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ANNUAL REPORT

Sino Australia Oil and Gas Limited

FOR THE YEAR ENDED 31 DECEMBER 2013

ABN 85 159 714 397

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Directors' Report

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The Directors of Sino Australia Oil and Gas Limited ('Sino') present their Report together with the financial statements of the consolidated entity, being Sino ('the Company') and its controlled entities ('the Group') for the year ended 31 December 2013.

Director details

The following persons were directors of Sino during or since the end of the financial year.

Mr TianPeng Shao
Managing Director and Chairman
Member of Nomination and Remuneration Committee
Director since July 2012

Mr Shao graduated from Harbin Building Institute with a Major in Civil Engineering. He worked in a factory environment and as a salesperson for 6 years before entering the oil and gas industry in a management role. He then worked as General Manager for DaqingZhongguan Science and Technology Co., Ltd and 6 years as General Manager for DaqingYinkun Decoration Engineering Company.

Mr Shao founded Sino Australia Oil and Gas Limited in 2009 and now holds the Executive Chairman and Managing Director positions within the Company.

Other current directorships:
None

Previous directorships (last 3 years):
None

Interests in shares:
135,644,255 shares

Interest in options:
6,000,000 options

Mr Wrixon Gasteen
Independent Non-Executive Director
Chairman of Audit and Risk Management Committee
Appointed since March 2014

Mr Wrixon Gasteen is a Director and co-founder of Ikon Corporate Pty Ltd (Singapore). The company was established in Singapore in 2007 to provide corporate advisory, capital raising and management consulting and Director / CEO consulting services.

Mr Gasteen holds a Bachelor in Engineering (Mining) with Honours from the University of Queensland, Australia. He was awarded an MBA with Distinction from IMD/University of Geneva, Switzerland, topping his class in Mathematics. He has studied International Marketing at Stanford University's Business School in Palo Alto in California. He has held both Non-Executive Directorships and Executive Directorships in Australia and in Asia for the last 20 years, guiding, mentoring and leading as required.

Other current directorships:
Central Petroleum Limited (ASX: CTP)

Previous directorships (last 3 years):
None

Interests in shares:
None

Mr David Cornwell
Independent Non-Executive Director
Appointed since March 2014

Mr Cornwell has lengthy experience with international law firms such as White & Case, Baker Mckenzie and was a former partner of Herbert Smith Freehills.

Mr Cornwell has extensive experience in corporate governance and compliances in listed companies.

Other current directorships:
None

Previous directorships (last 3 years):
None

Interests in shares:
None

Interest in options:
None

Mr Guangbin Zhong
Independent Non-Executive Director
Chairman of Nomination and Remuneration Committee and Member of Audit and Risk Management Committee
Appointed since March 2014

Mr Guangbin Zhong is the co-founder of ZhongAo Chemical Co., Ltd and has 10 years of experience in the oil and gas industry in China.

Mr Zhong specialities are in the areas of petroleum chemical development and formation; drilling, completion and production engineering. He has recently commenced some studies of shale gas and oil in China.

Mr Zhong has held various positions during his career including ZhongAo Chemical Co., Ltd and Dong Xing Hao Yuan Petroleum Technologies Co., Ltd.

Other current directorships:
None

Previous directorships (last 3 years):
None

Interests in shares:
None

Interest in options:
None

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Mr Ruiyu He
Independent Non-Executive Director
Member of Audit and Risk Management Committee and Member of Nomination and Remuneration Committee
Appointed since February 2014

Ruiyu He has been the managing director of Hosmile Australia Pty Ltd for 16 years. He was responsible for market development in China for optical fibre and minerals and has over 20 years of marketing and sales experience in that country. He also has sound cross-culture management skills and experience between Australia and China.

Ruiyu holds a Bachelor of International Business from Griffith University, Australia.

Other current directorships:
Hosmile Australia Pty Ltd

Previous directorships (last 3 years):
None

Interests in shares:
None

Interest in options:
None

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Other changes in directorships

Mr Andrew Faulkner

Mr Andrew Faulkner holds a Bachelor of Business (Accounting) from the University of South Australia is a Member of the Institute of Chartered Accountants and a Registered Company Auditor.

Mr Faulkner is the Senior Audit Partner for Pitcher Partners in Adelaide. Mr Faulkner has been removed as independent non-executive director of the Company in March 2014. He holds 5,000,000 unlisted options at the time of removal.

Mr Wayne Johnson

Mr Johnson has business and financial transaction experience gained in Australia, New Zealand, Asia and North America. He has been responsible for a number of large business trade sales in the telecommunication industry and resource sectors to multinational buyers, was a founding director of The Cube Financial Group a licensed diversified ASX stock trading and corporate advisory business which merged and is known as ASX listed MDS Financial Group Limited.

Mr Johnson has been removed as independent non-executive director of the Company in March 2014. He holds 179,250 shares and 5,000,000 unlisted options at the time of removal.

Ms Heyan Wang

Ms Wang is a CPA qualified accountant, worked with local reputable Chartered Accountants firm for 6 years. She equipped herself with all accounting and taxation functions during these years. Heyan holds a Master degree of Professional Accounting from Wollongong University, Wollongong, Australia.

Ms Heyan Wang was appointed as independent non-executive director post balance date and resigned in March 2014.

Company secretary

Ms Eryn Kestel replaced Mr Andrew Faulkner as company secretary on 28 February 2014.

Ms Kestel holds a Bachelor of Business Degree majoring in Accounting and is a Certified Practising Accountant (CPA).

She serves as Corporate Compliance Adviser for NKH Knight Holdings Pty Ltd and is a company secretary for a number of publically listed junior mining companies.

Her core areas of competencies are company secretary matters and company administration. She has extensive knowledge of listed and non-listed companies' secretarial requirements, document drafting experience and corporate governance issues.

Principal activities

During the year, the principal activity of entities within the Group is the provision of Enhanced Oil Recovery (EOR) services for oil and gas wells.

There have been no significant changes in the nature of operations during the year.

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Review of operations and financial results

Commentary on Full Year Results

Following successful IPO in December 2013, the Directors of Sino Australia Oil and Gas Limited ("Sino" or "the Company") and its controlled entities ("the Group") hereby present the Company's first Annual Report.

Through this report, the Board seeks to provide an update to its Shareholders and the market on the results achieved for the 2013 financial year (ended 31 December 2013). It should be noted that the Group's financial year runs from January to December each year.

The Group realised an after tax profit of $8.4 million (before exchanges differences) for the 2013 financial year which represents an increase of 5% on the previous year. As a result of the strengthening of the Chinese Renminbi, the Company showed a foreign exchange gain on translation of foreign operation of $4.3 million.

On the other hand, financial strain in the domestic oil field services industry has been very common since the middle of year 2013 when the state governments reinforce their efforts to fight corruption in large state owned enterprises (SOE) such as PetroChina, resulting in a longer time frame for the collection of payments from state owned oil companies.

The Group completed its IPO in December 2013, lagging behind the projected completion for half a year. Hence, the planned capital expenditure for the purchase of additional drilling rigs was delayed resulting in delivery only in 2014. In order to fulfil its contracted sales order, further equipment lease expense of $2,620,890 was necessary in the second half 2013.

At the same time, the Group continues to expand and capturing additional market share, and as a result exceeding its forecasted revenues in the Prospectus by 17%. The increase in revenues are mainly derived from new markets developed in Xinjiang and Changqin Oilfields however due to its nature of competition, are less profitable and hence the average revenue per contracted well drilled is comparatively lower than forecast by 11%. This coupled with increased leasing costs resulted in lower gross margins, hence a negative $5 million variance in comparison with the forecast.

Following our successful IPO, the proceeds from capital raising will significantly improve Sino's financial strength and ultimately improve our competitiveness. The Board and management have confidence that our customer satisfaction levels shall remain high for both drilling and well maintenance services. While our strong competitive position in Daqing and Jin oilfields shall be strengthened, expansion in North-west China region shall be accelerated.

The Board of Directors and management believe that opportunities and challenges coexist in China's oil field services industry in 2014. After the third Plenary Session of the 18th Central Committee of Communist Party of China, state owned resource monopoly enterprises such as PetroChina and Sinopec are required to open their services sectors to unaffiliated enterprises for competition. Independent service providers with unique technology and know-how may seize the opportunity to substantially increase their market shares to new level.

Sino's unique technologies and continuing market expansion has provided consistent profits and reduced earnings volatility. With a strong balance sheet and experienced management team, the Board is looking forward to another successful year.

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Corporate Results Summary

On behalf of the Board we are pleased to inform shareholders that Sino Australia Oil and Gas Ltd (Sino) generated operating revenues of $33,700,425 for the year ended 31 December 2013. This is an increase of 44% from prior year (2012: $23,333,984). Sino's net profit after tax attributable to members for the 12 months ended 31 December 2013 was $8,395,837, which is an increase of 5% from 2012.

Sino completed its IPO in December 2013, lagging half year behind than projected. With its aggressive market expansion strategy in the northwest region such as Xinjiang and Changqin oilfields, more trial wells had been drilled , and more equipment and tools had to be leased, resulting in a significant increase in cost and ultimately a decline in margin.

Consolidated Group	FY2013 ($)	FY2012 ($)	FY2013 ($)	FY 2013 change over from	
	Actual	Actual	IPO Forecast	FY 2012	IPO Forecast
Revenue	33,700,425	23,333,984	28,796,000	44%	17%
Gross Profit	13,358,581	11,102,712	17,850,000	20%	-25%
Gross Profit Margin	**40%**	**48%**	**62%**		
EBIT	9,777,133	8,648,451	14,224,000	13%	-31%
EBIT Margin	**29%**	**37%**	**49%**		
Net interest (expense) / received	(383,707)	(165,456)	12,000		
Net profit before tax	9,393,426	8,482,995	14,236,000	11%	-34%
Net profit after tax	8,395,837	8,016,315	13,660,000	5%	-39%
Net profit after tax margin	**25%**	**34%**	**47%**		
Earnings per Share(cents)	**4.1**	**4.2**			

Operating Segments Review

Sino's market expansion strategy was a big success. The number of wells drilled increased by 50.8% to 377 (2012: 250), and the number of wells maintained increased by 76% to 440 (2012: 250). The actual results are much better than the forecast in the IPO prospectus, as follows:

	Actual	Actual	Actual	IPO Forecast	Actual
	FY2010	FY2011	FY2012	FY2013	FY2013
Number of contracted:					
Wells drilled	141	90	250	286	377
Wells maintained	372	375	250	400	440
Average revenue per contracted:					
Wells drilled ($'000)	50	100	92	97	86
Wells maintained ($'000)	2	1	2	3	3
Sales revenue:					
Wells drilled ($'000)	7,105	8,977	23,114	27,768	32,459
Wells maintained ($'000)	715	204	495	1,028	1,241
Total revenue ($'000)	7,820	9,181	23,609	28,796	33,700

Negative effect of delay of the planned two additional drilling rigs purchases until after FY2013

With all other variables remaining constant and the lease expense of the two additional rigs are the same as that hired from Beijing Ou Sheng Wen and Hua Fu in 2013, the additional lease expense resulting from the delay of the purchase and delivery of the planned additional drilling rigs is $2,620,890.

