15%	N/A	N/A	N/A	N/A	N/A
Marketability Discount 2	0%	0%	0%	10%	10%	0%	0%	0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

28 Parent entity financial information

(a) Summary financial information

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

	2012 \$	2011 \$
Balance sheet		
Current assets	7,923,229	4,245,398
Total assets	50,384,007	52,022,245
Current liabilities	1,345,091	166,258
Total liabilities	2,308,111	166,258
Contributed equity	62,748,848	60,321,166
Reserves	(5,278,856)	(6,111,667)
Retained earnings	(9,394,096)	(2,353,512)
Total shareholders' equity	48,075,896	51,855,987
Profit or loss for the year	(7,611,897)	(3,112,740)

Contingent liabilities

The company is not aware of any contingencies relating specifically to the parent entity.

DIRECTORS DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 30 to 77 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 2012 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.

Note 1(a) 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.



Robert Bearden

Managing Director

Perth
28 March 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS



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

Report on the financial report

We have audited the accompanying financial report of Sino Gas & Energy Holdings Limited (the company), which comprises the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Sino Gas & Energy Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

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

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS (CONT'D)



Independent auditor's report to the members of Sino Gas & Energy Holdings Limited (cont'd)

Auditor's opinion

In our opinion:

- a) the financial report of Sino Gas & Energy Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards – including the Australian Accounting Interpretations and the *Corporations Regulations 2001*, and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 16 to 23 of the directors' report for the year ended 31 December 2012. 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.

Auditor's opinion

In our opinion, the remuneration report of Sino Gas & Energy Holdings Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Henry

Nick Henry
Partner

Perth
28 March 2013

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

The Company has adopted a comprehensive framework of rules, relationships, systems and processes regulating the exercise of authority within the Company. The Board has adopted the following corporate governance policies and charters, copies of which are available on the Company's website (www.sinogasenergy.com):

Board Charter

- Audit and Compliance Committee Charter;
- Nomination & Remuneration Committee Charter;
- Planning Committee Charter;
- Procedure for the selection and appointment of new directors;
- Share Trading Policy;
- Information on Procedures for the selection and appointment of the External Auditor and Audit Partner Rotation;
- Procedures for complying with the Disclosure Requirements and ensuring Senior Management accountability;
- Shareholder Communications Policy;
- Description of Risk Management Policy;
- Description of the Performance Evaluation Procedure for the Board and Individual Directors;
- Code of Conduct; and
- Diversity Policy.

To the extent that they are applicable, and practicable, the Company has adopted the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (2nd Edition) (ASX Corporate Governance Recommendations).

Commensurate with the spirit of the ASX Corporate Governance Recommendations, the Company has followed each ASX Corporate Governance Recommendation where the Board has considered it to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company and the Board, the resources available and the activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the ASX Corporate Governance Recommendations, the Board has set out at the end of the Corporate Governance Statement its "if not, why not" report.

Corporate governance policies and practice of the Company are reflective of the Company's current status and its major activities being the appraisal of unconventional gas projects in China. As the Company's activities develop in size, nature and scope, the Board will reconsider and review the Company's corporate governance structures.

Role of the Board

The Board operates pursuant to a formal Board Charter, which sets out the responsibilities, structure and conduct of the Board, a copy of which is available on the Company's website.

The Board of the Company is responsible for:

- the overall operation and stewardship of the Company and its subsidiaries;
- charting the direction, strategies and financial objectives for the Company; and
- monitoring the implementation of those policies, strategies and financial objectives,

and is committed to protecting and enhancing shareholder values and conducting the Company's business ethically and in accordance with the highest standards of corporate governance.

The objective of the Board is to provide an acceptable rate of return to the Company's shareholders that takes into account the interests of its employees, customers, suppliers, lenders and the wider community.

Each of the Directors, when representing the Company, must act in the best interest of the shareholders of the Company and in the best interests of the Company as a whole.

Each Director has the right to seek independent professional advice on matters relating to his position as a director of the Company at the Company's expense, subject to the prior approval of the Chairman, which shall not be unreasonably withheld.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012 (CONT'D)

The Board recognises the importance of ensuring that the performance of the Board is reviewed regularly against appropriate measures. The Board have adopted a formal Performance Evaluation Procedure. A copy of the Performance Evaluation Procedure is available on the Company's website. A performance evaluation of the Board, individual directors, senior executives and various Board committees, did take place for the financial year ended 31 December 2012.

