SINO Gas & Energy

ASX Announcement

27 July 2018

SCHEME BOOKLET FOR PROPOSED ACQUISITION BY LONE STAR

Sino Gas & Energy Holdings Limited (ASX: SEH, the "Company" or "Sino Gas") is pleased to confirm that on 27 July 2018 the Australian Securities and Investments Commission has registered the Scheme Booklet in relation to the proposed acquisition of Sino Gas by LSF10 Summertime Investments, Ltd., a wholly-owned subsidiary of Lone Star Fund X Acquisitions, LLC (together with its affiliates, "Lone Star") by way of a scheme of arrangement (the "Scheme"). This follows the Federal Court making orders that a meeting of Sino Gas shareholders be convened and, if thought fit, approve the Scheme ("Scheme Meeting").

Scheme Meeting

The Scheme Meeting will be held at 10.00am (Sydney time) on Wednesday, 5 September 2018. If the Scheme is approved by the requisite majorities of Sino Gas shareholders at the Scheme Meeting and all other conditions precedent are satisfied or waived (where capable of waiver), Sino Gas intends to apply to the Court for orders approving the Scheme. If the Scheme is approved and implemented, Sino Gas shareholders will receive cash consideration of A$0.25 per Sino Gas share.

Scheme Booklet

A copy of the Scheme Booklet, which includes an Independent Expert's Report and a Notice of Scheme Meeting, is attached to this announcement and will be sent to Sino Gas Shareholders on or about 1 August 2018. Those Sino Gas shareholders who have previously nominated an electronic means of notification to the Sino Gas Registry will receive an email from where they can download the Scheme Booklet. The Scheme Booklet provides Sino Gas shareholders with information about the Scheme. Sino Gas shareholders are advised to read the Scheme Booklet in its entirety. The Notice of Scheme Meeting provides information on how to lodge your Proxy Form.

Independent Expert's Report

The independent expert, Grant Thornton Corporate Finance Pty Ltd, has concluded that the Scheme is in the best interests of shareholders, in the absence of a superior proposal.

Directors' recommendation

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

For further information please contact:

Shareholder Enquiries ***(Monday to Friday – 8.30AM – 5PM Sydney time)***
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SINO Gas & Energy
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SCHEME BOOKLET

In relation to the proposed acquisition of Sino Gas & Energy Holdings Limited (**Sino Gas**) by Lone Star via LSF10 Summertime Investments, Ltd. by way of scheme of arrangement

VOTE IN FAVOUR

The Sino Gas Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Sino Gas Shareholders.

The Scheme Meeting is scheduled to be held at 10.00am (Sydney time) on Wednesday, 5 September 2018 at the Museum of Sydney, Warrane Theatre, Level 2, Corner of Phillip and Bridge Streets, Sydney, NSW 2000.

This Scheme Booklet is important and requires your prompt attention. You should read it in its entirety, and consider its contents carefully, before deciding whether or not to vote in favour of the Scheme. If you are in any doubt about what you should do, you should consult with a financial, legal, taxation or other professional adviser.

If you have any questions in relation to this Scheme Booklet or the Scheme, please contact the Sino Gas Shareholder Information Line on 1300 223 089 (within Australia) or +61 3 9415 4067 (outside Australia), Monday to Friday between 8.30am to 5.00pm (Sydney time).

This Scheme Booklet has been sent to you because you are shown in the Sino Gas Share Register as holding Sino Gas Shares. If you have recently sold all of your Sino Gas Shares, please disregard this Scheme Booklet.

Financial adviser

RBC Capital Markets

Legal adviser

Allens > < Linklaters

IMPORTANT NOTICES

Nature of this document

This Scheme Booklet provides Sino Gas Shareholders with information about the proposed acquisition of Sino Gas by LS BidCo. You should review all of the information in this Scheme Booklet carefully before making any decision as to how to vote at the Scheme Meeting. Section 1.1 sets out the reasons why you should vote in favour of the Scheme and section 1.2 sets out the reasons why you may wish to vote against the Scheme.

Defined terms

A number of defined terms are used in this Scheme Booklet. These terms are explained in section 9.1 of this Scheme Booklet. Section 9.2 sets out some rules of interpretation which apply to this Scheme Booklet.

No investment advice

The information contained in this Scheme Booklet does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position or particular needs. It is important that you read this Scheme Booklet in its entirety before making any investment decision and any decision as to whether or not to vote in favour of the Scheme. If you are in any doubt in relation to these matters, you should consult with a financial, legal, taxation or other professional adviser.

Not an offer

This Scheme Booklet does not constitute or contain an offer to Sino Gas Shareholders, or a solicitation of an offer from Sino Gas Shareholders, in any jurisdiction.

Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside of Australia who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside Australia.

Regulatory information

This document is the explanatory statement for the scheme of arrangement between Sino Gas and the Scheme Shareholders for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this Scheme Booklet as Annexure B.

A copy of this Scheme Booklet was provided to ASIC for examination in accordance with section 411(2)(b) of the Corporations Act and was lodged with ASIC for registration under section 412(6) of the Corporations Act. It was then registered by ASIC under section 412(6) of the Corporations Act before being sent to Sino Gas Shareholders.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the time of the Court hearing to approve the Scheme. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been provided to ASX. Neither ASX, nor any of its officers, takes any responsibility for the contents of this Scheme Booklet.

Notice of Scheme Meeting

The Notice of Meeting is set out in Annexure D.

Sino Gas Shareholder's right to appear at the Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any Sino Gas Shareholder may appear at the Second Court Hearing, which is expected to be held at 9.15am on Tuesday, 11 September 2018 at the Federal Court of Australia - New South Wales Registry, Law Courts Building, Queens Square, 184 Phillip Street, Sydney.

Any Sino Gas Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on Sino Gas a notice of appearance in the prescribed form together with any affidavit that the Sino Gas Shareholder proposes to rely on.

Important notice associated with the Court order under section 411(1) of the Corporations Act

The fact that, under section 411(1) of the Corporations Act, the Court has ordered that a meeting be convened and has directed that an explanatory statement accompany the notice of meeting does not mean that the Court:

- has formed any view as to the merits of the proposed scheme or as to how Sino Gas Shareholders should vote (on this matter Sino Gas Shareholders must reach their own decision); or
- has prepared, or is responsible for, the content of the explanatory statement.

Disclaimer as to forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

All forward-looking statements in this Scheme Booklet reflect views only as at the date of this Scheme Booklet, and generally may be identified by the use of forward-looking words such as ' believe', 'aim', 'expect', 'anticipate', 'intending', 'foreseeing', 'likely', 'should', 'planned', 'may', 'estimate', 'potential', or other similar words. Similarly, statements that describe Sino Gas' or LS BidCo's objectives, plans, goals or expectations are or may be forward-looking statements.

Any statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of Sino Gas' operations, and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by those forward-looking statements.