Drilling Rigs	Lease expense per well ($)	Wells drilled during 2nd Half of 2013	Lease expense ($)
Drilling Rig 1	43,035	30	1,291,050
Drilling Rig 2	44,328	30	1,329,840
Total		**60**	**2,620,890**

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Drilling Segment Performance

Drilling	FY2013 ($)	FY2012 ($)	Change
Segment revenue			
Sales revenue	32,458,719	22,711,274	43%
Interest revenue	-	-	
Total segment revenue	**32,458,719**	**22,711,274**	**43%**
Segment EBIT	**10,836,227**	**8,095,484**	**33%**
Segment EBIT/Sales Ratio	**33%**	**36%**	
Interest expenses	-	-	
Income tax expenses	-	-	
Net profit after tax	10,836,227	8,095,484	33%
Depreciation and amortisation expenses	646,574	419,749	54%
Segment EBITDA	**11,482,801**	**8,515,233**	**34%**
Segment EBITDA/Sales Ratio	**35%**	**38%**	

Sino's drilling segment achieved a robust growth of 43% in revenue in 2013 from 2012, with only a slight drop in margin, thus achieving a significant increase in EBITDA of 34%.

Well Maintenance Segment Performance

Well Maintenance	FY2013 ($)	FY2012 ($)	Change
Revenue			
Sales revenue	1,241,706	622,710	99%
Interest revenue	-	-	
Total segment revenue	**1,241,706**	**622,710**	**99%**
Segment EBIT	**1,013,333**	**553,073**	**83%**
Segment EBIT/Sales Ratio	**82%**	**89%**	
Interest expenses	-	-	
Income tax expenses	-	-	
Net profit after tax	1,013,333	553,073	83%
Depreciation and amortisation expenses	-	-	
EBITDA	**1,013,333**	**553,073**	**83%**
Segment EBITDA/Sales Ratio	**82%**	**89%**	

Sino's well maintenance segment is relatively very small compared with its drilling segment; nonetheless the segment revenue grew significantly in 2013 while maintaining a very high margin of 82%.

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Financial Position

In December 2013, Sino issued 25,658,628 fully paid ordinary shares issued at $0.50 per share and raised $12,829,319, resulting in a significant improvement on its financial position.

Following the successful capital raising and strong profits for the financial year, the Group is well placed to fund future expansions.

The Group generated strong cash flows totalling$6,396,220 from operating activities in 2013 (2012: 4,337,859) and this is expected to continue through the 2014 financial year.

Total capital expenditure for the year totalled$12,192,268(with $10,290,907 held as prepayment for purchase of equipment), with expenditure heavily weighted towards equipment purchases to take advantage of the growing opportunities in the oil field services industry.

The Group financial position at 31 December 2013 is strong with net assets of $38,932,990 (2012: $13,824,675). The operating businesses are well placed to take advantage of the continuing strong demand in the oil field services industry.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the parent entity during the financial year or prior year.

Dividends

No dividend has been declared for the financial year.

Events arising since the end of the reporting period

On 14 March 2014, the Company and three of its Directors (Mr Tianpeng Shao, MrRuiyu He and Ms Heyan Wang) were served with a copy of Orders made by the Federal Court of Australia following an application made by the Australian Securities and Investment Commission (ASIC) relating to alleged breaches of the Corporations Act. Ms Heyan Wang has resigned subsequently in March 2014.

ASIC is conducting an investigation into whether there were any material omissions in the disclosures in the capital raising Prospectus Documents or other contraventions of the Corporations Act. ASIC has commenced a proceeding in the Federal Court seeking orders restraining the Company from transferring funds out of its bank accounts in Australia. There is currently an injunction restraining the Company transferring funds. The related investigation is ongoing.

The Board through its legal counsel is in dialogue with ASIC regarding the orders obtained by ASIC with a view to having these lifted to enable the Company to support its operating subsidiary in accordance with its commitments.

As a direct consequence of the ASIC actions to freeze the Company's bank accounts in Australia, the Company has not been able to utilise the majority of the funds raised in the IPO to purchase the specialised equipment outlined in the Prospectus.

This has and will result in a monthly loss of profit of AUD 330,000. Included in this is the cost of fully trained engineers and technicians who have been employed and trained to operate the equipment but currently remain idle, additional costs have also been incurred to lease/hire additional specialised equipment to perform some of the duties in satisfying the high growth in new sales contract received by the SAO subsidiary.

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The operating costs of this leased/hire equipment is much higher than would have resulted by utilising the equipment planned to be purchased from the IPO funds.

Mr Ruiyu He, Mr Wrixon Gasteen, Mr David Cornwell, and Mr Guangbin Zhong have been appointed as independent non-executive directors in March 2014, with Mr Wayne Johnson and Mr Andrew Faulkner removed as directors in March 2014.

There are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

- The entity's operations in future financial years;
- The results of those operations in future financial years; or
- The entity's state of affairs in future financial years.

Likely developments, business strategies and prospects

Going forward, we believe the development of new markets and advanced technologies are equally important. Based on the Company's leading EOR technology, we plan to further develop practical technologies for application in the oil field service industry and actively expand the market for oil field based services.

In partnership with South West China Petroleum Department, Sinopec Engineering Technology Research Institute, Sinopec International Exploration Development Company and Sinopec International Petroleum Engineering Services Company, we can establish new relationships and expand our services to the overseas market.

We look for ways of reducing the Group's costing of drilling and maintenance services. One of the main strategies would be to reduce the costs of leasing equipment by increasing capital investments, in which would have a positive impact on margins.

We also aim to further increase the Company size and profitability through mergers and acquisitions within the industry and increasing efficiencies in key processes. At the same time, we will also develop new avenues of financing to meet further development requirements.

The material business risks faced by the Group that are likely to have an effect on the financial prospects of the Group include:

- The development of new technologies and range of services might result in a short term negative impact on costs and margins due to initial development costs; and

- The costs of maintenance of equipment purchased might have an impact on profitability. However, we expect the reduction in cost of leasing equipment will far outweigh the costs of maintenance.

Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Board meetings		**Audit and Risk Committee**		**Nomination and Remuneration Committee**	
	A	**B**	**A**	**B**	**A**	**B**
TianPeng Shao	3	3	-	-	-	-

Wrixon Gasteen[1]	-	-	-	-	-	-
David Cornwell[1]	-	-	-	-	-	-
Guangbin Zhong[1]	-	-	-	-	-	-
Ruiyu He[2]	-	-	-	-	-	-
Heyan Wang (Resigned)[3]	-	-	-	-	-	-
Wayne Johnson (Removed)[3]	3	3	-	-	-	-
Andrew Faulkner (Removed)[3]	3	3	-	-	-	-

Where:
Column A is the number of meetings the Director was entitled to attend
Column B is the number of meetings the Director attended

1 Mr Wrixon Gasteen, Mr David Cornwell and Mr Guangbin Zhong have been appointed as directors in March 2014.

2 Mr Ruiyu He has been appointed as director in February 2014.

3 Mr Wayne Johnson, Mr Andrew Faulkner have been removed as directors in March 2014 and Ms HeyanWang resigned in March 2014.

Unissued shares under option

Unissued ordinary shares of Sino under option at the date of this report are:

Description of options	Date options granted	Expiry date	Exercise price of shares ($)	Number under option
Options issued attaching to the redeemable convertible notes[1]	12 December 2013	12 December 2016	$0.75	3,588,809
Options issued following shares issued following the IPO[2]	12 December 2013	12 December 2016	$0.75	9,240,500
Options issued to Directors[3]	15 February 2013	12 December 2017	$0.75	16,000,000

1 These are options issued for no additional consideration for every two shares issued from the conversion of the redeemable convertible notes. The options have an exercise price of $0.75 and expire after 3 years from the date of listing.

2 These are options issued for no additional consideration for every two shares issued as a consequence of the IPO. The options have an exercise price of $0.75 and expire after 3 years from the date of listing.

3 16 million options have been issued to Mr Tianpeng Shao (6,000,000 options), Mr Wayne Johnson (5,000,000 options) and Mr Andrew Faulkner (5,000,000 options) in consideration for future services to be performed, and will vest over this period. The options are escrowed for a period of 24 months and expire after 48 months after issue and have an exercise price of $0.75.

Shares issued during or since the end of the year as a result of exercise

During or since the end of the financial year, the Company has not issued any ordinary shares as a result of the exercise of options.

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Remuneration Report (audited)

The Directors of Sino Australia Oil and Gas Limited ('Sino' or 'the Company') and controlled entities (together 'the Group') present the Remuneration Report for non-executive directors, executive directors and other key management personnel prepared in accordance with the *Corporations Act 2001* and the *Corporations Regulations 2001*.

The Remuneration Report is set out under the following main headings:

a) Principles used to determine the nature and amount of remuneration
b) Details of remuneration
c) Service agreements
d) Share-based remuneration

(a) Principles used to determine the nature and amount of remuneration

The principles of the Group's executive strategy and supporting incentive programs and frameworks are:

- To align rewards to business outcomes that deliver value to shareholders;
- To drive a high performance culture by setting challenging objectives and rewarding high performing individuals; and
- To ensure remuneration is competitive in the relevant employment market place to support the attraction, motivation and retention of executive talent.

Sino has structured a remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The Board has established a Nomination and Remuneration Committee which operates in accordance with its charter as approved by the Board and is responsible for determining and reviewing compensation arrangements for the directors and the executive team.

The remuneration structure that has been adopted by the Group consists of the following components:

- Fixed remuneration being annual salary; and
- Short term incentives, being employee share schemes and bonuses.

The Nomination and Remuneration Committee assess the appropriateness of the nature and amount of remuneration on a periodic basis by reference to recent employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

The payment of bonuses, share options and other incentive payments are reviewed by the Nomination and Remuneration Committee annually as part of the review of executive remuneration and a recommendation is put to the Board for approval. All bonuses, options and incentives must be linked to pre-determined performance criteria.

Use of remuneration consultants

No remuneration consultant has been engaged by the Company during the period.

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Short term incentive (STI)

Sino performance measures involve the use of annual performance objectives, metrics, performance appraisals and continuing emphasis on living the company values.

The performance measures are set annually after consultation with the directors and executives and are specifically tailored to the areas where each executive has a level of control. The measures target areas the Board believes hold the greatest potential for expansion and profit and cover financial and non-financial measures.

The Board may, at its discretion, award bonuses for exceptional performance in relation to each person's pre-agreed KPIs.

(b) Details of remuneration

Details of the nature and amount of each element of the remuneration of each key management personnel ('KMP') of Sino are shown in the table below:

Director and other Key Management Personnel Remuneration

		Short term employee benefits			Post-employment benefits	Long-term benefits	Termination benefits	Share-based payments		% of remuneration that is performance based
		Cash salary and fees ($)	Cash bonus ($)	Non-monetary benefits ($)	Superannuation ($)	Long-term bonus ($)	Termination payments ($)	Options ($)	Total ($)	
Executive directors										
Tianpeng Shao – Managing Director and Chairman	2013	339,619	-	-	-	-	-	18,000	357,619	5%
	2012	35,934	-	-	-	-	-	-	35,934	-
Independent non-executive directors										
Wrixon Gasteen – (Appointed March 2014)	2013	-	-	-	-	-	-	-	-	-
	2012	-	-	-	-	-	-	-	-	-
David Cornwell – (Appointed March 2014)	2013	-	-	-	-	-	-	-	-	-
	2012	-	-	-	-	-	-	-	-	-
Guangbin Zhong – (Appointed March 2014)	2013	-	-	-	-	-	-	-	-	-
	2012	-	-	-	-	-	-	-	-	-
Ruiyu He – (Appointed February 2014)	2013	-	-	-	-	-	-	-	-	-
	2012	-	-	-	-	-	-	-	-	-
Heyan Wang - (Resigned March 2014)	2013	-	-	-	-	-	-	-	-	-
	2012	-	-	-	-	-	-	-	-	-
Wayne Johnson (Removed March 2014)	2013	48,000	-	-	-	-	-	15,000	63,000	24%
	2012	12,000	-	-	-	-	-	-	12,000	-
Andrew Faulkner – (Removed March 2014)	2013	48,000	-	-	-	-	-	15,000	63,000	24%
	2012	12,000	-	-	-	-	-	-	12,000	-