The skills, experience and expertise relevant to the position of each director in office at the date of this report and their term of office is set out in the Directors' Report.

The Board is assisted by the Audit and Compliance Committee, the Nomination & Remuneration Committee and the Planning Committee until its dissolution.

Audit and Compliance Committee

The Company has established an Audit and Compliance Committee.

The Committee is responsible for assisting the Board of the Company in ensuring financial integrity and credibility of financial reporting. The Board formalised this arrangement and adopted a formal Audit and Compliance Committee Charter to govern the responsibilities, structure and conduct of the Audit and Compliance Committee.

The roles of the Audit and Compliance Committee are to:

- assist the Board to discharge their responsibility for externally reported financial information and, ensuring financial integrity and credibility of that reporting;
- ensure that management has in place a process to identify and manage financial reporting risks;
- seek to improve the quality of financial reporting, control systems and corporate governance of the Group;
- oversee external audit functions; and
- monitor and ensure that the Group conforms with financial requirements of the Corporations Act, the ASX Listing Rules (as applicable) and any other relevant legislation or regulatory authority.

The Committee consists of a minimum of three members of whom the majority are non-executive directors. At the date of this report, the Committee members are Mr Bernie Ridgeway (Committee Chairman), Mr Peter Mills and Mr Colin Heseltine.

A copy of the Audit and Compliance Committee Charter is available on the Company's website.

Details of directors' attendance at meetings are detailed in the Directors' Report.

Nomination & Remuneration Committee

The Company has established a Nomination & Remuneration Committee.

The Nomination & Remuneration Committee was established to assist the Board in establishing policies and practices which:

- enable the Company to attract and retain executives and directors who will create sustainable value for members and other stakeholders;
- assist the Board to maintain a Board that has an appropriate mix of skills and experience which can contribute to the successful management of the Company and create sustainable value for shareholders;
- fairly and responsibly reward executives and directors having regard to the performance of the Company, the performance of the executive and the external compensation environment; and
- comply with all relevant legislation and regulations including the ASX Listing Rules (as applicable) and the Corporations Act.

The Committee consists of a minimum of three members of whom a majority are non-executive directors. At the date of this report, the Committee members are Mr Peter Mills (Committee Chairman), Mr Bernie Ridgeway and Mr Colin Heseltine.

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.

Details of directors' attendance at meetings are detailed in the Directors' Report.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012 (CONT'D)

Planning Committee

The Board had previously established a Planning Committee to assist the Board by:

- formulating, monitoring and reviewing the Company's strategic plan;
- identifying and reviewing any business development opportunities including acquisitions and divestments of the Company's assets;
- determining major operational and technical decisions;
- reviewing the Company's technical and operational competency;
- identifying, monitoring and reviewing key relationships between the Company and industry, government and community groups; and
- analysing the Company's risk and risk management.

The Committee consisted of a minimum of three members, each of whom will be appointed or removed by the Board in consultation with the chairman of the Committee. The chairman of the Committee was elected by the Board. During the year, the Committee members were Mr Gavin Harper (Committee Chairman), Mr Robert Bearden, Mr Colin Heseltine, Mr Peter Mills, Mr Stephen Lyons and Mr Frank Fu. Others join the PC by invitation as required.

Following the completion of the strategic partnership with MIE Holdings Corporation (MIE), the Planning Committee was dissolved in August 2012. As part of this transaction, three Sino Gas directors were appointed to the board of SGE, along with four directors from MIE to provide oversight over the operations of SGE and make strategic and planning decisions in the interests of the shareholders. From this time, the Board and Managing Director has performed the roles reserved to the Planning Committee.

Risk Management Policy

The Company is focused on ensuring that there are adequate structures and procedures in place to identify, assess monitor and manage risk and is taking steps to address the practical implementation of risk management policies. A summary of the Company's Risk Management Policy is available on the Company's website.

Although the Company has considered the establishment of a separate risk management committee, the Company believes that it is crucial for all Board members to be part of the risk management process, and that the Board, the Audit and Compliance Committee and the Planning Committee (during its formation) provide adequate oversight of the Company's risk management and internal controls.