The operations and financial performance of Sino Gas are subject to various risks, including those summarised in this Scheme Booklet, which may be beyond the control of Sino Gas and/or LS BidCo. Sino Gas Shareholders should note that the historical financial performance of Sino Gas is no assurance of future financial performance of Sino Gas (whether the Scheme is implemented or not). Those risks and uncertainties include factors and risks specific to the industry in which Sino Gas operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. As a result, the actual results of operations and earnings of Sino Gas following implementation of the Scheme, as well as the actual advantages of the Scheme, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet.

Although Sino Gas believes that the views reflected in any forward-looking statements included in the Sino Gas Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

None of Sino Gas, LS BidCo, Sino Gas' officers, LS BidCo's officers, any persons named in this Scheme Booklet with their consent or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement.

All subsequent written and oral forward-looking statements attributable to Sino Gas or LS BidCo or any person acting on their behalf are qualified by this cautionary statement.

Subject to any continuing obligations under relevant laws or the listing rules of a relevant exchange, Sino Gas and LS BidCo do not give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Responsibility statement

Sino Gas has been solely responsible for preparing the Sino Gas Information. The Sino Gas Information concerning Sino Gas and the intentions, views and opinions of Sino Gas and the Sino Gas Directors contained in this Scheme Booklet has been prepared by Sino Gas and the Sino Gas Directors and is the responsibility of Sino Gas. LS BidCo and the LS BidCo Directors and officers do not assume any responsibility for the accuracy or completeness of any Sino Gas Information or the Independent Expert's Report (or any information contained therein).

LS BidCo has been solely responsible for preparing the LS BidCo Information. The LS BidCo Information concerning LS BidCo and the intentions, views and opinions of LS BidCo contained in this Scheme Booklet has been prepared by LS BidCo and is the responsibility of LS BidCo. Sino Gas and the Sino Gas Directors and officers do not assume any responsibility for the accuracy or completeness of any LS BidCo Information.

Grant Thornton Corporate Finance Pty Ltd (***Grant Thornton***) has prepared the Independent Expert's Report in relation to the Scheme (and for this purpose Grant Thornton engaged RISC Advisory Pty Ltd (***RISC Advisory***) as the independent technical expert to prepare a technical report for inclusion in the Independent Expert's Report (***Independent Technical Specialist's Report***)) and Grant Thornton takes responsibility for that report (including the Independent Technical Specialist's Report). The Independent Expert's Report (including the Independent Technical Specialist's Report) is set out in Annexure A.

Link Market Services Limited has had no involvement in the preparation of any part of this Scheme Booklet other than being named as the Sino Gas Registry. Link Market Services Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

No consenting party has withdrawn their consent to be named before the date of this Scheme Booklet.

Privacy

Sino Gas and LS BidCo may collect personal information in the process of implementing the Scheme. Such information may include the name, contact details and shareholdings of Sino Gas Shareholders and the name of persons appointed by those persons to act as a proxy, attorney or corporate representative at the Scheme Meeting. The primary purpose of the collection of personal information is to assist Sino Gas and LS BidCo to conduct the Scheme Meeting and implement the Scheme. Personal information of the type described above may be disclosed to the Sino Gas Registry, print and mail service providers, authorised securities brokers, Related Bodies Corporate of Sino Gas and LS BidCo, and Sino Gas' and LS BidCo's officers, employees, advisers and service providers. Sino Gas Shareholders have certain rights to access personal information that has been collected. Sino Gas Shareholders should contact the Sino Gas Registry in the first instance, if they wish to access their personal information. Sino Gas Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

Charts and diagrams

Any diagrams, charts, graphs or tables appearing in this Scheme Booklet are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, graphs and tables is based on information available as at the date of this Scheme Booklet.

Financial amounts

Unless otherwise stated, all financial amounts in this Scheme Booklet are in Australian Dollars and all share prices and trading volumes refer to Sino Gas Share trading on the ASX.

Any discrepancies between totals in tables or financial statements, or in calculations, graphs or charts are due to rounding.

All financial and operational information set out in this Scheme Booklet is current as at the date of this Scheme Booklet, unless otherwise stated.

Time

All references to time in this Scheme Booklet are references to Sydney, Australia time, unless otherwise stated. Any obligation to do an act by a specified time in an Australian time zone must be done at the corresponding time in any other jurisdiction.

Shareholder Information Line

If you have any questions in relation to this Scheme Booklet or the Scheme, please contact the Sino Gas Shareholder Information Line on 1300 223 089 (within Australia) or +61 3 9415 4067 (outside Australia), Monday to Friday between 8.30am to 5.00pm (Sydney time).

Date of this Scheme Booklet

This Scheme Booklet is dated 27 July 2018.

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INDICATIVE KEY DATES

Event	Date
Latest date and time for receipt of Proxy Forms or powers of attorney for the Scheme Meeting	10.00am (Sydney time) on Monday, 3 September 2018
Time and date for determining eligibility to vote at the Scheme Meeting	7.00pm (Sydney time) on Monday, 3 September 2018
Scheme Meeting to be held at the Museum of Sydney, Warrane Theatre, Level 2, Corner of Phillip and Bridge Streets, Sydney, NSW 2000	10.00am (Sydney time) on Wednesday, 5 September 2018
If the Scheme is approved by eligible Sino Gas Shareholders	
Second Court Date for approval of the Scheme	Tuesday, 11 September 2018
Effective Date Court order lodged with ASIC and announcement to ASX Last day of trading in Sino Gas Shares – Sino Gas suspended from trading on ASX from close of trading	Wednesday, 12 September 2018
Record Date for determining entitlements to Scheme Consideration	5.00pm (Sydney time) on Friday, 14 September 2018
Implementation Date Payment of Scheme Consideration to Scheme Shareholders	Wednesday, 19 September 2018

All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and any other regulatory authority. Any changes to the above timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through ASX and notified on Sino Gas' website at http://sinogasenergy.com/.

LETTER FROM THE CHAIRMAN OF SINO GAS

27 July 2018

Dear Fellow Sino Gas Shareholder,

The Sino Gas Directors unanimously recommend that you vote in favour of the Scheme in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Sino Gas Shareholders.

Sino Gas & Energy Holdings Limited (***Sino Gas***) announced to ASX on 31 May 2018 that it had entered into a Scheme Implementation Agreement with LSF10 Summertime Investments, Ltd (***LS BidCo***), a wholly-owned subsidiary of Lone Star Fund X Acquisitions, LLC (***Lone Star Fund X***), under which Lone Star Fund X has agreed to acquire all of the Sino Gas Shares at a price of $0.25 per Sino Gas Share in cash, via a scheme of arrangement (the ***Scheme***).

Lone Star Funds (***Lone Star***) is a leading private equity firm that invests globally in a range of different asset classes and industry sectors, including the oil and gas industry.

In order for the Scheme to proceed, it must be approved by Sino Gas Shareholders at the Scheme Meeting, and then by the Court. The Scheme is also subject to certain other conditions.

The purpose of this Scheme Booklet is to provide you with information about the Scheme to assist you in voting on the Scheme at the Scheme Meeting.

Sino Gas Directors' recommendation

The Sino Gas Directors **unanimously recommend that you vote in favour of the Scheme** in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Sino Gas Shareholders. Subject to those same qualifications, each of the Sino Gas Directors intends to vote all the Sino Gas Shares held or controlled by them in favour of the Scheme.