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		Short term employee benefits			Post-employment benefits	Long-term benefits	Termination benefits	Share-based payments		% of remuneration that is performance based
		Cash salary and fees ($)	Cash bonus ($)	Non-monetary benefits ($)	Superannuation ($)	Long-term bonus ($)	Termination payments ($)	Options ($)	Total ($)	
Other key management personnel										
ErynKestel – Company Secretary (Appointed February 2014)	2013	-	-	-	-	-	-	-	-	-
	2012	-	-	-	-	-	-	-	-	-
Zhanhua Yuan – General Manager	2013	10,038	-	-	-	-	-	-	10,038	-
	2012	18,360	-	-	-	-	-	-	18,360	-
Jiayi Wu – Chief Engineer	2013	10,038	-	-	-	-	-	-	10,038	-
	2012	18,360	-	-	-	-	-	-	18,360	-
Xianfeng Yin - CFO	2013	11,711	-	-	-	-	-	-	11,711	-
	2012	-	-	-	-	-	-	-	-	-
Tiesen Sun – Chief Geologist	2013	10,038	-	-	-	-	-	-	10,038	-
	2012	18,360	-	-	-	-	-	-	18,360	-
Tianxiang Shao – Marketing and Sales Manager	2013	12,046	-	-	-	-	-	-	12,046	-
	2012	22,309	-	-	-	-	-	-	22,309	-

		Short term employee benefits			Post-employment benefits	Long-term benefits	Termination benefits	Share-based payments		% of remuneration that is performance based
		Cash salary and fees ($)	Cash bonus ($)	Non-monetary benefits ($)	Superannuation ($)	Long-term bonus ($)	Termination payments ($)	Options ($)	Total ($)	
2013 Total		489,489	-	-	-	-	-	48,000	537,489	9%
2012 Total		137,323	-	-	-	-	-	-	137,323	-

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The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration $	At risk – STI $	At risk - Options
Executive directors			
Tianpeng Shao	339,619	-	6,000,000
Other key management personnel			
Zhanhua Yuan	10,038	-	-
Jiayi Wu	10,038	-	-
Xianfeng Yin	11,711	-	-
Tiesen Sun	10,038	-	-
Tianxiang Shao	12,046	-	-
ErynKestel	25,200	-	-

(c) Service agreements

Remuneration and other terms of employment for the Executive Directors and other key management personnel are formalised in a service agreement. The major provisions of the agreements relating to remuneration are set out below:

Name	Base salary $	Term of agreement	Notice period
Tianpeng Shao	339,619	21 months	1 month
Zhanhua Yuan	10,038	12 months	1 month
Jiayi Wu	10,038	12 months	1 month
Xianfeng Yin	11,711	21 months	1 month
Tiesen Sun	10,038	12 months	1 month
Tianxiang Shao	12,046	12 months	1 month
ErynKestel	25,200	-	-

(d) Share-based remuneration

All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the terms of the agreements.

Upon vesting, each option allows the holder to purchase one ordinary share at $0.75.

Options

Options granted over unissued shares

Details of options over ordinary shares in the Company that were granted as remuneration to each key management personnel are set out below.

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	Number granted	Grant date	Value per option at grant date ($)	Number vested	Number lapsed/ forfeited	Exercise price ($)	First exercise date	Last exercise date	% remuneration which is options
Tianpeng Shao	6,000,000	15 February 2013	18,000	-	-	$0.75	12 December 2013	12 December 2017	5%
Wayne Johnson	5,000,000	15 February 2013	15,000	-	-	$0.75	12 December 2013	12 December 2017	24%
Andrew Faulkner	5,000,000	15 February 2013	15,000	-	-	$0.75	12 December 2013	12 December 2017	24%

The options were provided at no cost to the recipients. All options expire on the earlier of their expiry date or termination of the individual’s employment.

End of audited remuneration report.

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Environmental legislation

The Group's operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory in Australia or in China.

Indemnities given and insurance premiums paid to auditors and officers

During the year, Sino paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all directors.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of the insurance policies is not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

Non-audit services

During the year, Grant Thornton Audit Pty Ltd, the Company's auditors, performed certain other services in addition to their statutory audit duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact upon the impartiality and objectivity of the auditor; and

- The non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditors of the Company, Grant Thornton, and its related practices for audit and non-audit services provided during the year are set out in Note 21 to the Financial Statements.

A copy of the auditor's independence declaration as required under s307C of the *Corporations Act 2001* is included on page 23 of this financial report and forms part of this Directors report.

Proceedings of 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.

Signed in accordance with a resolution of the directors

Tianpeng Shao
Chairman

7 April 2014

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF SINO AUSTRALIA OIL AND GAS LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Sino Australia Oil and Gas Limited for the year ended 31 December 2013, 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.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S J Gray
Partner – Audit & Assurance

Adelaide, 7 April 2014

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Corporate Governance Statement

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The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Sino Australia Oil and Gas Limited and its controlled entities ('the Group') have adopted a corporate governance framework and practices to ensure they meet the interests of shareholders.

The Group complies with the Australian Securities Exchange Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd Edition ('the ASX Principles'). This statement incorporates the disclosures required by the ASX Principles under the headings of the eight core principles. All of these practices, unless otherwise stated, were in place for the full reporting period.

Further information on the Group's corporate governance policies and practices can be found on Sino's website at http://www.sinoaustoil.com/irm/content/corporate-governance.aspx?RID=259.

Principle 1: Lay solid foundations for management and oversight

Functions of the Board and Management

The Board of Directors is responsible for the corporate governance of the Group and operates in accordance with the principles set out in its Charter, which is available in the corporate governance section of Sino's website. To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board. These responsibilities include:

- Setting the strategy for the Group, including operational and financial objectives and ensuring that there are sufficient resources for this strategy to be achieved.
- Appointing and, where appropriate, removing the Chief Executive Officer ('CEO'), approving other key executive appointments and planning for executive succession.
- Overseeing and evaluating the performance of the CEO and the executive team through a formal performance appraisal process having regard to the Group's business strategies and objectives.
- Monitoring compliance with legal, regulatory and occupational health and safety requirements and standards.
- Overseeing the identification of key risks faced by the Group and the implementation of an appropriate internal control framework to ensure those risks are managed to an acceptable level.
- Approving the Group's budgets, including operational and capital budgets, and the approval of significant acquisitions, expenditures or divestitures.
- Approval of the annual and half-yearly financial reports.
- Ensuring the market and shareholders are fully informed of material developments.

The responsibility for the operation and administration of the Group is delegated by the Board to the Chief Executive Officer ('CEO') and the executive management team. The Board ensures that both the Managing Director and executive team, including the CEO, are appropriately qualified and experienced to discharge their responsibilities and, as discussed above, has in place procedures to monitor and assess their performance.

To ensure that the responsibilities of the Board are upheld and executed to the highest level, the Board has established the following sub-committees:

- Audit and Risk Committee.
- Nomination and Remuneration Committee.

Sub-committees are able to focus on a particular responsibility and provide informed feedback to the Board. Each of these sub-committees have established Charters and operating procedures in place, which are reviewed on a regular basis. The Board may also establish other sub-committees from time to time to deal with issues of special importance.

Senior Executive performance evaluation

The Board reviews the performance of the Managing Director and executive team on a yearly basis. Performance is measured against a set of key performance indicators which have been established with reference to the Group's strategy and the individual's responsibilities.

The evaluation of the CEO will be supervised closely by the Principal Independent Director.

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Principle 2: Structure the Board to add value

Board composition

The names of the members of the Board as at the date of this report are as follows:

- Mr Tianpeng Shao (Chairman) – Managing Director
- Mr Wrixon Gasteen - Independent Non-Executive Director
- Mr David Cornwell – Independent Non-Executive Director
- Mr Guangbin Zhong – Independent Non-Executive Director
- Mr Ruiyu He - Independent Non-Executive Director

It is to be noted that Mr Andrew Faulkner and Mr Wayne Johnson have been removed as directors subsequent to the end of the financial year. Ms Heyan Wang was appointed as independent non-executive director post balance date and resigned in March 2014.

The Board's composition is determined with regard to the following criteria:

- A majority of independent non-executive directors
- A majority of directors having extensive experience in the industries that the Group operates in, with those that do not, having extensive experience in significant aspects of financial reporting and risk management in large ASX listed companies.
- Re-election of directors at least every three years (except for the Managing Director and Chief Executive Officer).
- The size of the board is appropriate to facilitate effective discussion and efficient decision making.
- There are a sufficient number of directors to serve on Board sub-committees without overburdening the directors of making it difficult for the directors to effectively discharge their responsibilities.

With regards to director independence, the Board has adopted specific principles which state that an independent director must not be a member of management and must comply with the following criteria:

- Not, within the last three years, have been employed in an executive capacity by Sino or any other member of the Group.
- Not be a substantial shareholder or be associated either directly or indirectly with a substantial shareholder.
- Not, within the last three years, have been a professional advisor to the Group either as a principal, or material consultant, or an employee materially associated with the service provided.
- Are not a material supplier or customer of the Group or associated either directly or indirectly with a material supplier or customer of the Group.
- Have no material contractual relationship with any entity within the Group other than in the capacity as a director.

The Board undertakes an annual review of the extent to which each non-executive director is independent, having regard to the criteria set out in its Charter. As part of this review, each director is required to make an annual declaration stating their compliance with the independence criteria to the Board. As at the date of this report, the three non-executive directors have submitted their annual declaration to the Board, and the board is satisfied that they have retained their independence throughout the reporting period.

Individual details of the Directors, including period in office, Board committee memberships, qualifications, experience and skills are set out in the information on Directors section of the Directors' Report.

Role of the Chairman

The Board Charter provides that the Chairman should be an independent non-executive director. However, the Chairman of Sino is an executive director considering the current size of the Company. The Chairman is responsible for the leadership of the Board. This includes taking responsibility for ensuring that the Board functions effectively and that they comply with the continuous disclosure requirements of the ASX with regard to communicating the operations and activities of the Group to shareholders. The Chairman's responsibilities are set out in the Board Charter and include:

- Setting the agenda for Board meetings
- Managing the conduct, frequency and length of Board meetings to ensure that all directors have had the opportunity to establish a detailed understanding of the issues affecting the Group.
- Facilitating the Board meetings to ensure effective communication between the directors and that all directors have contributed to the decision making process thereby leading to a considered decision being made in the best interest of the Group and its shareholders.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee oversees the appointment and induction process for directors and the selection, appointment and succession planning process of the Group's Managing Director and Chief Executive Officer. A copy of the Committee's Charter is available on Sino's website at http://www.sinoaustoil.com/irm/content/corporate-governance.aspx?RID=259.

When a vacancy exists or there is a need for a particular skill, the Committee, in consultation with the Board, determines the selection criteria that will be applied. The Committee will then identify suitable candidates, with assistance from an external consultant if required, and will assist the Board in interviewing and assessing the selected candidates.

Directors are initially appointed to office by the Board and must stand for re-election at the Group's next annual general meeting of shareholders. Directors must then retire from office and nominate for re-election at least once every three years with the exception of the Managing Director and Chief Executive Officer.

The Nomination and Remuneration Committee comprises of Mr Guangbin Zhong (Chairman), Mr Ruiyu He and Mr Tianpeng Shao to replace Mr Andrew Faulkner and Mr Wayne Johnson. The committee consists of a majority of independent non-executive directors. Details of attendance at Nomination and Remuneration Committee meetings are set out in the Meetings of Directors section of the Directors' Report.

Directors' performance evaluation

The Board undertakes an assessment of its collective performance, the performance of the Board committees and the Chairman on an annual basis.

The Chairman meets each Director on an individual basis to discuss their performance and to provide feedback. The results of this discussion including any key areas for development are formally documented.

