



Sino Gas & Energy Holdings Limited

# INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDING 30 JUNE 2017

ACN 124 242 422

SINO  Gas & Energy  
[www.sinogasenergy.com](http://www.sinogasenergy.com)

# INTERIM FINANCIAL REPORT

for the half-year ended 30 June 2017

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Sino Gas & Energy Holdings Limited ("Sino Gas" ASX: SEH) is an Australian energy company focused on developing natural gas assets in China. Sino Gas holds a 49% interest in Sino Gas & Energy Limited ("SGE") through a strategic partnership with China New Energy Mining Limited ("CNEML"). SGE has been established in Beijing since 2006 and is the operator of the Linxing and Sanjiaobei Production Sharing Contracts ("PSC"s) in the Ordos Basin, Shanxi province. Sino Gas also owns an option to acquire an additional 5.25% participating interest in the Linxing PSC.

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. Sino Gas holds an option to acquire an additional 5.25% participating interest (assuming full partner back-in) in the Linxing PSC at ODP by contributing 7.5% of historical back costs to SGE.

The PSCs are located in the Ordos Basin and cover an area of approximately 3,000km<sup>2</sup>. The Ordos Basin is the largest gas producing basin in China. The region has mature field developments with an established pipeline infrastructure to major markets. 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 (ASX: SEH) was admitted to the Official List of ASX in 2009.

This interim financial report does not include all the notes of the type normally included in an annual financial report.

Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2016 and any public announcements made by Sino Gas & Energy Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.



## Directors' Report

Your directors present their report on the consolidated entity (the "Company" or the "Group" or "Sino Gas") consisting of Sino Gas & Energy Holdings Limited and the entities it controlled at the end of, or during, the half-year ended 30 June 2017. Sino Gas is a limited liability company that is incorporated and domiciled in Australia.

At 30 June 2017, Sino Gas held 49% of the issued capital of Sino Gas & Energy Limited (the "Joint Venture" or "SGE"), which holds interests in the Linxing (64.75%)<sup>1</sup> and Sanjiaobei (49%)<sup>1</sup> Production Sharing Contracts ("PSC"s) in Shanxi Province, People's Republic of China. In addition to its interest in SGE, as announced on 18 April 2017, the Company holds an option to acquire from SGE an additional 7.5% (reduced to 5.25% on full PSC Partner participation) net interest in the Linxing PSC at Overall Development Plan ("ODP") approval in exchange for reimbursing SGE 7.5% of all Linxing historical costs and expenses. If exercised, the Company would hold the largest working interest in the Linxing PSC.

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

### Directors

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

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

### Significant changes in the state of affairs

In the Opinion of the Directors, there were no significant changes in the state of affairs of the Group which have not been disclosed elsewhere in this report.

### Review of Operations

Linxing and Sanjiaobei field operations in the first half of 2017 consisted of ongoing pilot production and drilling and testing operations. Design and procurement of long-lead items for the installation of a third Central Gathering Station ("CGS") in the northern part of the Linxing PSC was progressed, along with preparations for ODP submissions.

The Company maintained top tier safety performance in the first half of 2017 with 198,794 Lost time Injury free manhours recorded (1H2016: 230,832 hours). There were no recorded environmental incidences.

The company announced an annual increase in gross unrisks P50 Resources of 14% to 8.8 Trillion cubic feet ("Tcf") (~1.5 billion barrels of oil equivalent, bn boe<sup>3</sup>) comprised of 2.1 Tcf 2P Reserves, 3.2 Tcf 2C Resources and 3.5 Tcf P50 Prospective Resources<sup>2</sup> at

the end of 2016. Sino Gas' net Proved plus Probable (2P) Reserves increased 5% to 579 Billion cubic feet ("Bcf") (~100 million barrels of oil equivalent, mmboe<sup>3</sup>) and net Proved Reserves (1P) increased 7% to 385 Bcf (64 mmboe<sup>3</sup>). The increase in Reserves is primarily driven by a successful exploration, appraisal and testing program on Linxing (East). Sino Gas' net 2C Contingent Resources increased 10% to 899 Bcf (150 mmboe<sup>3</sup>) and net P50 Prospective Resource increased 12% to 821 Bcf (137 mmboe<sup>3</sup>)<sup>2</sup>.