The reasons for the Sino Gas Directors' recommendation include the following:

- The Scheme Consideration of $0.25 per Sino Gas Share represents an attractive premium to recent historical trading prices of Sino Gas Shares. The Scheme provides a liquidity event for Sino Gas Shareholders at an attractive premium.
- The Scheme Consideration agreed with LS BidCo follows a series of negotiations and three price increases. LS BidCo first engaged with Sino Gas' management on 27 September 2017 and submitted their first proposal to acquire all of the Sino Gas Shares on issue at a price equivalent to $0.17 per Sino Gas Share on 18 December 2017. That initial price was subsequently increased to $0.21 per Sino Gas Share on 5 April 2018, then to $0.23 per Sino Gas Share on 13 April 2018 and finally to the Scheme Consideration of $0.25 per Sino Gas Share after undertaking a formal six-week confirmatory due diligence process, which concluded on 28 May 2018.
- While the Sino Gas Directors remain of the view that Sino Gas' business and assets have upside potential, and recent accomplishments have paved a foundation for Sino Gas' future as a natural gas producer in China, the Scheme allows Scheme Shareholders to receive certain value for their investment in Sino Gas, and to avoid ongoing risks and uncertainties associated with Sino Gas' business.

  These risks and uncertainties are discussed further in section 5, and include risks relating to:

  - changes in government laws, regulations, tax regime and policies in the People's Republic of China (***PRC***);
  - changes to Production Sharing Contract (***PSC***) interests, terms, title, and the extension of exploration licence terms;
  - Sino Gas' reliance on strategic relationships with other entities such as Sino Gas' joint venture partner, China New Energy Mining Limited (***CNEML***)[1], and Sino Gas & Energy Limited's (***SGE***) PSC partners, China United Coalbed Methane Corporation Limited in respect of the Linxing PSC and PetroChina CBM in respect of the Sanjiaobei PSC;
  - the ability of Sino Gas, its joint venture partner, CNEML, and SGE's PSC partners to fund their respective share of PSC expenditures;
  - obtaining key regulatory approvals for the Linxing and Sanjiaobei PSCs, including the first Overall Development Plan (***ODP***) approval for the Sanjiaobei PSC and any subsequent ODPs required for either PSC; and
  - exploration and development risks.
- The Independent Expert has concluded that the Scheme is in the best interests of Sino Gas Shareholders, in the absence of a Superior Proposal.
- Since the announcement of the Scheme, no Superior Proposal has emerged.
- The Sino Gas Share Price may fall if the Scheme is not implemented.

1 Sino Gas' principal asset is a 49% shareholding in Sino Gas & Energy Limited (***SGE***). The remaining shares in SGE are held by Asia Gas & Energy Ltd, which Sino Gas understands is a subsidiary of CNEML.

In forming their view that the Scheme is in the best interests of Shareholders, the Sino Gas Directors considered the disadvantages of the Scheme proceeding. In particular that:

- Sino Gas Shareholders will no longer be able to participate in any upside through the development of Sino Gas' business and assets.
- The tax consequences of the Scheme will depend on your personal situation. A general guide to the Australian taxation implications of the Scheme is set out in section 7.

Independent Expert

The Sino Gas Directors appointed Grant Thornton Corporate Finance Pty Ltd (***Grant Thornton***) as the independent expert to assess the merits of the Scheme. For this purpose, RISC Advisory has been engaged by Grant Thornton as the independent technical expert to prepare an independent technical report for inclusion in the Independent Expert's Report (***Independent Technical Specialist's Report***). The Independent Expert has concluded that the Scheme is in the best interests of Shareholders, in the absence of a Superior Proposal. The Independent Expert has assessed the full underlying value of Sino Gas at between $0.23 and $0.32 per Sino Gas Share. The Scheme Consideration under the Scheme of $0.25 per Sino Gas Share is within this range.

A complete copy of the Independent Expert's Report is included as Annexure A to this Scheme Booklet.

How to vote

Your vote is important regardless of how many Sino Gas Shares you own. If you wish the Scheme to proceed, it is important that you vote in favour of the Scheme Resolution.

The Scheme will only be effective and implemented if it is supported by:

- more than 50% of Sino Gas Shareholders present and voting at the Scheme Meeting; and
- at least 75% of the votes cast on the Scheme Resolution by Sino Gas Shareholders.

Further information

This Scheme Booklet sets out important information regarding the Scheme, including the reasons for the Sino Gas Directors' recommendation and the Independent Expert's Report. It also sets out reasons why you may wish to vote against the Scheme.

Please read this document carefully and in its entirety as it will assist you in making an informed decision on how to vote. I would also encourage you to seek independent financial, legal and taxation advice before making any investment decision in relation to your Sino Gas Shares.

If you require any further information, please call the Sino Gas Shareholder Information Line on 1300 223 089 (within Australia) or +61 3 9415 4067 (outside Australia), Monday to Friday between 8.30am and 5.00pm (Sydney time).

Conclusion

On behalf of the Sino Gas Board, I would like to thank you for your ongoing support.

We look forward to your participation in the Scheme Meeting and encourage you to vote in favour of the Scheme, which we believe and the Independent Expert has concluded is in the best interests of Sino Gas Shareholders, in the absence of a Superior Proposal.

Yours faithfully

Philip Bainbridge
Chairman

Sino Gas & Energy Holdings Limited

1. KEY CONSIDERATIONS RELEVANT TO YOUR VOTE

1.1 Why you should vote in favour of the Scheme

REASONS WHY YOU SHOULD VOTE IN FAVOUR OF THE SCHEME

Reason 1

The Scheme Consideration of $0.25 per Sino Gas Share represents an attractive premium to recent historical trading prices of Sino Gas Shares, and follows a series of negotiations and three price increases

Reason 2

If the Scheme proceeds, Scheme Shareholders will receive certain value for their investment in Sino Gas and avoid the ongoing risks and uncertainties associated with Sino Gas' business

Reason 3

The Independent Expert has concluded that the Scheme is in the best interests of Sino Gas Shareholders, in the absence of a Superior Proposal

Reason 4

No Superior Proposal has emerged since the Scheme Implementation Agreement was announced

Reason 5

The Sino Gas Share Price may fall if the Scheme is not implemented

Reason 6

Brokerage charges will not apply to the transfer of Scheme Shares

The Scheme has a number of advantages and disadvantages which may affect Sino Gas Shareholders in different ways depending on their individual circumstances. Sino Gas Shareholders should seek professional advice on their particular circumstances, as appropriate.

This section 1.1 provides a summary of some of the reasons why the Sino Gas Board unanimously recommends Sino Gas Shareholders vote in favour of the Scheme. This section should be read in conjunction with section 1.2, which sets out a summary of some of the reasons why Sino Gas Shareholders may wish to vote against the Scheme.

You should read this Scheme Booklet in full, including the Independent Expert's Report, before deciding how to vote at the Scheme Meeting.