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Each Board committee annually reviews the fulfilment of its responsibilities as set out in its Charter and provides a report with a summary of issues and recommendations for the Board's review. Upon review the Board will then provide their feedback to the Committee including an endorsement of the recommendations made.

Independent professional advice and access to information

Each Director has the right of access to all relevant information in the Group in addition to access to the Group's executives. Each Director also has the right to seek independent professional advice subject to prior consultation with, and approval from, the chairman. This advice will be provided at the Group's expense and will be made available to all members of the Board.

Insurance

The Group has in place a Directors and Officers liability insurance policy providing a specified level of cover for current and former Directors and executive Officers of the Group against liabilities incurred whilst acting in their respective capacity.

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Principle 3: Promote ethical and responsible decision making

Code of Conduct

The Group recognises the importance of establishing and maintaining high ethical standards and decision making in conducting its business and is committed to increasing shareholder value in conjunction with fulfilling its responsibilities as a good corporate citizen. All Directors, managers and employees are expected to act with the utmost integrity, honesty and objectivity, striving at all times to enhance the reputation and performance of the Group.

The Group has established a Code of Conduct and a Directors and Officers Code of Conduct, copies of which are available on Sino's website under the corporate governance section. New employees are introduced to the Code of Conduct as part of their induction training. Employees sign a declaration confirming receipt of the Code of Conduct and their compliance with it. Periodical training is then provided throughout the course of their employment.

Unethical practices, including fraud, legal and regulatory breaches, and policy breaches are required to be reported on a timely basis to management. Reporting parties are able to do so without fear of reprisal or retribution as their identity and report are kept in the strictest confidence. External third party reporting procedures are available to employees to provide them with the assurance that their identity will be kept confidential at all times.

Whistleblower Policy

The Board is currently reviewing the whistleblower policy to identify appropriate policies to put in place.

Share Trading Policy

The Group has established a share trading policy which governs the trading in the Group's shares and applies to all Directors and employees of the Group. A copy of this policy is available on Sino's website under http://www.sinoaustoil.com/irm/content/corporate-governance.aspx?RID=259.

Under this share trading policy, an executive, employee or director must not trade in any securities of the Group at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

Before commencing to trade, an executive or employee must first obtain the permission of the Company Secretary to do so, and a director must obtain the permission of the Chairman. The trading windows are four weeks after the release of the half year results, full year results and the holding of the Annual General Meeting. Trading of securities outside the trading windows can only occur in exceptional circumstances and with the approval of the Company Secretary.

As required by the ASX listing rules, the Group notifies the ASX of any transaction conducted by Directors in the securities of the Group.

Diversity Policy

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The company is committed to diversity and recognises the benefits arising from employee and board diversity and the importance of benefiting from all available talent. A copy of the company's diversity policy is available on Sino's website at http://www.sinoaustoil.com/irm/content/corporate-governance.aspx?RID=259. This diversity policy outlines the requirements for the Board to develop measurable objectives for achieving diversity, and annually assess both the objectives and the progress in achieving those objectives. Accordingly, the company will continue its assessment of the diversity of its Board and senior executive positions.

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Principle 4: Safeguard integrity in financial reporting

Audit and Risk Committee

An Audit and Risk Committee has been established by the Board. The Committee's role and operations are documented in a Charter which is approved by the Board. This Charter is available on Sino's website under http://www.sinoaustoil.com/irm/content/corporate-governance.aspx?RID=259.

The Committee's Charter provides that all members of the Audit and Risk Committee must be Independent Non-Executive Directors and that the Chair cannot be the Chairman of the Board. Members of the Committee at the date of this report are Mr Wrixon Gasteen (Chairman), Mr Guangbin Zhong and Mr Ruiyu He in replacement of Mr Andrew Faulkner and Mr Wayne Johnson, all of whom are Independent Non-Executive Directors of the Group.

The purpose of the Committee is to:

- Ensure the integrity of the Group's internal and external financial reporting including compliance with applicable laws and regulations.
- Ensure that financial information provided to the Board is of a sufficiently high quality to allow the Board to make informed decisions.
- Ensure that appropriate and effective internal systems and controls are in place to manage the Group's exposure to risk.
- Oversee the appointment, compensation, retention and oversight of the external auditor, and review of any non-audit services provided by the external auditor.
- Regularly review the performance of the external auditor regarding quality, costs and independence.

The Audit and Risk Committee is required under the Charter to meet at least quarterly and otherwise as necessary.

The Managing Director, Chief Financial Officer and external auditor also regularly attend the Committee meetings by standing invitation. Other Directors and management are invited to attend Committee meetings and participate in discussion relating to specific issues that they have an interest in.

The Committee is authorised to obtain independent legal advice at the Group's expense if it considers it necessary in fulfilling its duties.

Principle 5: Make timely and balanced disclosure

Sino has established policies and procedures to ensure timely and balanced disclosure of all material matters concerning the Group, and ensure that all investors have access to information on the Group's financial performance. This ensures that the Group is compliant with the information disclosure requirements under the ASX Listing Rules.

These policies and procedures include a comprehensive Disclosure Policy that includes identification of matters that may have a material impact on the price of Sino's securities, notifying them to the ASX, posting relevant information on the Group's website and issuing media releases. These policies are available on Sino's website under http://www.sinoaustoil.com/irm/content/corporate-governance.aspx?RID=259.

Matters involving potential market sensitive information must first be reported to the Managing Director either directly or via the Company Secretary. The Managing Director will advise the other Directors if the issue is important enough to warrant the consideration of the full Board. In all cases the appropriate action must be determined and carried out in a timely manner in order for the Group to comply with the Information Disclosure requirements of the ASX.

Once the appropriate course of action has been agreed upon, either the Managing Director or Company Secretary will disclose the information to the relevant authorities, being the only authorised officers of the Group who are able to disclose such information. Board approval is required for market sensitive information such as financial results, material transactions or upgrading/downgrading financial forecasts. This approval is minuted in the meetings of the Board of Directors.

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Principle 6: Respect the rights of shareholders

Sino has established a Shareholder Communication Policy which describes the Group's approach to promoting effective communication with shareholders which includes:

- The annual report, including relevant information about the operations of the Group during the year, key financial information, changes in the state of affairs and indications of future developments. The annual report can be accessed either through the ASX website.
- The half year and full year financial results are announced to the ASX and are available to shareholders via the Sino and ASX websites.
- Detailed notices of shareholder meetings are sent to all shareholders in advance of the meeting.
- Shareholding and dividend payment details are available through the Group's share register, Security Transfer Registrars Pty Ltd.

The Board encourages full participation by shareholders at the Annual General Meeting to ensure a high level of Director accountability to shareholders and shareholder identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are requested to vote on matters such as the adoption of the Group's remuneration report, the granting of options and shares to Directors and changes to the Constitution.

The external auditor attends the Annual General Meeting to answer any questions concerning the audit of the Group and the contents of the auditor's report.

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Principle 7: Recognise and manage risk

Risk management framework

Sino recognises that a robust risk management framework is essential for corporate stability, protecting the interests of its stakeholders and for sustaining its competitive market position and long term performance.

The following objectives drive the Group's approach to risk management:

- Having a culture that is risk aware and supported by high standards of accountability at all levels.
- Promoting and achieving an integrated risk management approach whereby risk management forms a part of all key organisational processes.
- Supporting more effective decision making through better understanding and consideration of risk exposures.
- Increasing shareholder value by protecting and improving share price and earnings per share in the short to medium term while building a sustainable business in the longer term.
- Safeguarding the Group's assets.
- Enabling the Board to fulfil its governance and compliance requirements.
- Supporting the sign off for ASX Principles four and seven by the Chief Executive Officer and Chief Financial Officer.

In achieving effective risk management, Sino recognises the importance of leadership. As such, the Board and executive management have responsibility for driving and supporting risk management across the Group. Each subsidiary then has responsibility for implementing this approach and adapting it, as appropriate, to its own circumstances.

Audit and Risk Committee

Under its Charter, the Audit and Risk Committee has been delegated responsibility by the Board to oversee the implementation and review of risk management and related internal compliance and control systems throughout the Group.

The Committee reviews the appropriateness and adequacy of internal processes for determining, assessing and monitoring risk areas including the assessment of the effectiveness of the Group's internal compliance and controls including:

- The existence and adequacy of key policies and procedures.
- The adequacy of disclosures and processes for regular reporting of information to the appropriate parties, including the Board.
- The Committee is also responsible for monitoring the Group's compliance with applicable laws and regulations including:
- Ensuring that management is reviewing developments and changes in applicable laws and regulations relating to the Group's responsibilities.
- Reviewing management's actions and responses to ensure that the Group's practices are compliant with all new developments.

- Reviewing material actual and suspected breaches of applicable laws and regulations, and any breaches of Group policies.
- Reviewing material litigation, legal claims, contingencies or significant risks relating to the Group.
- Reviewing Director and executive management related party transactions.

The Audit and Risk Committee reports to the Board on the major issues and findings that are presented and discussed at its meetings.

Corporate reporting

The Board has required management to design and implement a risk management and internal control system to manage the Group's material business risks and to report on whether those risks are being effectively managed.

The Managing Director, Chief Executive Officer and Chief Financial Officer have reported and declared in writing to the Board as to the effectiveness of the Group's management of its material business risks, in accordance with Recommendation 7.2 of the ASX Corporate Governance Principles.

The Board has received the relevant declarations from the Managing Director, Chief Executive Officer and Chief Financial Officer in accordance with s295A of the Corporations Act 2001 and the relevant assurances required under Recommendation 7.3 of the ASX Corporate Governance Principles.

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Principle 8: Remunerate fairly and responsibly

Nomination and Remuneration Committee

As previously stated in Principle 2, the Board has established a Nomination and Remuneration Committee whose role is documented in a Charter which is approved by the Board.

The objective of the Committee with respect to its remuneration function is to assist the Board in determining appropriate remuneration arrangements for the Directors and executive management.

These objectives include:

- Reviewing the adequacy and form of remuneration of Independent Non-Executive Directors.
- Ensuring that the remuneration of the Independent Non-Executive Directors is reflective of the responsibilities and the risks of being a Director of the Group.
- Reviewing the contractual arrangements of the Managing Director and the executive management team including their remuneration.
- Comparing the remuneration of the Managing Director and executive management to comparable groups within similar industries to ensure that the remuneration on offer can attract, retain and properly reward performance which will translate into long term growth in shareholder value.
- Annually review key performance indicators of the Managing Director and executive team to ensure that they remain congruent with the Group's strategies and objectives.
- Reviewing the basis for remuneration of other Executive Directors of the Group for their services as Directors.
- Reviewing incentive performance arrangements when instructed by the Board.
- Reviewing proposed remuneration arrangements for new Director or executive appointments

The Committee will submit their recommendations to the Board regarding the remuneration arrangements and performance incentives for the Managing Director and executive team. The Board will review these recommendations before providing their approval.