In accordance with the Company's Risk Management Policy, the Board oversees the establishment, implementation and annual review of the Company's risk management policies as part of the Board approval process for the strategic plan. To assist the Board to conduct the annual review, management and key executives are required to report to the Board on any material risks identified, how those risks are being managed, the implementation of any risk management or internal control system, and whether any breaches of the risk management policies have occurred during the preceding 12 months.

In particular the Planning Committee and Audit and Compliance Committee provide assistance to the Board in monitoring compliance with the Risk Management Policy. During its formation, the Planning Committee was responsible for identifying or ensuring that management has in place a process to identify the principal risks of the Company's business, examining the Company's risk profile and monitoring and ensuring an appropriate assessment process has been established and undertaken for monitoring corporate risk and the internal controls (including information systems) instituted. Since the dissolution of the Planning Committee, the Board and Managing Director have assumed responsibility for these roles. The Audit and Compliance Committee is responsible for monitoring and ensuring an appropriate assessment process has been established and undertaken for monitoring financial reporting risk and internal controls instituted and annually reviewing internal and external audit programs/reports to ensure that, where deficiencies in controls or procedures have been identified, appropriate remedial action is taken by management.

In managing the Company's risks, the company has initiated a review of the Company's risk tolerance profile and risk register in light of the recent change in the Company's affairs. This review is anticipated to be completed shortly.

In addition, the Board requires the Managing Director and the Chief Financial Officer to state in writing that:

- the Company's risk management and internal control system to manage the Company's material risks are being managed effectively; and
- the Company's financial reports are founded on a sound system of risk management and internal control and that system is operating effectively in all material respects in relation to financial reporting risks.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012 (CONT'D)

The Board has received a statement to this effect from the Managing Director and the Chief Financial Officer equivalent for the year ended 31 December 2012.

Code of Conduct

The Company has adopted a formal Code of Conduct to address matters relevant to the Company's legal and other obligations to its stakeholders.

The Code of Conduct applies equally to all employees, directors and officers of Sino Gas, each of whom must discharge their duties at the highest level of honesty and integrity, in good faith and having regard to the position and the organisations goals and objectives of the Company. A copy of the Code of Conduct is available on the Company's website.

Share Trading Policy

The Share Trading Policy regulates dealings by Directors, officers and employees in securities issued by the Company.

The Share Trading Policy imposes basic trading restrictions on all employees of the Company who possess inside information and additional trading restrictions on all Directors and any of their associates. A copy of the Share Trading Policy is available on the Company's website.

Procedures for compliance with disclosure requirements

The procedures for complying with disclosure requirements and ensuring senior management accountability have been adopted to ensure that Sino Gas complies with its disclosure requirements and to ensure that ASX is properly informed of matters which may have a material impact on the price at which Sino Gas securities are traded.

A copy of the Company's policy is available on the Company's website.

Shareholder Communication Policy

The Board aims to ensure that shareholders are informed of all major developments affecting Sino Gas' state of affairs. In particular, the Board believes that communicating with shareholders by electronic means, particularly through its website, is an efficient way of distributing information in a timely and convenient manner.

The Company's website includes a section on the Company's corporate governance policies and practices, and a news section, containing copies of ASX announcements made by the Company

A copy of the Shareholder Communication Policy adopted by the company is available on the Company's website.

Diversity Policy

The Company has adopted a diversity policy to guide the Company's employees and board of directors in developing and achieving its diversity objectives. The Company values diversity among our workforce. The Company seeks to employ, retain and develop employees for the long term, assisting in their development and the development of the culture and values of the Company. This is done by promoting the value of different perspectives, ideas and benefits brought by engaging widely with all employees.

The Company recognises that a talented and diverse workforce is a key competitive advantage and that success is a reflection of the quality and skills of its people. Diversity assists the business in achieving its objectives and delivering for its stakeholders by enabling it to attract and retain the most qualified and experienced individuals to the workforce. The Company seeks to develop a culture of diversity within the Company whereby a mix of skills and diverse backgrounds are employed by the Company at all levels. The Company values the benefits brought to the Company by employees from a variety of backgrounds including gender, age, cultural and religious background, education, geographical location, ethnicity, experience and flexibility.

The Company strives to develop and maintain a diverse and skilled workforce through transparent recruitment processes; promotion of an inclusive workplace culture that values and utilises the contribution of all employees backgrounds, experiences and perspective through improved awareness of the benefits of workforce diversity; facilitation of diversity in the workplace by developing programs that promote growth for all employees, so each may reach their full potential, and providing maximum benefit for the Company; reviewing the demographic profile at all levels of the Company (considering any patterns or gaps that are apparent) and setting measurable objectives to encourage diversity within the Company.