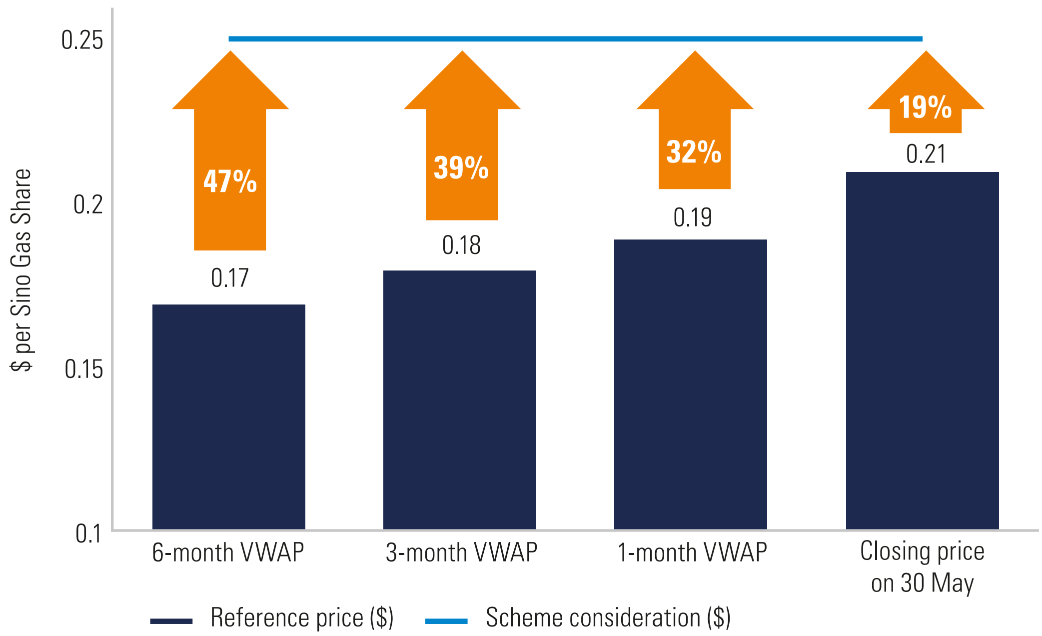
While the Sino Gas Directors acknowledge the reasons to vote against the Scheme, they believe the advantages of the Scheme significantly outweigh the disadvantages.

The Sino Gas Directors have formed the view that the Scheme is in the best interests of Sino Gas Shareholders for the following reasons:

Reason 1: The Scheme Consideration of $0.25 per Sino Gas Share represents an attractive premium to recent historical trading prices of Sino Gas Shares, and follows a series of negotiations and three price increases

The Scheme Consideration of $0.25 per Sino Gas Share represents an attractive premium of:

- 19% to the closing price of $0.21 per Sino Gas Share on 30 May 2018, being the day prior to the announcement that Sino Gas had entered into the Scheme Implementation Agreement with LS BidCo;
- 32% to 1-month Volume Weighted Average Price (***VWAP***) of $0.19 per Sino Gas Share up to and including 30 May 2018;
- 39% to 3-month VWAP of $0.18 per Sino Gas Share up to and including 30 May 2018; and
- 47% to 6-month VWAP of $0.17 per Sino Gas Share up to and including 30 May 2018.



The Scheme provides a liquidity event for Sino Gas Shareholders at an attractive premium.

The Scheme Consideration agreed with LS BidCo follows a series of negotiations and three price increases. LS BidCo first engaged with Sino Gas' management on 27 September 2017 and submitted their first proposal to acquire all of the Sino Gas Shares on issue at a price equivalent to $0.17 per Sino Gas Share on 18 December 2017. That initial price was subsequently increased to $0.21 per Sino Gas Share on 5 April 2018, then to $0.23 per Sino Gas Share on 13 April 2018 and finally to the Scheme Consideration of $0.25 per Sino Gas Share after undertaking a formal six-week confirmatory due diligence process, which concluded on 28 May 2018.

Reason 2: If the Scheme proceeds, Scheme Shareholders will receive certain value for their investment in Sino Gas and avoid the ongoing risks and uncertainties associated with Sino Gas' business

The Sino Gas Directors remain of the view that Sino Gas' business and assets have upside potential and recent accomplishments have paved a foundation for Sino Gas' future as a natural gas producer in China. However, if the Scheme proceeds, Scheme Shareholders will receive certain value for their investment in Sino Gas, and will avoid the ongoing risks and uncertainties associated with Sino Gas' business. These risks and uncertainties are discussed further in section 5, including risks relating to:

- changes in government laws, regulations, tax regime and policies in the People's Republic of China (***PRC***);
- changes to Production Sharing Contract (***PSC***) interests, terms, title, and the extension of exploration licence terms;
- changes to Reserves and Resources contained in the licences subject to the PSCs;
- Sino Gas' reliance on strategic relationships with other entities such as Sino Gas' joint venture partner, China New Energy Mining Limited (***CNEML***)[2], and Sino Gas & Energy Limited's (***SGE***) PSC partners, China United Coalbed Methane Corporation Limited in respect of the Linxing PSC, and PetroChina CBM in respect of the Sanjiaobei PSC;
- the ability of Sino Gas, its joint venture partner, CNEML, and SGE's PSC partners to fund their respective share of PSC expenditures;
- obtaining key regulatory approvals for the Linxing and Sanjiaobei PSCs, including the first Overall Development Plan (***ODP***) approval for the Sanjiaobei PSC and any subsequent ODPs required for either PSC;
- fluctuations in currency and commodity prices; and
- exploration and development risks.

Reason 3: The Independent Expert has concluded that the Scheme is in the best interests of Sino Gas Shareholders, in the absence of a Superior Proposal

The Sino Gas Directors appointed Grant Thornton as the independent expert to assess the merits of the Scheme (and for this purpose, RISC Advisory was engaged by Grant Thornton as the independent technical expert to prepare the Independent Technical Specialist's Report for inclusion in the Independent Expert's Report).

The Independent Expert has concluded that the Scheme is in the best interests of Sino Gas Shareholders, in the absence of a Superior Proposal. The Independent Expert has assessed the full underlying value of Sino Gas at between $0.23 and $0.32 per Sino Gas Share. The Scheme Consideration of $0.25 per Sino Gas Share is within this range.

A complete copy of the Independent Expert's Report (including the Independent Technical Specialist's Report) is included as Annexure A to this Scheme Booklet.

Reason 4: No Superior Proposal has emerged since the Scheme Implementation Agreement was announced

Since the announcement of the Scheme Implementation Agreement between LS BidCo and Sino Gas to the ASX on 31 May 2018 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and the Sino Gas Directors are not aware, as at the date of this Scheme Booklet, of any Superior Proposal that is likely to emerge.

Reason 5: The Sino Gas Share Price may fall if the Scheme is not implemented

If the Scheme is not implemented, the Sino Gas Shares will remain quoted on the ASX and will continue to be subject to market volatility. If the Scheme is not implemented, the price at which Sino Gas Shares trade may fall, including to a price that is materially below the Scheme Consideration of $0.25 per Sino Gas Share. The closing Sino Gas Share Price on 30 May 2018, being the day prior to the announcement that Sino Gas had entered into the Scheme Implementation Agreement with LS BidCo, was $0.21 per Sino Gas Share. Refer to Reason 1 above for the VWAP of Sino Gas Shares over the 1, 3 and 6 month periods up to and including 30 May 2018.