Details of the Group's remuneration structure and details of senior executives' remuneration and incentives are set out in the Remuneration Report contained within the Directors' Report. The Remuneration Report also contains details on the structure of Non-Executive Director Remuneration.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 $	2012 $
Revenue			
Sales revenue	3	**33,700,425**	23,333,984
Cost of sales		**(20,341,844)**	(12,231,272)
Gross profit		**13,358,581**	11,102,712
Other revenues	3	**11,999**	5,578
Employee benefit expenses	4	**(629,872)**	(441,860)
Finance costs	4	**(383,707)**	(165,456)
Share based payments		**(348,000)**	-
Listing expenses		**(796,210)**	-
Administration expenses	4	**(1,819,365)**	(2,017,979)
Profit/ (loss) before income tax		**9,393,426**	8,482,995
Income tax expense	5	**(997,589)**	(466,680)
Net Profit/(loss) from continuing operations		**8,395,837**	8,016,315
Other comprehensive income for the year, net of tax			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**4,290,177**	(15,632)
Total comprehensive income for the year attributable to members		**12,686,014**	8,000,683
Profit attributable to members of the parent entity		**8,395,837**	8,016,315
Total comprehensive income attributable to members of the parent entity		**12,686,014**	8,000,683

Earnings per share for profit from continuing operations attributable to equity holders of the parent entity:

		Cents per share	
Basic earnings per share	8	**4.1**	4.2
Diluted earnings per share	8	**4.1**	4.2

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	2013 $	2012 $
Current assets			
Cash and cash equivalents	6	**8,719,858**	573,024
Receivables	7	**21,544,996**	15,554,683
Other current assets	10	**11,851,838**	-
Total current assets		**42,116,692**	16,127,707
Non-current assets			
Property, plant and equipment	11	**6,713,756**	6,028,763
Total non-current assets		**6,713,756**	6,028,763
Total assets		**48,830,448**	22,156,470
Current liabilities			
Trade and other payables	12	**9,494,206**	7,571,660
Current tax payable	5	**403,252**	760,135
Total current liabilities		**9,897,458**	8,331,795
Net assets		**38,932,990**	13,824,675
Equity			
Share capital	13	**13,130,539**	756,238
Reserves	14	**4,639,426**	301,249
Retained earnings		**21,163,025**	12,767,188
Total equity		**38,932,990**	13,824,675

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

Consolidated Entity	**Contributed equity $**	**Reserves $**	**Retained earnings $**	**Total Equity $**
Balance as at 1 January 2012	756,138	316,881	5,672,133	6,745,152
Share capital issued during the year	100	-	-	100
Other comprehensive income for the year	-	(15,632)	-	(15,632)
Profit for the year	-	-	8,016,315	8,016,315
Transactions with owners in their capacity as owners:				
Distributions to owners	-	-	(921,260)	(921,260)
Balance as at 31 December 2012	**756,238**	**301,249**	**12,767,188**	**13,824,675**
Share capital issued during the year	12,829,319	-	-	12,829,319
Shares issued to the lead manager	300,000	-	-	300,000
Equity raising costs	(755,018)	-	-	(755,018)
Options issued to directors as share based payments	-	48,000	-	48,000
Other comprehensive income for the year	-	4,290,177	-	4,290,177
Profit for the year	-	-	8,395,837	8,395,837
Balance as at 31 December 2013	**13,130,539**	**4,639,426**	**21,163,025**	**38,932,990**

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 $	2012 $
Cash flow from operating activities			
Receipts from customers		**27,078,111**	16,854,909
Payments to suppliers and employees		**(19,572,065)**	(12,357,172)
Interest received		**11,999**	5,578
Finance costs		**-**	(165,456)
Income tax paid		**(1,151,825)**	-
Net cash provided by / (used in) operating activities	19	**6,396,220**	4,337,859
Cash flow from investing activities			
Payment for property, plant and equipment		**(1,901,361)**	(1,925,948)
Deposits paid on purchase of PPE		**(10,290,907)**	-
Cash advance to other parties		**2,798,424**	(3,064,619)
Net cash provided by / (used in) investing activities		**(9,393,844)**	(4,990,567)
Cash flow from financing activities			
Proceeds from share issue		**9,240,500**	100
Proceeds from related parties borrowings		**-**	1,770,903
Proceeds from issue of convertible notes		**3,205,112**	-
Payments for capital raising		**(1,551,228)**	-
Distribution payments to owners		**-**	(921,260)
Net cash provided by / (used in) financing activities		**10,894,384**	849,743
Net increase / (decrease) in cash and cash equivalents		**7,896,760**	197,035
Cash and cash equivalents at beginning of year	6	**573,024**	375,989
Effect of exchange rates on cash holdings in foreign currencies		**250,074**	-
Cash and cash equivalents at end of the year	6	**8,719,858**	573,024

The accompanying notes form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the consolidated financial statements and notes of Sino Australia Oil and Gas Limited and controlled entities ('Consolidated Group' or 'Group'). Sino Australia Oil and Gas Limited listed on the Australian Stock Exchange ("ASX") on 12 December 2013 and is a company incorporated and domiciled in Australia.

The Group is a for-profit entity for the purposes of preparing the financial statements.

Basis of preparation of the financial report

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards ("IFRS"). Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

There are new accounting standards and AASB interpretations that have been published that are not mandatory for current reporting periods. The Group's assessment of the impact of these new standards and interpretations is that there would be no material impact on the historical financial information.

(a) Principles of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2013. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Business Combination

Business combination involving entities under common control is scoped out under AASB 3: Business Combination. AASB provides no guidance on the accounting for these types of transactions; however requires an entity to develop an accounting policy. The two most common methods utilised are the acquisition method and the pooling of interest-type method (predecessor values method). A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory.

Management has determined the pooling of interest-type method to be most appropriate. The pooling of

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interest-type method requires the financial statements to be prepared using the predecessor book values without any step up to fair value. The difference between any consideration given and the aggregate book value of the assets and liabilities of the acquired entity are recorded as an adjustment to equity. This may be recorded in retained earnings/reserve and no additional goodwill is created by the transaction. The comparatives have been presented as if the transaction took place at the beginning of the earliest comparativeperiod.

All transaction costs incurred in relation to the business combination are expensed to the statement of profit or loss and other comprehensive income.

Consolidated Financial Statement Presentation

The consolidation financial statements (post combination) can be presented using one of two methods. The first method, being the consolidated financial statements can incorporate the acquired entity's results as if both entities (acquirer and acquiree) had always been combined. Alternatively the consolidated financial statements can incorporate the acquired entity's results only from the date on which the transaction occurred.

Management have determined to use option one – reporting comparatives as though the group had always been combined.

(b) Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

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(c) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Consolidated Statement of Profit or Loss and Other Comprehensive Income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rates	Depreciation basis
Drilling equipment	10%	Straight line
Motor vehicles	10%	Straight line
Office equipment	20%	Straight line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(d) Financial instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

i. Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

iii. Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(e) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Impairment testing is performed annually for intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(f) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at

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the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

— assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;

— income and expenses are translated at average exchange rates for the period; and

— retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period in which the operation is disposed.

(g) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled wholly within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(h) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(i) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

(j) Revenue and Other Income

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST) or value added tax (VAT).

(k) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(l) Goods and Services Tax (GST) and Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of GST and VAT, except where the amount of GST or VAT incurred is not recoverable from the Tax Office. In these circumstances the GST and VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST and VAT.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST and VAT component of investing and financing activities, which are disclosed as operating cash flows.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid according to term.

(n) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjust the figures used to determine 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 shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(o) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(p) New and amended standards adopted by the Group

The accounting policies adopted are consistent with those of the previous financial year except as follows:

AASB 10 Consolidated Financial Statements

AASB 10 supersedes AASB 127 Consolidated and Separate Financial Statements (AASB 127) and AASB Interpretation 112 Consolidation - Special Purpose Entities. AASB 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore to change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with AASB 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Group's investees held during the period or comparative periods covered by these financial statements.

AASB 13 Fair Value Measurement

AASB 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of AASB 13 is broad and it applies for both financial and non-financial items for which other Australian Accounting Standards require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

AASB 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application.

The annual report was authorised for issue on 7 April 2014 by the board of directors.

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NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. 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.

Key estimates – Stage of completion

Stage of completion for contracts is determined by the Group based on when services are performed and milestones are achieved based on summary reports issued by customers. Revenue is reliably measurable and flow of economic benefits to the Group is probable when the summary reports are received.

Key estimates — Impairment of non-financial assets

The Company assesses impairment at each reporting date by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying value over its recoverable amount is expensed to the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

	2013	2012
	$	$

NOTE 3: REVENUE

	2013 $	2012 $
Sales revenue		
Revenue from rendering of services	**33,700,425**	23,333,984
Other revenue		
Interest income	**11,999**	5,578
	33,712,424	23,339,562

NOTE 4: EXPENSES

	2013 $	2012 $
Employee benefits expenses	**(629,872)**	(441,860)
Finance costs	**(383,707)**	(165,456)
Administration expenses		
- Marketing expenses	**(293,964)**	(885,870)
- Vehicle rental expenses	**(82,310)**	(148,410)
- Fuel expenses	**(111,867)**	(112,792)
- Other expenses	**(1,331,224)**	(870,907)
Total administration expenses	**(1,819,365)**	(2,017,979)

NOTE 5: INCOME TAX

(a) Income tax payable

	2013 $	2012 $
Current tax payable	**403,252**	760,135
	403,252	760,135

(b) Prima facie tax payable

	2013 $	2012 $
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Prima facie income tax payable on profit before income tax at 30.0% (2012: 30.0%)	**2,818,028**	2,544,899
Add tax effect of:		
Deferred tax assets written off	**323,579**	-
Tax concession from the People's Republic of China	**(2,144,018)**	(2,078,219)
	(1,820,439)	(2,078,219)
Income tax expense attributable to profit	**997,589**	466,680

Total unused tax losses for which no deferred tax asset has been recognised $645,284.

At balance date, there are no imputation tax credits available for use in future periods.

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	2013 $	2012 $
NOTE 6: CASH AND CASH EQUIVALENTS		
Cash on hand	**20,887**	18,515
Cash at bank	**8,698,971**	554,509
	8,719,858	573,024

NOTE 7: RECEIVABLES

CURRENT		
Trade receivables	**21,542,726**	12,490,065
Other receivables	**2,270**	3,064,618
	21,544,996	15,554,683

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements. The company does not hold any collateral as security over any receivable balance, nor does it hold any restrictions of title.

Some of the unimpaired trade receivables are past due, $17,686,187 (2012: $9,134,398)as at the reporting date.

The age of trade receivables is as follows:

Trade receivables ageing analysis at 31 December is:

CURRENT		
<30 days	**3,856,539**	3,355,667
31-60 days	**3,171,367**	2,048,246
61-90 days	**3,400,372**	2,875,251
>90 days	**11,114,448**	4,210,901
	21,542,726	12,490,065

These relate to a number of independent customers for whom there is no recent history of default.

Other receivable balance in 2012 represents cash refundable from equipment supplier due to cancellation of initial purchase contract.

NOTE 8: EARNINGS PER SHARE

a. Reconciliation of earnings to profit and loss		
Profit used to calculate basic EPS and dilutive EPS	8,395,837	8,016,315
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS and dilutive EPS	205,742,463	193,170,400

The number of ordinary shares used in the calculation of the diluted earnings per share is the same as the number used in the calculation of basic earnings per share, as options are not considered to be dilutive.

NOTE 9: DIVIDENDS

No dividends have been declared during the year (2012: nil).