The Board will develop objectives that work towards ensuring that the Company benefits from a diverse workplace. In

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012 (CONT'D)

respect to the Company's China operations these objectives will be developed in a manner appropriate to that context.

The following have been identified as being relevant objectives for the company at this time, to assist in achieving gender diversity:

- (a) review of the number of women employed by the Company at each wage level (Board, Senior Management, Whole of Organisation, each wage Level), noting whether they are employed on a full time or part time basis;
- (b) review of employment packages and employment flexibility. This review will be carried out in accordance with Chinese labour laws which already provide for flexibility in such employment arrangements;
- (c) ensuring that the Company continues to monitor key values and criteria for recruitment at all levels of the Company in order to promote an inclusive workplace culture; and
- (d) seeking input from employees on a voluntary basis on the levels of diversity and perceived culture of diversity within the company.

The Company's workforce gender profile:

	2012		2011	
	Male (%)	Female (%)	Male (%)	Female (%)
Board Representation	100	-	100	-
Key Senior management representation	100	-	100	-
Group representation	50	50	52	48

A copy of the Diversity Policy is available on the Company's website.

Explanations for departures from ASX Corporate Governance Recommendations

The Board sets out below, on an "if not, why not" basis, disclosure of any ASX Corporate Governance Recommendations that have not been adopted by the Company during the financial year ended 31 December 2012, together with the reasons why they have not been adopted.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012 (CONT'D)

Principle 2 – Recommendation 2.1

Notification of Departure

During the year ended 31 December 2012, the Board did not have a majority of independent Directors. During the period of May to August 2012, the Board did consist of a majority of independent directors. The ASX Corporate Governance Recommendations provide for a test of independence as set out in Box 2.1 of the ASX Corporate Governance Recommendations (Independence Test). In accordance with the Independence Test, and as a result of information obtained from Directors' Independence Questionnaires:

Director	Nature of Interest
Current board members	
Mr Gavin Harper is not considered to be independent	Mr Harper is the Executive Chairman.
Mr Robert Bearden is not considered to be independent	Mr Bearden is the Managing Director & CEO
Mr Bernie Ridgeway is not considered to be independent	Mr Ridgeway is the Managing Director of Imdex Limited, a substantial shareholder of the Company
Mr Peter Mills is considered to be independent	Not applicable
Mr Colin Heseltine is considered to be independent	Not applicable
Previous board members during 2012	
Mr John Chandler was considered to be independent	Not applicable
Mr Stephen Lyons was not considered to be independent	Mr Lyons acted as the Company's previous Managing Director

Materiality thresholds were not applicable in determining the independence of directors.

Explanation for Departure

The Board has been structured such that its composition and size will enable it to effectively discharge its responsibilities and duties. Each Director has appropriate industry experience and specific expertise relevant to the Company's business and level of operations.

The Board considers that its structure and size is, and will continue to be, appropriate in the context of the Company's strategic plans. The Company considers that the non-independent Directors possess the skills and experience suitable for building the Company. The Board intends to reconsider its composition as the Company's operations evolve, and may appoint additional independent Directors as it deems appropriate.

All directors are aware that they are required to bring an independent judgment to bear on Board decisions. Where a potential conflict of interest may arise, involved Directors must, unless the remaining Directors resolve otherwise, withdraw from deliberations concerning the matter. Further each Director has the right to seek independent professional advice at the expense of the Company.

During the period of 16 May 2012 until 31 August 2012, the Board did consist of a majority of independent directors.

Principle 2 – Recommendation 2.2 and 2.3

Notification of departure

During the year ending 31 December 2012, Mr Gavin Harper acted as Chairman of the Company. During the year the Chairman did not satisfy the Independence Test provided by the ASX Corporate Governance Recommendations as for the reasons set out above, Mr Gavin Harper is not an independent Director.