Reason 6: Brokerage charges will not apply to the transfer of Scheme Shares

You will not incur brokerage charges on the transfer of your Sino Gas Shares to LS BidCo pursuant to the Scheme. If you sell your Sino Gas Shares on ASX (rather than disposing of them via the Scheme), you may incur brokerage charges.

2 Sino Gas' principal asset is a 49% shareholding in Sino Gas & Energy Limited (***SGE***). The remaining shares in SGE are held by Asia Gas & Energy Ltd, which Sino Gas understands is a subsidiary of CNEML.

1.2 Why you may wish to vote against the Scheme

REASONS WHY YOU MAY NOT WANT TO VOTE IN FAVOUR OF THE SCHEME

Reason 1
You may not agree with the Sino Gas Directors' unanimous recommendation and the Independent Expert's conclusion

Reason 2
You will no longer be able to participate in any upside through the development of Sino Gas' business and assets

Reason 3
You may wish to maintain your investment in Sino Gas

Reason 4
The tax consequences of the Scheme may not suit your financial position

Reason 5
You may consider that there is potential for a Superior Proposal to emerge

Although the Scheme is recommended unanimously by the Sino Gas Directors and the Independent Expert has concluded that the Scheme is in the best interests of Sino Gas Shareholders, in the absence of a Superior Proposal, factors which may lead you to consider voting against the Scheme include the following:

Reason 1: You may not agree with the Sino Gas Directors' unanimous recommendation and the Independent Expert's conclusion

Despite the view of the Sino Gas Directors and the Independent Expert, you may believe that the Scheme is not in the best interests of Sino Gas Shareholders or not in your individual interest.

Reason 2: You will no longer be able to participate in any upside through the development of Sino Gas' business and assets

If the Scheme is approved and implemented, you will cease to be a Sino Gas Shareholder. As such, you will no longer be able to participate in any upside through the development of Sino Gas' business and assets, which may occur in the future. However, there is no guarantee as to Sino Gas' future performance, as is the case with all investments in listed securities.

Reason 3: You may wish to maintain your investment in Sino Gas

You may wish to maintain your investment in Sino Gas in order to have an investment in a publicly listed company with the specific characteristics of Sino Gas in terms of factors such as industry, profile, capital structure and geographical exposure.

Implementation of the Scheme may result in a disadvantage to those who wish to maintain their investment profile. Sino Gas Shareholders who wish to maintain their investment profile may find it difficult to find an investment with a similar profile to that of Sino Gas and they may incur transaction costs in undertaking any new investment.

Reason 4: The tax consequences of the Scheme may not suit your financial position

The tax consequences of the Scheme will depend on your personal situation. A general guide to the Australian taxation implications of the Scheme is set out in section 7. This guide is expressed in general terms only and Sino Gas Shareholders should seek professional taxation advice regarding the tax consequences applicable to their own circumstances.

Reason 5: You may consider that there is potential for a Superior Proposal to emerge

It is possible that, if Sino Gas were to continue as an independent listed entity, a corporate control proposal for Sino Gas could materialise in the future, such as a takeover bid with a higher price. Implementation of the Scheme will mean that Sino Gas Shareholders would not receive the benefit of any such proposal.

However, as stated at Reason 4 in section 1.1, since the announcement of the Scheme Implementation Agreement between LS BidCo and Sino Gas to the ASX on 31 May 2018 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and the Sino Gas Directors are not aware of any superior or any alternative proposal that is likely to emerge.

The Scheme Implementation Agreement prohibits Sino Gas from soliciting a Competing Proposal. However, Sino Gas is permitted to respond to any Competing Proposal should the Sino Gas Directors determine that failing to do so would be reasonably likely to constitute a breach of their fiduciary or statutory duties (and after having obtained written advice from Sino Gas' external legal and, if appropriate, financial advisers). Further details of the key terms of the Scheme Implementation Agreement are provided in section 8.1.

2. FREQUENTLY ASKED QUESTIONS

This section 2 answers some frequently asked questions about the Scheme. It is not intended to address all relevant issues for Sino Gas Shareholders and should be read together with all other parts of this Scheme Booklet.

Question	Answer	More Information
The Scheme, the Sino Gas Directors' recommendation and opinion of the Independent Expert		
What is the Scheme?	The Scheme is a scheme of arrangement, which is a statutory procedure that is commonly used to enable one company to acquire another company. The Scheme is between Sino Gas and Scheme Shareholders and will effect the acquisition of Sino Gas by LS BidCo. If the Scheme is approved and implemented, Scheme Shareholders will receive a cash payment equal to $0.25 per Sino Gas Share in relation to the transfer of the Sino Gas Shares to LS BidCo.	Section 3 contains an overview of the Scheme and a copy of the Scheme is contained in Annexure B.
What do the Sino Gas Directors recommend?	The Sino Gas Directors unanimously recommend that Sino Gas Shareholders vote in favour of the Scheme in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Sino Gas Shareholders.	Sections 1.1 and 1.2 set out further details of the Sino Gas Directors' recommendation, including a summary of the reasons why you should vote in favour of the Scheme or why you may wish to vote against it.
How do the Sino Gas Directors intend to vote?	Each Sino Gas Director who holds Sino Gas Shares intends to vote all Sino Gas Shares held or controlled by them in favour of the Scheme subject to the same qualifications as their recommendation.	Details of the interests of each Sino Gas Director in Sino Gas (including Sino Gas Shares) are set out in section 4.9(c).
What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Scheme is in the best interests of Sino Gas Shareholders, in the absence of a Superior Proposal.	Annexure A contains a copy of the Independent Expert's Report.
The bidder		
Who is Lone Star, Lone Star Fund X, HoldCo and LS BidCo?	Lone Star is a leading private equity firm that invests globally in a range of different asset classes and industry sectors, including the oil and gas industry. Since the establishment of its first fund in 1995, Lone Star has organized seventeen private equity funds (the ***LS Funds***) with aggregate capital commitments totalling over US$70 billion. The interests in Sino Gas will be indirectly owned by LSF X U.S. Holdings, L.P. and Lone Star Fund X (Bermuda), L.P. (together, ***Lone Star Fund X***). LSF10 Summertime Holdings, Ltd. (***HoldCo***) is a Bermuda special purpose vehicle ultimately owned by Lone Star Fund X. HoldCo was established for the purpose of indirectly acquiring the Scheme Shares under the Scheme and holding the interests in LS BidCo. LS BidCo is a Bermuda special purpose vehicle wholly-owned by HoldCo, and was established for the purpose of acquiring the Scheme Shares under the Scheme and holding the interests in Sino Gas.	Section 6.1 contains further details about Lone Star Fund X, HoldCo and LS BidCo. Section 6.4 contains further information about the means by which LS BidCo will fund the Scheme Consideration.