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NOTE 10: OTHER CURRENT ASSETS

	2013 $	2012 $
Prepayments for purchase of PPE	**11,801,208**	-
Other prepayments	**50,630**	-
	11,851,838	-

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	2013 $	2012 $
Drilling Equipment		
At cost	**7,168,547**	6,055,918
Accumulated depreciation	**(1,322,255)**	(561,612)
Provision for impairment	**(350,748)**	(293,615)
Total drilling equipment	**5,495,544**	5,200,691
Motor Vehicles		
At cost	**1,499,674**	1,006,492
Accumulated depreciation	**(291,280)**	(139,844)
Provision for impairment	**(74,747)**	(62,571)
Total motor vehicles	**1,133,647**	804,077
Office equipment		
At cost	**103,985**	34,481
Accumulated depreciation	**(16,162)**	(7,759)
Provision for impairment	**(3,258)**	(2,727)
Total office equipment	**84,565**	23,995
Total property, plant and equipment	**6,713,756**	6,028,763

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	2013	2012
	$	$

NOTE 11: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Reconciliations

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year

	2013 $	2012 $
Drilling Equipment		
Opening carrying amount	**5,200,691**	852,389
Additions	**22,510**	4,671,860
Depreciation expenses	**(592,454)**	(360,584)
Impairment expenses	**-**	(320)
Exchange differences	**864,797**	37,346
Closing carrying amount	**5,495,544**	5,200,691
Motor Vehicles		
Opening carrying amount	**804,077**	517,725
Additions	**188,135**	347,204
Depreciation expenses	**(112,990)**	(59,166)
Exchange differences	**254,425**	(1,686)
Closing carrying amount	**1,133,647**	804,077
Office Equipment		
Opening carrying amount	**23,995**	13,200
Additions	**61,709**	14,533
Depreciation expenses	**(6,271)**	(3,669)
Exchange differences	**5,132**	(69)
Closing carrying amount	**84,565**	23,995

NOTE 12: TRADE AND OTHER PAYABLES

	2013 $	2012 $
CURRENT		
Trade payable	**1,818,807**	1,117,294
Salaries payable	**1,691,676**	733,106
Related party payables	**4,702,513**	5,700,467
Other taxes payable	**1,174,930**	-
Sundry creditors and accruals	**106,280**	20,793
	9,494,206	7,571,660

Refer Note 23 for more details on related party balances.

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	2013	2012
	$	$

NOTE 13: SHARE CAPITAL

	Number of shares	$
Ordinary shares		
Opening balance at 1 January 2013	193,170,400	756,238
Shares issued on conversion of convertible notes	7,177,628	3,588,819
Shares issued on Initial Public Offering (IPO)	18,481,000	9,240,500
Shares issued to Lead Manager on successful IPO	600,000	300,000
(Less) Capital raising costs	-	(755,018)
Issued and paid-up capital	**219,429,028**	**13,130,539**

The Company has 219,429,028 ordinary shares with no par value.

Ordinary shares participate in dividends in proportion to the number of shares held.

At shareholder's 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.

Options

	Number of options	$
Opening balance at 1 January 2013	-	-
Options issued to directors	16,000,000	48,000
Options issued on Initial Public Offering (IPO)	12,829,309	-
Balance at 31 December 2013	**28,829,309**	**48,000**

Capital management

When managing capital, management's objective is to ensure the group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. This is achieved through the monitoring of historical and forecast performance and cash flows. The company's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the company's capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

Management monitors capital through the gearing ratio (net debt / total capital). The gearing ratios for the years ended 31 December 2013 and 31 December 2012 are:

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	2013	2012
	$	**$**

NOTE 13: SHARE CAPITAL (CONTINUED)

	2013 $	2012 $
Trade and other payable	**9,494,206**	7,571,660
Tax payable	**403,252**	760,135
Less cash and cash equivalents	**(8,719,858)**	(573,024)
Net debt	**1,177,600**	7,758,771
Total equity	**38,932,990**	13,824,675
Gearing ratio	**3%**	56%

NOTE 14: RESERVES

	2013 $	2012 $
Foreign exchange translation reserve	**4,591,426**	301,249
Share options reserve	**48,000**	-
	4,639,426	301,249

Foreign Currency Translation Reserve
The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Share Options Reserve
The share options reserve records items recognised as expenses on valuation of options issued to Directors.

NOTE 15: CONTROLLED ENTITIES

a. Controlled Entities Consolidated	Country of Incorporation	Percentage Owned (%)[(i)]	
		2013 %	**2012 %**
Sino Australia Oil and Gas Ltd	Australia	-	-
Subsidiaries of Sino Australia Oil and Gas Ltd:			
Hong Kong Lishida Development Co. Ltd[(ii)]	Hong Kong	**100%**	100%
DaqingHuaaoShengfeng Oil Field Technology Ltd	Peoples Republic of China	**100%**	100%
ZhaodongHuaying Oil Drilling Services Ltd	Peoples Republic of China	**100%**	100%

(i) Percentage of voting power is in proportion to ownership

(ii) Hong Kong Lishida Development Co. Ltd is the intermediate parent entity of DaqingHuaaoShengfeng Oil Field Technology Ltd.

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NOTE 15: CONTROLLED ENTITIES (CONTINUED)

b. Acquisition of Controlled Entities

Pursuant to a share transfer agreement dated 7 August 2012, Hong Kong Lishida Development Co. Ltd and its controlled entities, DaqingHuaaoShengfeng Oil Field Technology LtdandZhaodongHuaying Oil Drilling Services became wholly owned subsidiariesofSino Australia Oil and Gas Ltd. Through this transaction, effective control of Lishida was passed to Sino Australia.

Sino Australia Oil and Gas and Hong Kong Lishida Development Co. Ltd. are owned and controlled by the same shareholder (before and after the business combination) therefore the business combination represents a common control transaction.

The transaction is one referred to in AASB 3 "Business Combination" as a business combination under common control. A predecessor value method is used to account for the business combination under common control.

NOTE 16: CAPITAL AND LEASING COMMITMENTS

The Consolidated Group has leasing commitments at 31 December 2013 as follow:

	2013 $	2012 $
Payable – minimum lease payments		
not later than 12 months	163,786	-
between 12 months and five years	-	-
greater than 5 years	-	
-	163,186	-

The amount above includes the following:

(i) Vehicle lease commitment
The Group has entered into contractual vehicle lease agreements with total amount payable within the next 12 months of $88,656 (2012: nil).

(ii) Office lease commitment
The Group has entered into lease agreements for office premises in Beijing with total amount payable within 12 months of $75,130 (2012: nil).

In addition, the Group has also entered into lease agreements with two drilling related equipment suppliers, Beijing Ou Sheng Wen and Hua Fu. Total lease expense is dependent on the number of wells drilled using the hired equipment with lease expense being $43,035 (2012: $36,022) and $44,328 (2012: $35,558) per well respectively.

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NOTE 16: CAPITAL AND LEASING COMMITMENTS (CONTINUED)

The Consolidated Group has capital commitments at 31 December 2013 as follow:

	2013 $	2012 $
Planned capital expenditure:		
not later than 12 months	7,868,220	10,976,000
between 12 months and five years	-	-
greater than 5 years	-	
	7,868,220	10,976,000

The Group has committed its further capital expenditure for the purchase of three units of drilling related equipment totalling $7,868,220 (2012: $10,976,000). The amount is payable within 12 months.

To further elaborate, there were two equipment purchase contracts and a supplementary agreement signed between ZhaodongHuaying Oil Drilling Service Company (Huaying) and Zhaodong Continental Oil Machinery Manufacturing Company (Continental) in 2013.

The contract signed on 1 April 2013 was for two units of the equipment. Huaying had paid a deposit of RMB42.6 million, which was 60% the contracted amount.

The contract signed on 1 August 2013 was for one unit of the equipment. Huaying had paid a deposit of RMB21.3 million, which was also 60% of the contracted amount.

Because there was a need for the equipment to be adjusted for Huaying's unique requirements during installation, a supplementary agreement was signed on the 15 August 2013 after negotiation and consultation between Huaying and Continental. Both parties agreed to extend the payment of the outstanding amount (40% of the payment of each set of equipment) and delivery of the three sets of equipment to May, July and 30 August 2014 respectively.

NOTE 17: CONTINGENT LILABILITIES AND CONTINGENT ASSETS

The Group has no contingent liabilities or contingent assets as at 31 December 2013. (2012: $nil).

NOTE 18: OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors and management (chief operating decision maker) in assessing performance and determining the allocation of resources.

The Group is engaged in providing drilling services through the deployment of its patented technology. It provides Enhanced Oil Recovery (EOR) services and underground work consultations to oil and gas drilling enterprises through its wholly owned subsidiary ZhaodongHuaying Oil Drilling Services in mainland China.

The following operating segments have been noted:
Drilling - represents service revenue derived from well drilling.
Maintenance - represents service revenue derived from well maintenance.

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NOTE 18: OPERATING SEGMENTS (CONTINUED)

Segment performance

12 months ended 31 December 2013	Drilling	Well maintenance	Total
	$	$	$
Revenue			
Sales revenue	32,458,719	1,241,706	**33,700,425**
Total segment revenue	32,458,719	1,241,706	**33,700,425**
Interest revenue			**11,999**
Total revenue			**33,712,424**
Segment EBIT	10,836,227	1,013,333	**11,849,560**
Interest expenses	-	-	**(383,707)**
Other expenses	-	-	**(2,072,427)**
Income tax expenses	-	-	**(997,589)**
Net profit after tax			**8,395,837**

12 months ended 31 December 2012	Drilling	Well maintenance	Total
	$	$	$
Revenue			
Sales revenue	22,711,274	622,710	**23,333,984**
Total segment revenue	22,711,274	622,710	**23,333,984**
Interest revenue	-	-	**5,578**
Total revenue			**23,339,562**
Segment EBIT	8,095,484	553,073	**8,648,557**
Interest expenses	-	-	**(165,240)**
Other expenses	-	-	**(322)**
Income tax expenses	-	-	**(466,680)**
Net profit after tax			**8,016,315**

During 2013, the top five (2012: top three) customers within the drilling segment contributed more than 10% of segment revenues totaling $31,403,806 (96.75%) (2012: $11,926,303 (52.51%)). Two (2102: Three) customers within the well maintenance segment contributed more than 10% of segment revenues totaling $1,241,706 (100%) (2012: $622,710 (100%)).

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NOTE 18: OPERATING SEGMENTS (CONTINUED)

	Drilling	Well maintenance	Others	Total
	$	$	$	$
Total segment assets				
31 December 2013	**40,108,320**	**-**	**8,722,128**	**48,830,448**
31 December 2012	18,518,829	-	3,637,641	22,156,470
Total segment liabilities				
31 December 2013	**8,319,277**	**-**	**1,578,181**	**9,897,458**
31 December 2012	1,850,400	-	6,481,395	8,331,795

NOTE 19: CASH FLOW INFORMATION

	2013	2012
	$	**$**
Reconciliation of Cash Flow from Operations with Profit after Income Tax	**8,395,837**	**8,016,315**
Profit/(loss) after income tax		
Non-cash flows in profit		
Amortisation and depreciation	**711,715**	423,419
Interest on convertible notes	**383,707**	-
Share based payments	**348,000**	-
Effects of foreign exchange	**69,144**	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and other receivables	**(5,990,313)**	(6,479,075)
(Increase)/decrease in prepayments	**-**	7,880
Increase/(decrease) in trade payables	**701,513**	589,997
(Increase)/decrease in other liabilities	**1,776,617**	1,779,323
Cashflow from operations	**6,396,220**	4,337,859

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NOTE 20: KEY MANAGEMENT PERSONNEL COMPENSATION

a. Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:

Directors		**Date appointed**
Tianpeng Shao	Managing Director and Chairman	July 2012
Wayne Johnson	Independent Non-executive Director	Removed March 2014
Andrew Faulkner	Independent Non-executive Director	Removed March 2014
Executives		
Zhanhua Yuan	General Manager	January 2010
Jiayi Wu	Chief Engineer	January 2010
Xianfeng Yin	Chief Financial Officer	October 2012
Tiesen Sun	Chief Geologist	January 2010
Tianxiang Shao	Marketing and Sales Manager	January 2010

Key management personnel remuneration

	2013 $	**2012 $**
Short term employee benefits	537,489	137,323

Details of key management personnel remuneration have been included in the Remuneration Report section of the Directors Report.

b. Options and Rights Holdings

Number of Options Held by Key Management Personnel

	Number granted	**Number lapsed/ forfeited**	**Exercise price ($)**	**First exercise date**	**Last exercise date**
Tianpeng Shao	6,000,000	-	$0.75	12 December 2013	12 December 2017
Wayne Johnson	5,000,000	-	$0.75	12 December 2013	12 December 2017
Andrew Faulkner	5,000,000	-	$0.75	12 December 2013	12 December 2017
Zhanhua Yuan	469 407	-	$0.75	12 December 2013	12 December 2016
Jiayi Wu	46 941	-	$0.75	12 December 2013	12 December 2016

The options were provided at no cost to the recipients.