Average gross production for the first half was approximately 16 Million standard cubic feet per day ("MMscf/d"). Unplanned downstream downtime adversely impacted production from the Sanjiaobei CGS. In July 2017, SGE signed two new Gas Sales Agreement ("GSA's") with Shanxi GuoHua Energy Limited Company resulting in an increase in natural gas sales options to maximise off-take and revenue from both Linxing and Sanjiaobei at an attractive fixed price of ~US\$6.40/Mscf<sup>4</sup>. The Improved marketing arrangements and additional wells being tied-in to the pilot production facilities are expected to increase average production in the second half of 2017.

Work on the installation of the third CGS, Linxing North, was progressed with engineering and design work finalised, the majority of long-lead items ordered and, at the beginning of August, the commencement of site groundworks. Sino Gas continues to expect the commissioning of the facility in late 2017/early 2018.

During the first half, eight new wells were drilled, of which six were on the Sanjiaobei PSC and two on the Linxing PSC. The wells will be tied-in to existing CGSs to support production. Nine wells were fractured and will also be tied into production facilities. Three work-over rigs are currently operating to increase production from existing wells following the first two successful work-overs completed in April 2017 with co-mingled rates following the recompletions of up to 1.3 MMscf/d on Sanjiaobei, the highest ever co-mingled production rate from the PSC to date.

Well performance continues to be in-line with expectations. The first horizontal well, TB-1H, has surpassed cumulative production of 1 Bcf within 22 months.

Drilling and completion costs continued to improve with an approximately 15% reduction to ~\$0.85 million in the first half of 2017 versus the full year average for 2016.

During the first half 2017, SGE continued to progress ODP preparation activities with its PSC partners. On Sanjiaobei, detailed subsurface evaluation, reservoir modelling and drilling / well completion design to maximise recovery of gas from the various reservoirs are well progressed. Good progress has also been made on the surface development to manage a full range of production plateau outcomes. SGE continues to target submission of the first tight gas ODP in 2H 2017. In recognition of the Linxing PSC being identified in the 13<sup>th</sup> Five Year Plan as a

strategic development project, a focussed ODP is being prepared for submission in 2H 2017. This report is intended to support an early approval to enable accelerated development of core areas of the Linxing block.

### China Natural Gas Market Update

The National Development & Reform Commission ("NDRC") reported natural gas consumption growth year over year in the second quarter of 22%, with first half consumption up 15% over 2016. This significant growth acceleration has been driven by material coal to gas switching, increased use of natural gas for power generation and a surge in the gas fuelled transportation sector.

In July 2017, the NDRC released a policy document entitled "Recommendations to Accelerate the Use of Natural Gas". The policy has been written in conjunction with 13 Central Government Ministries and 31 provincial governments. The document reiterates China's target to increase natural gas' share of the primary energy mix to 10% by 2020 and 15% by 2030 to combat pollution and respond to climate change and identifies a number of key areas of policy support to achieve these government objectives.

### Linxing Option

In April 2017, Sino Gas purchased from CBM Energy Associates L.C. an option to acquire an additional 7.5% (reduced to 5.25% on full PSC Partner participation) participating interest in the Linxing PSC at ODP approval. The purchase cost of the option was US\$4.1 million, including US\$3 million in cash, 12 million Sino Gas shares and transaction costs. The Option is exercisable at ODP approval in exchange for payment of 7.5% of historical costs incurred on the PSC. The purchase of the option has a number of strategic benefits, including but not limited to, additional influence over Linxing PSC decision making once the option is exercised<sup>1</sup>.

### Financial Results and Position

The consolidated entity recorded a loss for the six months ended 30 June 2017 of US\$979,212 (2016 half-year loss of US\$4,407,573). In the first half, the Company reported net income from the joint venture of US\$2,448,163 (2016 \$379,056 net loss).

Sino Gas' cash position at the end of the period was US\$33million and the joint venture held US\$5 million. The Company has drawn down US\$10 million of the US\$ 50 million Macquarie debt facility.

Total capital expenditures incurred by the Joint Venture were US\$7 million for the first half of 2017. After taking into account gas sales proceeds that SGE reinvested to fund expenditures, SGE cash called Sino Gas US\$5.4 million during the period.

During the first half of 2017, gross SGE sales were US\$15 million in revenue, generating a robust margin

of ~US\$4/mcf<sup>6</sup>.