Question	Answer	More Information
The conditions		
Are there any conditions to be satisfied?	There are certain conditions that will need to be satisfied or waived (where capable of waiver) before the Scheme can become effective. In summary, as at the date of this Scheme Booklet, the outstanding conditions include: ▪ approval from Sino Gas Shareholders; ▪ Court approval; ▪ no regulatory intervention preventing the implementation of the Scheme; ▪ no Sino Gas Prescribed Event occurring between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date; ▪ no SGE Prescribed Event occurring between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date; ▪ no Material Adverse Event occurring between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date; and ▪ no material acquisitions, disposals or new commitments. As at the date of this Scheme Booklet, all of the Sino Gas Directors believe that these conditions are capable of being satisfied in accordance with the Scheme Implementation Agreement.	Section 8.1(a) contains further information on the conditions to the Scheme. Section 8.2 contains a summary of the status of the conditions to the Scheme.
The Scheme Meeting and voting		
When and where will the Scheme Meeting be held?	The Scheme Meeting will be held on 5 September 2018 at the Museum of Sydney, Warrane Theatre, Level 2, Corner of Phillip and Bridge Streets, Sydney, NSW 2000, commencing at 10.00am (Sydney time).	The Notice of Meeting contained in Annexure D sets out further details on the Scheme Meeting.
What vote is required to approve the Scheme?	For the Scheme to proceed, the Scheme Resolution must be passed by: ▪ a majority in number (more than 50%) of Sino Gas Shareholders present and entitled to vote at the Scheme Meeting (either in person or by proxy); and ▪ at least 75% of the votes cast on the Scheme Resolution by Sino Gas Shareholders. The Court has the discretion to waive the first of these two requirements if it considers it appropriate to do so.	Section 3.2(a) and the Notice of Meeting contained in Annexure D set out further details on the Scheme approval requirements.
Am I entitled to vote?	Each Sino Gas Shareholder who is registered on the Sino Gas Share Register at 7.00pm (Sydney time) on 3 September 2018 is entitled to vote at the Scheme Meeting.	The Notice of Meeting contained in Annexure D sets out further details on your entitlement to vote.
How do I vote?	You can vote in person at the Scheme Meeting or appoint a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative to attend and vote on your behalf at the Scheme Meeting.	The Notice of Meeting contained in Annexure D sets out further details on how to vote at the Scheme Meeting.
Will LS BidCo vote any Sino Gas Shares that it holds at the Scheme Meeting?	LS BidCo is not a Sino Gas Shareholder and is not permitted to vote at the Scheme Meeting.	Section 6.6 contains further details about the interest of LS BidCo in Sino Gas Shares.
When will the result of the Scheme Meeting be known?	The result of the Scheme Meeting will be available shortly after the conclusion of the meeting and will be announced to ASX once available. Even if the Scheme Resolution is passed by the Scheme Meeting, the Scheme is subject to approval of the Court.	N/A

Question	Answer	More Information
What happens if the Court does not approve the Scheme or the Scheme does not otherwise proceed?	If the Scheme is not approved at the Scheme Meeting, or if the Scheme Resolution is approved at the Scheme Meeting but the Scheme is not approved by the Court or another condition to the Scheme is not satisfied or waived (where capable of waiver), the Scheme will not become Effective and will not be implemented. In such a scenario, Scheme Shareholders will not receive the Scheme Consideration but will retain their Sino Gas Shares and continue to be able to be participate in any upside through the development of Sino Gas' business and assets, and be exposed to risks and uncertainties associated with their investment in Sino Gas. In these circumstances, Sino Gas will, in the absence of another proposal, continue to operate as a stand-alone company listed on ASX.	Section 5 contains further information on the risks and uncertainties you will continue to be exposed to if the Scheme does not proceed.
What happens to my Sino Gas Shares if I do not vote, or if I vote against the Scheme, and the Scheme becomes Effective?	If you do not vote, or vote against the Scheme, and the Scheme becomes Effective, any Sino Gas Shares held by you on the Record Date (currently expected to be 5.00pm (Sydney time) on 14 September 2018) will be transferred to LS BidCo and you will receive the Scheme Consideration, notwithstanding that you did not vote or voted against the Scheme. Further, if the Scheme becomes Effective, Sino Gas intends to apply to ASX for Sino Gas Shares to be suspended from official quotation on ASX from the close of trading on the Effective Date. You will not be able to sell your Sino Gas Shares on-market after this time. LS BidCo has also indicated that it intends to delist Sino Gas if the Scheme becomes Effective.	N/A
Can I oppose the Scheme at the Second Court Hearing?	You have the right as a Sino Gas Shareholder to appear and make submissions at the Second Court Hearing which is scheduled to be held at 9.15am on 11 September 2018 at the Federal Court of Australia - New South Wales Registry, Law Courts Building, Queens Square, 184 Phillip Street, Sydney.	Refer to the Important Notices commencing on page 2.
When and how will I be paid the Scheme Consideration?	Payment of the Scheme Consideration will occur in accordance with the Scheme on the Implementation Date. The Implementation Date is expected to occur on 19 September 2018. If you have nominated an Australian bank account with the Sino Gas Registry, payment of the Scheme Consideration will be made by direct deposit into your nominated Australian bank account as at the Record Date. If you have not nominated an Australian bank account, payment will be made by Australian dollar cheque, sent by post to your registered address as shown on the Sino Gas Share Register.	Section 3.1 sets out further details on the Scheme Consideration.

Question	Answer	More Information
Other questions		
What is the likelihood of another offer emerging?	Sino Gas is not in a position to speculate on potential competing offers. Since the announcement of the Scheme Implementation Agreement between LS BidCo and Sino Gas to the ASX on 31 May 2018 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and the Sino Gas Directors are not aware of any superior or any alternative proposal that is likely to emerge. Under the Scheme Implementation Agreement, Sino Gas is bound by a 'no shop' provision, which requires that it does not solicit, encourage, initiate or invite any enquiries, discussions or negotiations with any third party, that may reasonably be expected to lead to a Competing Proposal. However, Sino Gas is permitted to respond to any Competing Proposal should the Sino Gas Directors determine that failing to do so would likely constitute a breach of their fiduciary or statutory duties (and after having obtained written advice from Sino Gas' external legal and, if appropriate, financial advisers).	Section 8.1(b) sets out further details on the exclusivity arrangements in place under the Scheme Implementation Agreement, including further detail on the 'no shop' provision.
What are the tax implications of the Scheme being implemented?	The tax consequences of the Scheme will depend on your personal situation.	Section 7 provides a general guide to the Australian tax implications of the Scheme.
Can I sell my Sino Gas Shares now?	You can sell your Sino Gas Shares on market at any time before close of trading on ASX on the Effective Date at the then prevailing Sino Gas Share Price (which may vary from the Scheme Consideration).	N/A
Do I have to give any warranties in relation to my Scheme Shares?	Yes. Each Scheme Shareholder will be deemed to have warranted to LS BidCo that all of their Scheme Shares will, at the date of transfer under the Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind; and that they have full power and capacity to sell and to transfer their Scheme Shares (together with all rights and entitlements attaching to such shares) to LS BidCo.	Section 3.3 sets out further details on the warranties given by Scheme Shareholders. The warranties given by Scheme Shareholders are contained in clause 5.6 of the Scheme, which is contained in Annexure B.
Where can I get further information?	For further information, you can call the Sino Gas Shareholder Information Line on 1300 223 089 (within Australia) or +61 3 9415 4067 (outside Australia), Monday to Friday between 8.30am to 5.00pm (Sydney time).	N/A

3. OVERVIEW OF THE SCHEME

This section 3 contains an overview of the Scheme, a copy of which is included in Annexure B.