Explanation for Departure

While the Board recognises the importance of independence in decision making, it believes that Mr Harper was the most appropriate person to hold the position of Chairman during the financial year.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012 (CONT'D)

Principle 2 – Recommendation 2.4

Notification of departure

The Company has established a nomination and remuneration committee of which its current members are Mr Peter Mills (Committee Chairman), Mr Bernie Ridgeway and Mr Colin Heseltine. Until 8 August 2012, the Nomination & Remuneration Committee was chaired by Mr Bernie Ridgeway. As such, during the entire year the Committee Chairman did not satisfy the Independence Test provided by the ASX Corporate Governance Recommendations as for the reasons set out above, Mr Bernie Ridgeway is not an independent Director.

From this time, the committee has been chaired by Mr Peter Mills who is considered to be an independent Director.

Explanation for departure:

The Board has been structured such that its composition and size will enable it to effectively discharge its responsibilities and duties. Each Director has the appropriate industry experience and specific expertise relevant to the Company's business and level of operations.

While the Board recognises the importance of independence in decision making and committee membership, it believes that during the period of non compliance with the above mentioned recommendation, the committee operated efficiently and its Chair was the most appropriate persons for this position at that time. All directors are aware that they are required to bring an independent judgment to bear on committee recommendations and Board decisions. Where a potential conflict of interest may arise, involved members must, unless the remaining members resolve otherwise, withdraw from deliberations concerning the matter. The Board intends to monitor the composition of the Company's committees as operations evolve.

Principle 4 – Recommendation 4.2

Notification of departure

The Company has established an audit committee of which its current members are Mr Bernie Ridgeway (Committee Chairman), Mr Peter Mills and Mr Colin Heseltine. Since Mr John Chandlers retirement on 31 August 2012, the Committee has been chaired by Mr Bernie Ridgeway. During the year, Mr Bernie Ridgeway did not satisfy the Independence Test provided by the ASX Corporate Governance Recommendations as for the reasons set out above, Mr Bernie Ridgeway is not an independent Director. As such, the committee is not chaired by an independent director as recommended by the recommendations. Until 31 August 2012, the committee was chaired by Mr John Chandler who was considered to be an independent director. Accordingly, the Committee has not been chaired by an independent director for the entire year ending 31 December 2012 and currently.

Explanation for departure:

The Board has been structured such that its composition and size will enable it to effectively discharge its responsibilities and duties. Each Director has the appropriate industry experience and specific expertise relevant to the Company's business and level of operations.

While the Board recognises the importance of independence in decision making and committee membership, it believes that during the period of non compliance with the above mentioned recommendation, the committee operated efficiently and its Chair was the most appropriate persons for this position at that time. All directors are aware that they are required to bring an independent judgment to bear on committee recommendations and Board decisions. Where a potential conflict of interest may arise, involved members must, unless the remaining members resolve otherwise, withdraw from deliberations concerning the matter. The Board intends to monitor the composition as the Company's committees as operations evolve.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012 (CONT'D)

Principle 8 – Recommendation 8.2

Notification of departure

The Company has established a nomination and remuneration committee of which its current members are Mr Peter Mills (Committee Chairman), Mr Bernie Ridgeway and Mr Colin Heseltine. Until 8 August 2012, the Committee was chaired by Mr Bernie Ridgeway. As such, during the entire year, the Committee Chairman did not satisfy the Independence Test provided by the ASX Corporate Governance Recommendations as for the reasons set out above, Mr Bernie Ridgeway is not an independent Director.

From this time, the committee has been chaired by Mr Peter Mills who is considered to be an independent Director.

Explanation for departure:

The Board has been structured such that its composition and size will enable it to effectively discharge its responsibilities and duties. Each Director has the appropriate industry experience and specific expertise relevant to the Company's business and level of operations.

While the Board recognises the importance of independence in decision making and committee membership, it believes that during the period of non compliance with the above mentioned recommendation, the committee operated efficiently and its Chair was the most appropriate persons for this position at that time. All directors are aware that they are required to bring an independent judgment to bear on committee recommendations and Board decisions. Where a potential conflict of interest may arise, involved members must, unless the remaining members resolve otherwise, withdraw from deliberations concerning the matter. The Board intends to monitor the composition as the Company's committees as operations evolve.

ADDITIONAL SECURITIES EXCHANGE INFORMATION

1. Number of holders of equity securities

The shareholder information set out below was applicable as at 14 March 2013.

(a) Ordinary share capital

(i) Distribution of ordinary shares

The Company has a total of 1,238,648,140 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 107 holders holding less than a marketable parcel.