During the first half of 2017, US\$2 million was received by the Joint Venture with respect to gas sold from the Sanjiaobei PSC since the commencement of pilot production to the end of 2016. Ongoing Sanjiaobei gas sales proceeds are expected to be received in accordance with the pilot gas sales allocation agreement. The signing of term Linxing and Sanjiaobei fixed price sales contracts is expected to improve the timeliness of gas sales proceeds collections by eliminating previously experienced payment delays due to extended price renegotiation discussions.

### Events occurring after the reporting period

As announced on 17 and 24 July 2017, the Joint Venture company, SGE, in conjunction with its PSC Partners, PetroChina, and CUCBM, signed two new fixed price GSAs for gas sales from the Sanjiaobei and Linxing PSCs to existing gas buyer, Shanxi GuoHua Energy Limited Company ("GuoHua"). GuoHua is a subsidiary of Sinopec and is one of the largest gas distribution companies in Shanxi Province.

This Linxing GSA is effective from March 2017 to March 2018 with a fixed gas price of ~US\$6.40/Mscf (~A\$8/Mscf) equivalent<sup>4</sup> and covers a minimum daily contract volume of 14 MMscf/d. The Sanjiaobei GSA is effective from July 2017 to the end of 2017 at the same price and covers the total available production from the Sanjiaobei CGS. There are no penalties on either party for shortfall. The new GSAs are in addition to and do not negate the existing GSAs.

Other than the above, the Company is not aware of any material subsequent events.

### 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 5.

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



**Glenn Corrie**  
Managing Director  
Perth

30 August 2017

## Notes to the Directors' Report

1. Assumes SGE's PSC partners take up their full entitlements upon Overall Development Plan (ODP) approval, by contributing development and operating costs in line with their PSC interest (i.e. CUCBM takes a 30% interest in the Linxing PSC and PCCBM takes a 51% interest in the Sanjiaobei PSC) and Sino Gas exercises its 5.25% option to acquire a direct interest in Linxing. SGE has a 100% working interest during the exploration phase of the PSCs.
2. The statements of Reserves and Resources in this report have been independently determined to Society of Petroleum Engineers (SPE) Petroleum Resource Management System (PRMS) standards as at 31 December 2016 by internationally recognised oil and gas consultants RISC (Announced 6 March 2017) using probabilistic and deterministic estimation methods. These statements were not prepared to comply with the China Petroleum Reserves Office (PRO-2005) standards or the U.S. Securities and Exchange Commission regulations and have not been verified by SGE's PSC partners PetroChina and CUCBM. All resource figures quoted are unrisks mid-case unless otherwise noted. Sino Gas' attributable net Reserves & Resources assumes PSC partner participation upon ODP approval (i.e. CUCBM take their entitlement of 30% interest in Linxing PSC and PetroChina take their entitlement to 51% in the Sanjiaobei PSC). Since Sino Gas purchased the option to acquire an interest of 5.25% (assuming full partner participation) in the Linxing PSC (by paying 7.5% of back costs) in April 2017 the Reserves & Resources as at 31 December assume the option is exercised by a third party. Reserves & Resources are net of 4% in-field fuel for field compression and field operations. Reference point is defined to be at the field gate. No material changes have occurred in the assumptions and subsequent work program exploration and appraisal results have been in line with expectations.  
*Prospective resources are the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) related to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. Contingent Resources are the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) which are discovered with uncertainty in development only (no uncertainty in discovery). The probability of development of the discovered contingent area is estimated to be 90%, with the additional probability of geological success assigned to prospective resources estimated to be 60-80%.*
3. Mscf to boe conversion 6:1.
4. GSA denominated in RMB. Assuming RMB/US\$ exchange rate of 6.78.
5. Share consideration based on the closing share price and USD/AUD exchange rate immediately prior to deal announcement.
6. Margin is calculated as the Joint Venture net revenue after VAT and partner share less operating expenses per Mscf of sales. This is a term commonly used in the oil and gas industry which is not defined by or calculated in accordance with International Financial Reporting Standards ("IFRS"). This term should not be considered an alternative to, or more meaningful than the comparable measures determined in accordance with IFRS. The measures provide additional information to evaluate SGE's financial performance per unit of sales. The margin for the six months ending 30 June 2017 is calculated by dividing SGE gross sales of US\$15.2 million, less operating expenses of US\$3.0 million by total volumes sold of ~16 MMscf/d. The non-IFRS measures have not been subject to audit or review by Sino Gas' external auditors. Sino Gas' determination of these measures may not be comparable to that reported by other companies. Please refer to Note A2 of the Financials Statements on page 10 for a full breakdown of SGE's operating performance.