NOTE 20: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

c. Shareholdings

Number of Shares held by Key Management Personnel

31 December 2013	Opening Balance	Received as Compensation	Options Exercised	Net Change Other	Closing Balance
Directors					
Tianpeng Shao*	-	-	-	135,644,255	135,644,255
Wayne Johnson****	-	-	-	179,250	179,250
Andrew Faulkner****	-	-	-	-	-
Executives					
Zhanhua Yuan***	-	-	-	20,236,537	20,236,537
Jiayi Wu	-	-	-	93,881	93,881
Xianfeng Yin**	-	-	-	19,220,455	19,220,455
Tiesen Sun	-	-	-	-	-
Tianxiang Shao	-	-	-	-	-
Total	**-**	**-**	**-**	**175,374,378**	**175,374,378**

* Portion of shares allocated to Mr Tianpeng Shao following issue of 193,170,400 Ordinary Shares by Sino Oil and Gas Limited for the acquisition of Lishida Development (HK) Limited.

** Portion of shares allocated to Green Peace Holdings Co Ltd (entity related to Xianfeng Yin) following issue of 19,220,455 Ordinary Shares by Sino Oil and Gas Limited for the acquisition of Lishida Development (HK) Limited.

*** Portion of shares allocated to Pengfu Development Co Ltd (entity related to Zhanhua Yuan) following issue of 19,297,723 Ordinary Shares by Sino Oil and Gas Limited for the acquisition of Lishida Development (HK) Limited.

****Mr Wayne Johnson and Mr Andrew Faulkner have been removed as directors in March 2014.

NOTE 21: AUDITOR'S REMUNERATION

	2013 $	2012 $
Remuneration of the auditor of the consolidated entity for:		
- Auditing or reviewing the financial report	98,000	80,000
- Investigating accountant's report	-	60,000
- Tax report	-	6,000
- Work related to listing	5,000	-
	103,000	146,000

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NOTE 22: POST-REPORTING DATE EVENTS

On 14 March 2014, the Company and three of its Directors (Mr Tianpeng Shao, Mr Ruiyu He and Ms Heyan Wang) were served with a copy of Orders made by the Federal Court of Australia following an application made by the Australian Securities and Investment Commission (ASIC) relating to alleged breaches of the Corporations Act. Ms Heyan Wang has resigned subsequently in March 2014.

ASIC is conducting an investigation into whether there were any material omissions in the disclosures in the capital raising Prospectus Documents or other contraventions of the Corporations Act. ASIC has commenced a proceeding in the Federal Court seeking orders restraining the Company from transferring funds out of its bank accounts in Australia. There is currently an injunction restraining the Company transferring funds. The related investigation is ongoing.

The Board through its legal counsel is in dialogue with ASIC regarding the orders obtained by ASIC with a view to having these lifted to enable the Company to support its operating subsidiary in accordance with its commitments.

As a direct consequence of the ASIC actions to freeze the Company's bank accounts in Australia, the Company has not been able to utilise the majority of the funds raised in the IPO to purchase the specialised equipment outlined in the Prospectus.

This has and will result in a monthly loss of profit of AUD 330,000. Included in this is the cost of fully trained engineers and technicians who have been employed and trained to operate the equipment but currently remain idle, additional costs have also been incurred to lease/hire specialised equipment to perform some of the duties in satisfying the high growth in new sales contract received by the SAO subsidiary.

The operating costs of this leased/hire equipment are much higher than would have resulted by utilising the equipment planned to be purchased from the IPO funds.

Mr Ruiyu He, Mr Wrixon Gasteen, Mr David Cornwell, and Mr Guangbin Zhong have been appointed as independent non-executive directors in March 2014, with Mr Wayne Johnson and Mr Andrew Faulkner removed as directors in March 2014.

No other matters or circumstances have arisen since the end of the year which significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or state of affairs of the consolidated entity in future financial years.

NOTE 23: RELATED PARTY TRANSACTIONS

a. Transactions with key management personnel

Related party transactions	Related to	2013 $	2012 $
Payments to Pitcher Partners SA Pty Ltd	Andrew Faulkner	112,008	-
Payments to Nobleman Ventures	Wayne Johnson	70,239	-
Payments to D2MX Pty Ltd	Wayne Johnson	1,000,473	-
Payments to Wanted Marketing Consulting	Wayne Johnson	26,526	-
Share based payments (Options) to directors	Andrew Faulkner, Wayne Johnson, Tianpeng Shao	48,000	-
Share based payments to D2MX Pty Ltd	Wayne Johnson	300,000	-
Equipment purchase paid by Guisen Shao	Tianpeng Shao	-	4,656,012
Repayment of amounts to Guisen Shao	Tianpeng Shao	(1,679,797)	(1,530,000)
Company expenses paid by TianxiangPeng	Tianpeng Shao	-	885,870
Repayment of amounts to TianxiangPeng	Tianpeng Shao	562,747	-
Advance to the company by Liang Ma	Tianpeng Shao	-	950,856
Repayment of amounts to Liang Ma	Tianpeng Shao	(125,011)	(75,087)
Company expenses paid by Tianpeng Shao	Tianpeng Shao	1,565,734	78,788
Advances to the company by Xianfeng Yin	Xianfeng Yin	-	692,073

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

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NOTE 23: RELATED PARTY TRANSACTIONS (CONTINUED)

b. Balances with key management personnel

Amounts receivable from and payable to key management personnel and the Group at balance date comprise the following:

31 December 2013	**Receivable from related party**	**Payable to related party**
	$	**$**
Guishen Shao	-	1,926,506
Tianpeng Shao	-	1,643,840
Liang Ma	-	750,758
Tianxiang Shao	-	323,123
Tianpeng Shao and Xianfeng Yin (Salaries payable)	-	387,728
Pitcher Partners SA Pty Ltd	-	34,148
Nobleman Ventures	-	24,138
	-	**5,090,241**

31 December 2012	**Receivable from related party**	**Payable to related party**
	$	**$**
Guishen Shao	-	3,158,703
Tianpeng Shao	-	78,788
Liang Ma	-	875,769
Xianfeng Yin	-	692,073
Tianxiang Shao	-	895,134
	-	**5,700,467**

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NOTE 24: FINANCIAL INSTRUMENT RISKS

i. Risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities consist of:

- Cash and cash equivalents
- Trade and other receivables
- Security deposits to suppliers
- Trade and other payables
- Short term borrowings
- Notes payable

The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated at its headquarters, in close cooperation with the board of directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

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NOTE 24: FINANCIAL INSTRUMENT RISKS (CONTINUED)

ii. Market risk analysis

The main risks the Group is exposed to through its financial instruments are credit risk, interest rate risk, liquidity risk and customer concentration risk. The Group does not have any significant exposure to price risk and foreign currency risk.

Foreign currency risk

The Group does not have significant balances denominated in currency other than the functional currency of the respective companies within the Group.

Credit risk

Credit risk is managed on a group basis and reviewed regularly by the finance committee. It arises from exposures to customers as well as through deposits with financial institutions.

The finance committee monitors credit risk on a regular basis.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The Company performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectability of all trade and other receivables.

There are no other material amounts of collateral held as security at 31 December 2013.

Price risk

The Group's financial instruments are not exposed to price risk.

Liquidity risk

Liquidity risk is the risk that the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for financial liabilities as well as forecast cash inflows and outflows due in day-to-day business.

Interest rate risk

The Group's exposure to interest rate risk is low as it relates principally to its short term deposits placed with financial institutions. The Group does not currently have any interest bearing financial liabilities.

Customer concentration risk

The Group's exposure to customer concentration risk relates to its dependence on major customers. The Group's top 5 customers in 2013 generated more than 90% of the Group's revenues during the financial period.

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NOTE 24: FINANCIAL INSTRUMENT RISKS (CONTINUED)

iii. Financial instrument composition and maturity analysis

The table below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments.

	Weighted Average Effective Interest Rate		Interest Bearing Maturing within 1 Year		Interest Bearing Maturing within 2 Years		Non-interest Bearing Maturing within 1 Year		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
	%	**%**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Financial Assets:										
Cash and cash equivalents (Variable interest rate)	1.31	1.31	8,719,858	573,024	-	-	-	-	**8,719,858**	**573,024**
Trade and other receivables	-	-	-	-	-	-	21,544,996	15,554,683	**21,544,996**	**15,554,683**
Total Financial Assets			**8,719,858**	**573,024**	**-**	**-**	**21,544,996**	**15,554,683**	**30,264,854**	**16,127,707**
Financial Liabilities:										
Trade and other payables	-	-	-	-	-	-	9,494,206	7,571,660	**9,494,206**	**7,571,660**
Total Financial Liabilities			**-**	**-**	**-**	**-**	**9,494,206**	**7,571,660**	**9,494,206**	**7,571,660**
Net Financial Assets									**20,770,648**	**8,556,047**

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NOTE 24: FINANCIAL INSTRUMENT RISKS (CONTINUED)

iv. Interest rate sensitivity analysis

The Group has performed sensitivity analysis relating to its financial instrument's exposure to interest rate at reporting date. The Group's financial instruments do not have significant exposure to price risk and foreign exchange risk.

Interest rate sensitivity

The Group's exposure to interest rate risks relates principally to short term deposits placed with financial institutions in which the impact of +/- 5% in interest rates will not have a significant impact on the Company's profit and equity.

v. Credit risk analysis

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	2013 $	2012 $
Classes of financial assets - Carrying amounts:		
Cash and cash equivalents	8,719,858	573,024
Trade and other receivables	21,544,996	15,554,683
Total	**30,264,854**	**16,127,707**

The Group's management considers that all of the above financial assets that are not impaired or past due for each of the 31 December reporting dates under review are of good credit quality.

NOTE 25: FAIR VALUE MEASUREMENT

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

The value of the Group's financial assets and financial liabilities are determined by its short-term book value which is also its fair value.

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NOTE 26:PARENT ENTITY INFORMATION

	2013	2012
	$	$
Assets		
Current Assets	11,102,730	27,041
Non-Current Assets	808,146	757,358
Total Assets	11,910,876	784,399
Liabilities		
Current Liabilities	883,352	28,230
Non-Current Liabilities	-	-
Total Liabilities	883,352	28,230
Net Assets	**11,027,524**	**756,169**
Equity		
Issued Capital	13,885,557	756,238
Capital Raising Costs	(755,018)	
Share Options Reserve	48,000	-
Retained Earnings	(2,151,015)	(69)
Total Equity	**11,027,524**	**756,169**
Financial Performance		
Loss for the Year	(2,150,946)	(69)
Total Comprehensive Income	**(2,150,946)**	**(69)**

The Parent entity has no contingent liabilities or contingent assets at 31 December 2013 (2012: nil).

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NOTE 27: SHARE BASED PAYMENTS

Options

The following options have been granted to Key Management Personnel as share-based payments during the financial year:

Options	No.	Grant Date	Expiry Date	Exercise Price	Fair Value at Grant Date
Director Options					
February 2013	16,000,000	15-02-2013	12-12-2017	$0.75	$48,000

1. On 15 February 2013, 6,000,000 share options were granted to Mr Tianpeng Shao to take up ordinary shares at an exercise price of $0.75. The options are exercisable from 12 December 2013.
2. On 15 February 2013, 5,000,000 share options were granted to Mr Wayne Johnson to take up ordinary shares at an exercise price of $0.75. The options are exercisable from 12 December 2013.
3. On 15 February 2013, 5,000,000 share options were granted to Mr Andrew Faulkner to take up ordinary shares at an exercise price of $0.75. The options are exercisable from 12 December 2013.