3.1 Consideration

If the Scheme becomes Effective, Scheme Shareholders will receive total cash payments of $0.25 per Sino Gas Share, in return for the transfer of their Sino Gas Shares to LS BidCo.

Payment of the Scheme Consideration will be made on the Implementation Date, currently expected to be 19 September 2018. See clause 6 of the Scheme contained in Annexure B for further details.

(a) **Scheme Shareholders who have a nominated Australian bank account**

For those Scheme Shareholders from whom a valid request for direct credit of payment has been received by the Sino Gas Registry by the Record Date (currently proposed to be 5.00pm (Sydney time) on 14 September 2018), the Scheme Consideration will be paid directly to their nominated Australian bank account.

You can change or nominate an Australian bank account in which to receive payment of the Scheme Consideration by completing the hard-copy direct credit instruction form that accompanied this Scheme Booklet or by visiting www.linkmarketservices.com.au/ and logging in using your Holder Identifier (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Proxy Form).

(b) **Scheme Shareholders who have not nominated an Australian bank account**

In the event that Sino Gas is unable to pay the Scheme Consideration by direct credit to the Scheme Shareholders because they have not nominated a bank account, those Scheme Shareholders will receive the Scheme Consideration by cheque sent by pre-paid post.

Sino Gas may cancel a cheque issued to a Scheme Shareholder if the cheque is returned to Sino Gas or has not been presented for payment within 6 months after the date on which the cheque was sent. However, during the year commencing on the Implementation Date, upon a request from a Scheme Shareholder, Sino Gas must reissue a cheque that has previously been cancelled by it.

(c) **PRC Withholding Tax**

The Scheme Consideration is exclusive of any PRC taxes, levies and surcharges (including but not limited to income tax, value-added tax, stamp duty, levies and surcharges). In the event that any PRC taxes, levies and surcharges are assessed by the Chinese tax authorities, LS BidCo will gross up the Scheme Consideration in accordance with the Scheme terms so that the net amount payable to each Scheme Shareholder, after satisfaction of any such amounts, remains $0.25 per Scheme Share.

3.2 Key steps in the Scheme

(a) **Scheme approval requirements**

The Scheme will become effective and be implemented only if it is:

- approved by the requisite majorities of Sino Gas Shareholders at the Scheme Meeting to be held on 5 September 2018; and
- approved by the Court at the Second Court Hearing.

Approval by Sino Gas Shareholders requires the Scheme Resolution to be approved by:

- a majority in number (more than 50%) of Sino Gas Shareholders present and entitled to vote at the Scheme Meeting (either in person or by proxy); and
- at least 75% of the votes cast on the Scheme Resolution by Sino Gas Shareholders.

The Court has the power to waive the first requirement.

In the event that:

- the Scheme is agreed to by the requisite majorities of Sino Gas Shareholders at the Scheme Meeting; and
- all other conditions (except Court approval of the Scheme) have been satisfied or waived (where capable of waiver),

then Sino Gas will apply to the Court for orders approving the Scheme.

Each Sino Gas Shareholder has the right to appear at the Second Court Hearing.

(b) **Effective Date**

If the Court approves the Scheme and all other conditions have been satisfied or waived, where capable of waiver, the Scheme will become Effective on the date when a copy of the Court order approving the Scheme is lodged with ASIC. Sino Gas will, on the Scheme becoming Effective, give notice of that event to ASX.

(c) **Record Date**

The Scheme Shareholders will be entitled to receive the Scheme Consideration in respect of the Sino Gas Shares they hold as at the Record Date (being the second Business Day after the Effective Date). The Record Date is currently expected to be 5.00pm (Sydney time) on Friday, 14 September 2018.

(i) Dealings on or prior to the Record Date

For the purpose of determining which Sino Gas Shareholders are eligible to participate in the Scheme, dealings in Sino Gas Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS (Clearing House Electronic Subregister System), the transferee is registered on the Sino Gas Share Register as the holder of the relevant Sino Gas Shares as at the Record Date; and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Sino Gas Registry on or before the Record Date (and the transferee remains registered as at the Record Date).

For the purposes of determining entitlements under the Scheme, Sino Gas will not accept for registration or recognise any transfer or transmission applications in respect of Sino Gas Shares received after the Record Date.

(ii) Dealings after the Record Date

For the purpose of determining entitlements to the Scheme Consideration, Sino Gas must maintain the Sino Gas Share Register in its form as at the Record Date until the Scheme Consideration has been paid to the Scheme Shareholders. The Sino Gas Share Register in this form will solely determine entitlements to the Scheme Consideration.

After the Record Date:

- all statements of holding for Scheme Shares will cease to have effect as documents relating to title in respect of such Scheme Shares; and
- each entry on the Sino Gas Share Register relating to Scheme Shares will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of such Scheme Shares.

(d) **Implementation Date**

The Implementation Date is, subject to certain conditions set out in the Scheme, the third Business Day after the Record Date. The Implementation Date is currently expected to be 19 September 2018.

Prior to implementation of the Scheme, and by no later than two Business Days before the Implementation Date, LS BidCo must pay or procure payment of the aggregate Scheme Consideration payable to Scheme Shareholders into a trust account nominated by Sino Gas.

On the Implementation Date:

- Sino Gas will pay the Scheme Consideration received from LS BidCo to Scheme Shareholders; and
- the Scheme Shares will be transferred to LS BidCo without Scheme Shareholders needing to take any further action.

(e) **Deed Poll**

LS BidCo has executed the Deed Poll pursuant to which it has undertaken in favour of each Scheme Shareholder to procure that each Scheme Shareholder is provided with the Scheme Consideration to which they are entitled under the Scheme, in accordance with the terms of the Scheme and subject to the Scheme becoming Effective.

A copy of the Deed Poll is contained in Annexure C.

3.3 Warranties by Scheme Shareholders

The Scheme provides that each Scheme Shareholder is taken to have warranted to LS BidCo that all of their Scheme Shares which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind; and that they have full power and capacity to sell and to transfer their Scheme Shares (together with all rights and entitlements attaching to such shares) to LS BidCo.

3.4 No brokerage or stamp duty

You will not have to pay brokerage or Australian stamp duty on the transfer of your Sino Gas Shares under the Scheme.

3.5 Delisting of Sino Gas

If the Scheme proceeds, Sino Gas intends to apply to ASX for Sino Gas Shares to be suspended from official quotation on ASX from close of trading on the Effective Date.