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

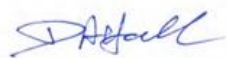
As lead auditor for the review of Sino Gas & Energy Holdings Limited for the half-year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

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

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



Ernst & Young



Darryn Hall  
Partner  
Perth  
30 August 2017

## Consolidated Statement of Loss and Other Comprehensive Loss

for the half-year ended 30 June 2017

		30 June 2017	30 June 2016
		\$	\$
<b>Revenue</b>			
Interest Income		190,753	101,248
Interest income from loans to joint venture	A2	2,826,827	-
Share of net loss of joint venture accounted for using the equity method	A2	(378,664)	(379,056)
Net income from joint venture		2,448,163	(379,056)
<b>Expenses</b>			
Financing costs		539,641	807,179
Depreciation and amortisation		37,055	56,992
Share-based compensation		424,534	271,182
General and administration		2,662,205	3,051,636
Foreign exchange gain		(76,597)	(57,224)
<b>Loss before income tax</b>		(947,922)	(4,407,573)
Income tax expense		31,290	-
<b>Loss for the period attributable to shareholders</b>		(979,212)	(4,407,573)
<b>Total comprehensive loss for the period</b>		(979,212)	(4,407,573)
<b>Loss per share for loss attributable to shareholders:</b>		Cents	Cents
Basic loss per share		(0.05)	(0.21)
Diluted loss per share		(0.05)	(0.21)

The above Consolidated Statement of Loss and Other Comprehensive Loss should be read in conjunction with the accompanying notes

## Consolidated Statement of Financial Position

as at 30 June 2017

	Notes	30 June 2017 \$	31 December 2016 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	B1	32,926,111	44,233,179
Prepayments and other receivables		721,862	277,576
<b>Total current assets</b>		<b>33,647,973</b>	<b>44,510,755</b>
<b>Non-current assets</b>			
Interest in joint venture accounted for using equity method	A2	54,445,868	53,739,414
Loan receivable from joint venture	A2	67,027,005	59,690,712
Exploration and evaluation assets	C1	4,056,497	-
Property, plant and equipment		437,344	224,643
<b>Total non-current assets</b>		<b>125,966,714</b>	<b>113,654,769</b>
<b>Total assets</b>		<b>159,614,687</b>	<b>158,165,524</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		2,076,547	2,325,535
<b>Total current liabilities</b>		<b>2,076,547</b>	<b>2,325,535</b>
<b>Non-current liabilities</b>			
Borrowings	B2	10,000,000	10,000,000
<b>Total liabilities</b>		<b>12,076,547</b>	<b>12,325,535</b>
<b>Net assets</b>		<b>147,538,140</b>	<b>145,839,989</b>
<b>EQUITY</b>			
Issued capital	B3	177,164,771	174,892,183
Reserves	B3	10,812,257	10,407,482
Accumulated losses		(40,438,888)	(39,459,676)
<b>Total equity</b>		<b>147,538,140</b>	<b>145,839,989</b>

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



## Consolidated Statement of Changes in Equity

for the half-year ended 30 June 2016

	Notes	Contributed equity \$	Equity settled benefits reserves \$	Accumulated losses \$	Total attributable to equity holders of the Company \$
<b>Balance at 1 January 2017</b>		174,892,183	10,407,482	(39,459,676)	145,839,989
Loss for the half-year		-	-	(979,212)	(979,212)
<b>Total comprehensive loss for the half-year</b>		-	-	(979,212)	(979,212)
<b>Transactions with owners in their capacity as owners:</b>					
Issue of shares	B3	2,272,588	-	-	2,272,588
Performance rights expense	B3	-	404,776	-	404,776
		2,272,588	404,776	-	2,677,364
<b>Balance at 30 June 2017</b>		177,164,771	10,812,258	(40,438,888)	147,538,141
<b>Balance at 1 January 2016</b>		174,793,004	9,853,326	(31,676,578)	152,969,752
Loss for the half-year		-	-	(4,407,573)	(4,407,573)
<b>Total comprehensive loss for the half-year</b>		-	-	(4,407,573)	(4,407,573)
<b>Transactions with owners in their capacity as owners:</b>					
Issue of shares	B3	99,179	(99,179)	-	-
Performance rights expense	B3	-	316,122	-	316,122
		99,179	216,943	-	316,122
<b>Balance at 30 June 2016</b>		174,892,183	10,070,269	(36,084,151)	148,878,301