The options hold no voting or dividends rights and are unlisted.

The options have been valued using the Black-Scholes option pricing model based on the following assumptions: an exercise price of $0.75, stock price of $0.07 based on the net asset position of the Group as at 31 December 2012, 4 year duration and volatility of 60% and risk free interest rate of 5%.

The following reconciles the outstanding share options granted at the beginning and end of the financial year:

Share Options Granted	2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at beginning of financial year	-	-	-	-
Granted during the financial year (i)	16,000,000	$0.75	-	-
Exercised during the financial year	-	-	-	-
Cancelled during the financial year	-	-	-	-
Balance at end of the financial year (ii)	16,000,000	$0.75	-	-

(i) Options granted

No options issued were exercised during the financial year (2012: nil).

(ii) Options outstanding at end of the financial year

The share options outstanding at the end of the financial year had an average exercise price of $0.75 (2012: nil) and a weighted average remaining contractual life of 1,452 days (2012: nil).

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NOTE 28: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

The accounting standards that have not been early adopted for the year ended 31 December 2013, but will be applicable to the group in future reporting periods, are detailed below. Apart from these standards, other accounting standards that will be applicable in future periods have been reviewed, however they have been considered to be insignificant to the group.

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's financial statements.

(i) AASB 9 Financial Instruments

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows;
    - The change attributable to changes in credit risk are presented in other comprehensive income (OCI) and;
    - The remaining change is presented in profit or loss.

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- Classification and measurement of financial liabilities; and
- Derecognition requirements for financial assets and liabilities.

Consequential amendments arising from AASB 9 are contained in *AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2010-10 Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures.*

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NOTE 28: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (CONTINUED)

In December 2013, the AASB published AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments which, among other things:

- Added a new chapter on hedge accounting into AASB 9, substantially overhauling previous accounting requirements in this area;
- Allowed the changes to address the so-called "own credit" issue that were already included in AASB 9 to be applied in isolation without the need to change any other accounting for financial instruments; and
- Deferred the mandatory effective date of AASB 9 from "1 January 2015" to "1 January 2017".

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 de-recognition 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)* Annual Improvements to IFRSs 2010–2012 Cycle**

Annual Improvements to IFRSs 2010–2012 Cycle is a collection of amendments to IFRSs in response to eight issues addressed during the 2010–2012 cycle for annual improvements to IFRSs

Among other improvements, the amendments clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity), and amend IFRS 8 *Operating Segments* to explicitly require the disclosure of judgements made by management in applying the aggregation criteria.

When these amendments are first adopted for the year ended 31 December 2015, there will be no material impact on the entity.

(iii)* AASB 1053 *Application of Tiers of Australian Accounting Standards.* AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements

AASB 1053 establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a) Tier 1: Australian Accounting Standards; and

b) Tier 2: Australian Accounting Standards - Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements:

a) for-profit entities in the private sector that have public accountability; and

b) the Australian Government and State, Territory and Local Governments.

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NOTE 28: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (CONTINUED)

The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:

a) for-profit private sector entities that do not have public accountability;

b) all not-for-profit private sector entities; and

c) public sector entities other than the Australian Government and State, Territory and Local Governments.

Consequential amendments to other standards to implement reduced disclosure requirements were introduced by AASB 2010-2

When these amendments are first adopted for the year ending 31 December 2014, they are unlikely to have any significant impact on the Group.

(iv) AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements

The Standard amends AASB 124 Related Party Disclosures to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs. This amendment reflects the AASB's view that these disclosures are more in the nature of governance disclosures that are better dealt within the legislation, rather than by the accounting standards.

On 28 June 2013, the Australian government passed *Corporations and Related Legislation Amendment Regulation 2013 (No.1)* which inserts these disclosures, with minor changes, into *Corporations Regulations 2001*. For financial years commencing on or after 1 July 2013, these disclosures are required to be included in remuneration reports of listed companies.

When these amendments are first adopted for the year ending 31 December 2014, they are unlikely to have any significant impact on the Group as the entity is a Tier 1 entity.

(v) AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

When AASB 2012-3 is first adopted for the year ended 31 December 2014, there will be no impact on the Group as this standard merely clarifies existing requirements in AASB 132.

(vi)* AASB 2013-3 *Recoverable Amount Disclosures for Non-Financial Disclosures

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 Impairment of Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal

When these amendments are adopted for the first time on 1 January 2014, they are unlikely to have any significant impact on the Group given that they are largely of the nature of clarification of existing requirements.

NOTE 28: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (CONTINUED)

(vii) AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting

AASB 2013-4 makes amendments to AASB 139 Financial Instruments: Recognition & Measurement to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novatedfrom one counterparty to a central counterparty as a consequence of laws or regulations.

When these amendments are adopted for the first time on 1 January 2014, they are unlikely to have any significant impact on the Group given that they are largely of the nature of clarification of existing requirements.

(viii)* AASB 2013-5 *Amendments to Australian Accounting Standards Investment Entity

The amendments in AASB 2013-5 provide an exception to consolidation to investment entities and require them to measure unconsolidated subsidiaries at fair value through profit or loss in accordance with AASB 9 Financial Instruments (or AASB 139 Financial Instruments: Recognition and Measurement where AASB 9 has not yet been adopted). The amendments also introduce new disclosure requirements for investment entities that have subsidiaries.

These amendments apply to investment entities, whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both.

When this standard is first adopted for the year ended 31 December 2014, there will be no impact on the entity because the parent entity does not meet the definition of 'investment entity'. Hence, the entity is still required to consolidate.

(ix) AASB Interpretation 21 Levies

AASB Interpretation 21 addressed how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements (in particular, when the entity should recognise a liability to pay a levy).

AASB Interpretation 21 is an interpretation of AASB 137 Provisions, Contingent Liabilities and Contingent Assets. AASB 137 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.

When this interpretation is adopted for the first time on 1 January 2014, there will be no significant impact on the financial statements as the Group is not subject any levies addressed by this interpretation.

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.

The Group has not elected to early adopt any new standards or amendments that are issued but not yet effective and has not yet assessed the impact of these standards.

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NOTE 28: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (CONTINUED)

(x) Annual Improvements to IFRSs 2011–2013 Cycle

Annual Improvements to IFRSs 2011–2013 Cycle is a collection of amendments to IFRSs in response to four issues addressed during the 2011–2013 cycle.

Among other improvements, the amendments clarify that an entity should assess whether an acquired property is an investment property under IAS 40 Investment Property and perform a separate assessment under IFRS 3 Business Combinations to determine whether the acquisition of the investment property constitutes a business combination.

When these amendments are first adopted for the year ended 31 December 2015, there will be no material impact on the entity.

NOTE 29: COMPANY DETAILS

Registered Office

1 Market Street

Sydney NSW 2000

Principal Place of Business

Level 13

Incubator Building

Science and Technology Industrial Park,

Daqing City,

Heilongjiang Province

China

Website

www.sinoaustoil.com

Registry Details

Security Transfer Registrar

770 Canning Highway

Applecross WA 6153

Directors' declaration

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1. In the opinion of the directors of Sino Australia Oil and Gas Limited:

   a. the consolidated financial statements and notes of Sino Australia Oil and Gas Limited are in accordance with the *Corporations Act 2001*, including

      i. giving a true and fair view of its financial position as at 31 December 2013 and of its performance for the financial year ended on that date; and

      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

   b. there are reasonable grounds to believe that Sino Australia Oil and Gas Limited will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 31 December 2013.

3. Note 1 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Tianpeng Shao
Chairman

Dated the 7th day of April 2014

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SINO AUSTRALIA OIL AND GAS LIMITED

Report on the financial report

We have audited the accompanying financial report of Sino Australia Oil and Gas Limited (the "Company"), which comprises the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company the consolidated entity comprising 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. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, 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. Those standards require us to 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.

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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 Company's preparation of the financial report that gives a true and fair view 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 Company'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.

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

Independence

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

Auditor's opinion

In our opinion:

a the financial report of Sino Australia Oil and Gas Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2013 and of their performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 31 December 2013. 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 on the remuneration report

In our opinion, the remuneration report of Sino Australia Oil and Gas Limited for the year ended 31 December 2013, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S J Gray
Partner – Audit & Assurance

Adelaide, 7 April 2014

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ASX Additional Information

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Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is effective as at 3 April 2014.

Substantial Shareholders

The number of substantial shareholders and their associates are set out below:

Shareholder	Number of Shares
TIANPENG SHAO	135,644,255
PENGFU DVLMT CO LTD	19,297,723
GREEN PEACE HLDGS CO LTD	19,220,455
KAITONG INDUSTRY CO LTD	19,007,967
FAITH CHAMP ENTPS LTD	11,400,000

Voting Rights

Ordinary shares	On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote
Options	No voting rights

Distribution of equity security holders

	Ordinary shares			
Holding	**Holders**	**Shares**	**Holders**	**Options**
1 – 1,000	34	3,240		-
1,001 – 5,000	199	779,859	271	704,694
5,001 – 10,000	67	590,888	41	370,500
10,001 – 100,000	73	2,341,729	28	972,109
100,000 and over	22	215,713,312	12	10,782,006
	395	219,429,028	352	12,829,309

There are 34 Shareholders holding less than a marketable parcel of shares.

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Twenty largest shareholders	Ordinary Shares Number Held	%of issued shares
TIANPENG SHAO	135,644,255	61.82%
PENGFU DVLMT CO LTD	19,297,723	8.79%
GREEN PEACE HLDGS CO LTD	19,220,455	8.76%
KAITONG INDUSTRY CO LTD	19,007,967	8.66%
FAITH CHAMP ENTPS LTD	11,400,000	5.20%
JINGZHONG WANG	2,065,391	0.94%
JP MORGAN NOM AUST LTD	2,000,000	0.91%
HAIYONG PU	1,866,228	0.85%
JUN PENG HAI	1,000,000	0.46%
ZHANHUA YUAN	938,814	0.43%
JINYING GUAN	563,288	0.26%
HANPENG TANG	375,525	0.17%
HONGJUN GUAN	375,525	0.17%
YANMEI GUO	373,245	0.17%
D2MX PL	358,500	0.16%
D2MX PL	251,504	0.11%
GUO JUNWEI	204,000	0.09%
ZHANG YANING	200,000	0.09%
BARODA HILL INV LTD	179,250	0.08%
WEN GU	140,821	0.06%
	215,462,491	98.18%

Twenty largest options holders	Share Options Number Held	%of issued options
FAITH CHAMP ENTPS LTD	5,700,000	44.43%
JINGZHONG WANG	1,032,695	8.05%
JP MORGAN NOM AUST LTD	1,000,000	7.79%
HAIYONG PU	933,114	7.27%
JUN PENG HAI	500,000	3.90%
ZHANHUA YUAN	469,407	3.66%
JINYING GUAN	281,644	2.20%

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Twenty largest options holders	Share Options Number Held	%of issued options
UBS NOM PL	201,000	1.57%
HANPENG TANG	187,762	1.46%
HONGJUN GUAN	187,762	1.46%
YANMEI GUO	186,622	1.45%
GUO JUNWEI	102,000	0.80%
ZHANG YANING	100,000	0.78%
WEN GU	70,410	0.55%
JIAN CHEN	70,410	0.55%
CAVANOUGH SCOTT + C	55,000	0.43%
ZHENG ME XU	50,000	0.39%
NEFCO NOM PL	50,000	0.39%
JIANG ZHANG TING	46,940	0.37%
JIAYI WU	46,940	0.37%
	11,271,706	87.87%

Unissued equity securities

There are 12,829,309 Options issued by the Company.

Securities exchange

The Company is listed on the Australian Securities Exchange.