(ii) The number of securities, by size of holding

Holding		No. Of Holders	Fully Paid Shares	
1	-	1,000	60	2,584
1,001	-	5,000	101	372,779
5,001	-	10,000	161	1,351,563
10,001	-	100,000	1,028	49,613,569
100,001	-	and over	715	1,187,307,645
Total Number of holders		2,065	1,238,648,140	

(iii) Twenty largest holders of ordinary shares

Name	Ordinary shares	
	Number held	Percentage of issued shares
IMDEX INTERNATIONAL PTY LIMITED	244,648,446	19.75
J P MORGAN NOMINEES AUSTRALIA LIMITED	91,562,918	7.39
NATIONAL NOMINEES LIMITED	75,871,659	6.13
SHL PTY LTD <SH LEE FAMILY ACCOUNT>	74,209,630	5.99
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	56,617,780	4.57
CITICORP NOMINEES PTY LTD	48,669,895	3.93
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	22,306,748	1.80
MR IAN INGRAM	20,000,000	1.61
AZURE SEA LTD	16,399,896	1.32
COLBERN FIDUCIARY NOMINEES PTY LTD	15,000,000	1.21
MR ROSS EDWARD GUSTAFSON <VESTY SUPER FUND A/C>	11,166,156	0.90
FORTY TRADERS LIMITED	10,645,922	0.86
KEEBLE NOMINEES PTY LTD <RIDGEWAY SM SUPER A/C>	10,000,000	0.81
MR PETER JOHN BOX	9,708,331	0.78
RBC INVESTOR SERVICES BANK SA	8,915,914	0.72
T T NICHOLLS PTY LTD <SUPERANNUATION ACCOUNT>	7,903,938	0.64
IMDEX LIMITED	7,260,000	0.59
SALTY NOMINEES PTY LTD <SALTY A/C>	7,250,000	0.59
SKYE ALBA PTY LTD <THE SKYE ALBA FUND A/C>	6,775,670	0.55
FONDAZIONE CRT	6,583,477	0.53
Total Top Twenty Holders	751,496,380	60.67
Total Remaining Holders Balance	487,151,760	39.33

ADDITIONAL SECURITIES

EXCHANGE INFORMATION (CONT'D)

(b) Options

(i) Distribution of options

The Company has a total of 38,750,000 unlisted options. The options are summarised below:

Details	Number on issue	Exercise Price	Expiry date
Unlisted	8,750,000	\$0.0793	25 Nov 2013
Unlisted	30,000,000	\$0.075	15 Feb 2017

(ii) The number of securities, by size of holding

Unlisted Options

Size of Holding	7.93 cent options		7.5 cent options	
	No of holders	Options	No of holders	Options
1 - 1,000	-	-	-	-
1,001 - 5,000	-	-	-	-
5,001 - 10,000	-	-	-	-
10,001 - 100,000	-	-	-	-
100,001 and over	3	8,750,000	1	30,000,000
Total Number of Holders	3	8,750,000	1	30,000,000

(iii) Largest holders of unquoted options holding more than 20%

Unlisted options - \$0.0793, expire 25 November 2013

Shareholder	No. of options	% of total
Argonaut Equity Partners Limited	4,375,000	50
SpringTree Special Opportunities Fund, LP	4,375,000	50
Total	8,750,000	100

Unlisted options - \$0.075, expire 15 February 2017

Shareholder	No. of options	% of total
Argonaut Capital Limited	30,000,000	100
Total	30,000,000	100

(c) Performance Rights

(i) Distribution of performance rights

The Company has a total of 44,550,000 performance rights on issue held by 10 holders. All of these performance rights have been issued pursuant to the Company's Performance Rights Plan.

(ii) The number of performance rights, by size of holding (over page)

ADDITIONAL SECURITIES

EXCHANGE INFORMATION (CONT'D)

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	10	44,550,000
Total Number of Holders	10	44,550,000

2 Substantial Shareholders

The company has received the following substantial shareholder notices:

Name	No. of Shares	% of Issued Share Capital	No. of options	Option terms
Imdex Limited	251,908,446	22.49%	96,263,092	Listed - 12.5 cent expired 31 Dec 2012
SHL Pty Ltd	77,205,139	6.23%	6,000,000	Listed - 12.5 cent expired 31 Dec 2012
China Opportunity SA Sicar	46,999,310	4.19%	17,980,404	Listed - 12.5 cent expired 31 Dec 2012

3 Schedule of tenements

PSC	Holder	Beneficial Interest (%)		Cost Recovery / Revenue Split
		Exploration	Development & Production	
Linxing (LXC) 1,874 km ² China	Sino Gas & Energy Limited	SGE100%	SGE 64.75% CUCBM 30.0% CBM Energy 5.25%	Exploration costs are funded by SGE 100% and are recoverable from future revenues from commercial production.
Sanjiaobei (SJB) 1,124 km ² China	(SGE)		SGE 49.0% CNPC 51.0%	Exploration, development and operating costs are recovered from gross revenue in accordance with a standard cost recovery formula.