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

## Consolidated Statement of Cash Flows

for the half-year ended 30 June 2017

	Notes	30 June 2017 \$	30 June 2016 \$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees (inclusive of goods and services tax)		(2,836,464)	(3,601,159)
Income tax paid		(186,753)	-
Interest received		216,659	41,759
Interest paid		(624,756)	(514,996)
<b>Net cash used in operating activities</b>		<b>(3,431,314)</b>	<b>(4,074,396)</b>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(323,507)	(9,031)
Purchase of Linxing option	C1	(3,059,565)	-
Loans to joint venture	A2	(5,390,000)	(1,901,200)
Additional contribution to SGE	A2	(600,943)	-
<b>Net cash used in investing activities</b>		<b>(9,374,015)</b>	<b>(1,910,231)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of equity securities	B3	1,425,656	-
<b>Net cash provided by financing activities</b>		<b>1,425,656</b>	<b>-</b>
<b>Decrease in cash and cash equivalents</b>		<b>(11,379,673)</b>	<b>(5,984,627)</b>
Cash and cash equivalents at the beginning of the half-year		44,233,179	63,419,354
Effects of exchange rate changes on cash and cash equivalents		72,605	74,484
<b>Cash and cash equivalents at end of the half-year</b>	B1	<b>32,926,111</b>	<b>57,509,211</b>

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

## Notes to the Financial Statements

### General information

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

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

These general purpose condensed financial statements were authorised for issue by the directors on 30 August 2017.

### Basis of Preparation

The condensed consolidated interim financial report for the half-year reporting period ended 30 June 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Act 2001*.

These financial statements have been prepared under the historical cost convention. All amounts are presented in United States dollars, unless otherwise noted.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2016 and any public announcements made by Sino Gas & Energy Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the previous interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year, except for the new or revised accounting standards which became effective for the annual reporting period commencing 1 January 2017, the impact of which on the current year was not material and there was no impact on the comparative figures.

## A - Joint Venture

### A1 Establishment of SGE and its shareholding

In 2012, the Company entered into agreements with Asia Gas and Energy Limited ("Asia Gas") to establish a jointly controlled corporation between Sino Gas and Energy Holdings Limited and Asia Gas in Sino Gas & Energy Limited ("SGE") for the principal purpose of the exploration, development and production of unconventional gas pursuant to two production sharing contracts ("PSCs"), Linxing PSC block and Sanjiaobei PSC block, both located on the eastern flank of the Ordos Basin in the People's Republic of China ("the PRC").

SEH's economic interest in SGE as at 30 June 2017 was 49% (2016: 49%). On 20 July 2016, China New Energy Mining Limited ("CNEML") completed the acquisition of MIE Holdings Corporation's entire interest in Asia Gas for a cash payment of US\$220 million (minus working capital and net contributions adjustments of US\$11.8 million). Information regarding the statement of financial position and performance of SGE is set out in A2.

### A2. SEH's interests in SGE

Financing transactions with and investments in SGE take the form of both loans to the joint venture and equity investments.

Sino Gas' equity investment in the SGE joint venture	30 June 2017	31 December 2016
	\$	\$
Balance at the beginning of the financial period	53,739,414	50,126,564
SEH's share of net loss of equity accounted joint venture	(378,664)	(2,299,415)
Beneficial financial terms contribution	880,534	6,217,407
Elimination of capitalised interest	-	(1,766,658)
Other capital costs	204,584	1,426,296
Other	-	35,220
<b>Balance at the end of the financial period</b>	<b>54,445,868</b>	<b>53,739,414</b>

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

Information regarding the joint venture is set out below:

	30 June 2017	31 December 2016
	US\$	US\$
<b>Statement of Financial Position</b>		
Cash and cash equivalents	4,567,812	2,821,926
Current assets	12,876,739	4,192,497
Non-current assets	288,051,231	285,842,004
<b>Total assets</b>	<b>305,495,782</b>	<b>292,856,427</b>
Current liabilities	29,107,238	29,705,132
Borrowings from shareholders	134,431,325	121,758,391
Non-current liabilities	279,411	266,105
<b>Total liabilities</b>	<b>163,817,974</b>	<b>151,729,628</b>
<b>Net assets</b>	<b>141,677,808</b>	<b>141,126,799</b>
SEH's interest	49%	49%
<b>SEH's share of net assets in SGE</b>	<b>69,422,126</b>	<b>69,152,132</b>
<b>Capitalised interest</b>	<b>(5,245,124)</b>	<b>(5,245,124)</b>
<b>Asia gas loan note</b>	<b>(11,593,890)</b>	<b>(11,593,890)</b>
<b>Other capital costs</b>	<b>1,862,756</b>	<b>1,426,296</b>
<b>Investment in SGE</b>	<b>54,445,868</b>	<b>53,739,414</b>

For the six months ended  
30 Jun

	2017	2016
<b>Statement of Loss and Other Comprehensive Loss</b>		
<b>Revenue</b>		
Sales	15,179,167	5,224,332
<b>Expenses</b>		
Operating expense	3,049,319	3,233,122
General and administration expense	1,409,290	912,972
Depreciation and amortisation expense	5,201,227	2,289,777
Interest expense	5,750,725	-
Exchange loss / (gain)	541,389	(437,955)
<b>Loss before income tax</b>	<b>(772,783)</b>	<b>(773,584)</b>
Income tax expense	-	-
<b>Loss for the year</b>	<b>(772,783)</b>	<b>(773,584)</b>
SEH's interest	49%	49%
<b>Loss for the year attributable to SEH</b>	<b>(378,664)</b>	<b>(379,056)</b>

No dividends were paid by SGE for the half year ended 30 June 2017 (2016: Nil).

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

Over and above the direct equity investment in SGE, SEH finances SGE by way of shareholder loans that may include beneficial financing terms which under Australian Accounting Standards may be considered

equity contributions to the investee. In addition, adjustments are necessary to the carrying amount of the investment in SGE, where interest on loans made by SEH to SGE has been capitalised in SGE to the costs of qualifying assets. The recognition of the interest income in SEH of interest charged to SGE which it has capitalised to qualifying assets during the period would result in a mismatch of inter-related income and expense and could artificially distort consolidated net profit. Accordingly, where the interest expense in SGE has been capitalised to qualifying assets, the interest income in SEH has been applied against the equity investment in SGE. Interest was not paid by SGE during the period, instead it has been capitalised to the principal on the loan between SEH and SGE. No interest has been capitalised to qualifying assets for the half year ended 30 June 2017 (2016: \$2,298,056).

### Interest bearing loan to Sino Gas & Energy Limited

	30 June 2017	31 December 2016
	\$	\$
Carrying amount at the beginning of the period	59,690,712	48,933,348
Advances to SGE	5,390,000	12,779,200
Interest on principal	2,826,827	4,195,571
Fair value adjustment on initial recognition	(880,534)	(6,217,407)
<b>Interest bearing loan receivable</b>	<b>67,027,005</b>	<b>59,690,712</b>

At initial recognition, loans are measured at fair value plus transaction costs that are directly attributable to the loans. Loans are subsequently carried at amortised cost using the effective interest method. Under the effective interest rate method, the difference between the amount initially recognised and the redemption amount is recognised in profit or loss over the period of the borrowings on an effective interest basis.

The difference between the fair value of the loans provided to the joint venture and the amount of funds advanced in substance represents an equity contribution in the joint venture and is recognised by the Company as an addition to its investment in the joint venture.

The loan is denominated in US dollars, unsecured and has an interest rate which is benchmarked against the People's Bank of China five year borrowing rate. As at 30 June 2017 the rate was 4.9% (2016: 4.9%). It has been classified as non-current based on the repayment terms of the loan agreement. The weighted average interest rate ("WAIR") is 10% (2016: 10%).

## B - LIQUIDITY, DEBT AND CAPITAL

### B1 Cash and cash equivalents

	30 June 2017	31 December 2016
	\$	\$
Cash and cash equivalents	32,926,111	44,233,179

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value. For the purposes of the cash flow statement, cash and cash equivalents include cash and cash equivalents as set out above.