Following the completion of the strategic partnership with MIE Holdings Corporate (MIE) on 6 July 2012, MIE holds a 51% interest in the issued share capital of Sino Gas & Energy Limited (SGE) through the investments described in Note 23 to the consolidated financial statements. Subsequent funding obligations are to be met in proportion to issued capital held by each shareholder in SGE (49% for Sino Gas) and failure to meet funding obligations may result in a dilution of the defaulting party's interest.

SGE has interests in two blocks under Production Sharing Contracts (PSCs) with CNPC and CUCBM. Under the terms of the PSCs, SGE (as the Foreign Contractor) is required to fund all exploration, development and associated operating costs (Qualifying Expenditure) until Overall Development Plan (ODP) approval. Upon ODP approval, the PSC partners and SGE will fund their respective costs to commercialise the project. Once in commercial production, gross production is split in accordance with the cost recovery model, similar in operation to PSCs adopted in a number of international jurisdictions. First joint operating costs are recovered before SGE recovers its Qualifying Expenditure. Once the Qualifying Expenditure is recovered, the remainder is shared between the parties (Chinese Partner and Foreign Contractor) in proportion to their interests.

China National Petroleum Company (CNPC) is one of China's largest oil and gas producers with an extensive international presence and a strong focus on the development of unconventional gas in China. CNPC's interest in the Sanjiaobei PSC is managed by its subsidiary PetroChina CBM (PCCBM).

Chinese United Coal-bed Methane (CUCBM) an affiliate of China National Offshore Oil Company (CNOOC). CBM Energy (an unrelated investment company and early participant in CBM in China) has an option with SGE to gain an interest of 5.25% at ODP approval of the Linxing PSC, by paying 7.5% of historical costs and expenses.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Gavin Harper
CHAIRMAN

Robert Bearden
MANAGING DIRECTOR & CEO

Bernard Ridgeway
NON-EXECUTIVE DIRECTOR

Peter Mills
NON-EXECUTIVE DIRECTOR

Colin Heseltine
NON-EXECUTIVE DIRECTOR

COMPANY SECRETARY

Harry Spindler

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RESOURCES STATEMENT & DISCLAIMER

The statements of resources in this Release have been independently determined to Society of Petroleum Engineers (SPE). Petroleum Resource Management Systems (SPE PRMS) standards by internationally recognized oil and gas consultants RISC (March 2013). 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. Project NPV10 is based on a mid-case gas price of \$US 8.54/mscf, lifting costs (opex+capex) ~ US\$1.3/msf mid-case. All resource figures quoted are unrisked mid-case unless otherwise noted. Sino Gas' attributable net reserves & resources assumes PSC partner back-in upon ODP approval, CBM Energy's option to acquire an interest of 5.25% in the Linxing PSC (by paying 75% of back costs) is exercised, and MIE fulfill funding obligations under the strategic partnership agreement.

Certain statements included in this announcement constitute forward looking information. This information is based upon a number of estimates and assumptions made by the Company in light of its experience, current conditions and expectations of future developments, as well as other factors that the Company believes are appropriate in the circumstances. While these estimates and assumptions are considered reasonable, they are inherently subject to business, economic, competitive, political and social uncertainties and contingencies.

Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking information provided by the Company, or on behalf of, the Company. Such factors include, among other things, risks relating to additional funding requirements, gas prices, exploration, acquisition, development and operating risks, competition, production risks, regulatory restrictions, including environmental regulation and liability and potential title disputes. Forward-looking information is no guarantee of future performance and, accordingly, investors are cautioned not to put undue reliance on forward-looking information due to the inherent uncertainty therein. Forward-looking information is made as at the date of this announcement and the Company disclaims any intent or obligation to update publicly such forward-looking information, whether as a result of new information, future events or results or otherwise.



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