	30 June 2017	31 December 2016
Foreign denomination of cash and cash equivalents held	\$	\$
In AUD	1,710,270	846,754
In USD	30,166,845	42,367,163
In CNY	1,048,996	1,019,262
Total in USD	32,926,111	44,233,179

### B2 Borrowings

	30 June 2017	31 December 2016
Non-current borrowings	US\$	US\$
Principal	10,000,000	10,000,000
<b>Total borrowings</b>	<b>10,000,000</b>	<b>10,000,000</b>

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance date.

The weighted average interest rate at 30 June 2017 was 10.79% (2016: 10.42%) entirely denominated in USD.

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

In the event Overall Development Plan approval is obtained for either Linxing PSC or Sanjiaobei PSC before the end of 2018, Sino Gas has the option to extend the maturity of the debt facility to the end of 2019 and repay the US\$10,000,000 outstanding under

Tranche A in six equal quarterly payments from September 2018 to December 2019.

The interest rate is 3 Month LIBOR + 9.75%.

Sino Gas has complied with the financial covenants of its borrowing facility during the reporting period.

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

### B3 Issued capital and reserves

	30 June 2017	31 December 2016
	\$	\$
<b>Equity and reserves</b>		
Issued Capital (a)	177,164,771	174,892,183
Reserves (b)	10,812,257	10,407,482

#### a) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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

Issued and Paid Up Capital	No. of Shares	\$
Balance at 1 January 2016	2,073,678,608	174,793,004
Issue of shares through conversion of deferred shares	695,345	99,179
Balance at 30 June 2016	2,074,373,953	174,892,183

#### b) Reserves

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 reserve initially arises on the grant of the equity settled benefit. As part of the revised remuneration framework adopted in 2014, the Company no longer offers equity benefits to non-executive directors.

	30 June 2017	31 December 2016
	\$	\$
Option Reserve	5,788,509	5,788,508
Performance Rights Reserve	4,845,248	4,499,974
Deferred shares Reserve	178,500	119,000
<b>Equity Settled Benefits Reserve</b>	<b>10,812,257</b>	<b>10,407,482</b>



## C - Group Performance

### C1 Exploration and evaluation assets

On 14 April 2017, a Sale and Purchase Agreement ("Option Agreement") was entered between a wholly-owned subsidiary of SEH and CBM Associates, L.C. ("CBM") to purchase CBM's option ("Option") to acquire a 7.5% (reduced to 5.25% at full PSC Partner back-in) participating interest in the Linxing PSC at ODP approval. The Option was originally agreed between CBM and ChevronTexaco China Energy Company ("ChevronTexaco") on 1 November 2005 and remained in effect after Sino Gas' Joint Venture SGE acquired the interest in Linxing PSC from ChevronTexaco.

To exercise the Option, Sino Gas would be required to reimburse SGE 7.5% of all historical costs and expenses incurred under the Linxing PSC at the time of exercise.

The costs to acquire the option have been capitalized as Exploration and Evaluation assets in the financial statements.

### C2 Commitments

Non-cancellable 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.

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

	<b>30 June 2017 \$</b>	30 June 2016 \$
Within one year	802,160	602,846
Later than one year but not later than five years	346,546	462,631
	<b>1,148,706</b>	<b>1,065,477</b>

## D - Events occurring after the reporting period

Subsequent to period end no events have occurred which materially impact the financial statements for the reporting period.

## Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 13 are in accordance with the *Corporations Act 2001*, including:
  - i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - ii. giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given declarations by the chief executive officer and chief financial officer that the financial records of the Company have been properly maintained in accordance with the Corporations Act 2001 and that company's financial statements give a true and fair view of the consolidated entity's financial position and performance for the financial period.

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



**Glenn Corrie**  
Managing Director  
Perth

30 August 2017

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

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the accompanying half-year financial report of Sino Gas and Energy Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

- a) the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the half-year ended on that date; and
  - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

### Directors' Responsibility for the Half-Year Financial Report

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

### Auditor's Responsibility

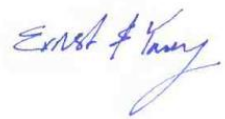
Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and

consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.



Ernst & Young



Darryn Hall  
Partner  
Perth, Australia  
30 August 2017