4. INFORMATION ABOUT SINO GAS

4.1 Introduction

Sino Gas is an Australian energy company focused on developing natural gas assets in China. It was incorporated in Western Australia on 5 March 2007 and admitted to the Official List of ASX in 2009 (ASX: SEH). Sino Gas has offices in Australia, China and Hong Kong.

4.2 Sino Gas' principal asset

Sino Gas' principal asset is a 49% shareholding in Sino Gas & Energy Limited (***SGE***), an Australian incorporated company which holds interests in two Production Sharing Contracts (***PSCs***) in the People's Republic of China (***PRC***), which are named Linxing and Sanjiaobei. Each of the PSCs is a contractual arrangement between SGE, as the Foreign Contractor[3] and operator, and the relevant State Owned Enterprise (***SOE***) participant in the PSC, which governs the exploration, development and production of gas resources on the relevant PSC project area.

To the best of its knowledge, Sino Gas understands that the remaining 51% of SGE's issued share capital is held by China New Energy Mining Limited (***CNEML***) through its subsidiary Asia Gas & Energy Ltd (formerly known as Asia Power Energy Corporation) (***AGE***)[4] [5]. The rights and obligations of SGE and its two shareholders in relation to SGE and its business are governed by the terms of the Shareholders' Agreement entered into between SGE, Sino Gas and AGE on 6 July 2012 (***SGE Shareholders' Agreement***) and the constitution of SGE.

Based on disclosure made on the Shenzhen Stock Exchange on 18 May 2018, Sino Gas understands that Jinhong Holding Group Co Ltd (***Jinhong***), a Shenzhen Stock Exchange listed Chinese urban gas pipe construction company, proposes to acquire 100% of the shares in AGE from CNEML. Further, Sino Gas understands that Jinhong has signed a letter of intent with CNEML, which includes a three month exclusivity period that commenced on 31 May 2018. During the exclusivity period, CNEML and AGE must not implement any share sale, capital raising or similar transaction with any third party. Sino Gas is not aware of any further material details in relation to the status of any transaction that may result in connection with the matters above. There is no certainly that any transaction will eventuate.

4.3 SGE's interests in the Linxing and Sanjiaobei PSCs

SGE's interests in the Linxing and Sanjiaobei PSCs are as follows:

- The parties to the Linxing PSC are SGE, as the Foreign Contractor, and China United Coalbed Methane Corporation Limited (***CUCBM***)[6], the SOE participant. SGE currently has a 100% participating interest in the PSC. Under the terms of the PSC, CUCBM has the right to participate at up to 51% participating interest in the PSC by contributing its share of future costs. CUCBM is considering its level of participation in the PSC. It is currently expected that CUCBM will provide formal notification of its level of participation to SGE prior to mid-2019.
- Sino Gas has an option to acquire 7.5% of SGE’s participating interest in the Linxing PSC by reimbursing SGE for 7.5% of historical costs and expenses (the ***Linxing Option***).

3 Foreign enterprises wanting to invest in upstream oil and gas exploration and production activities in the PRC must partner with Chinese State Owned Enterprises through PSCs. A foreign investor in a PSC is known and referred to as a Foreign Contractor.

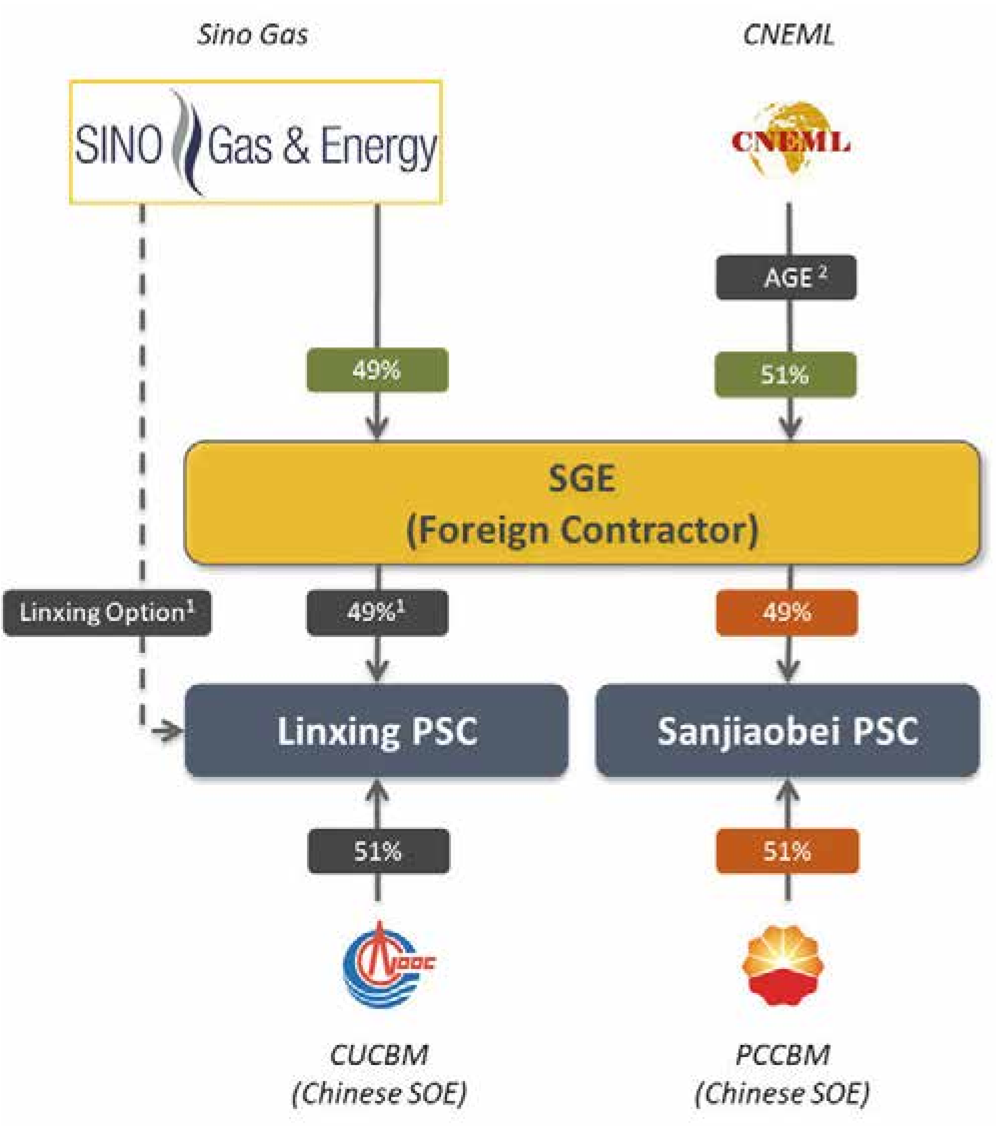
4 AGE is an exempted company incorporated under the laws of the Cayman Islands with limited liability.

5 AGE was acquired by CNEML, a company incorporated under the laws of Hong Kong, from MIE Holdings Corporation on or around 20 July 2016.

6 A wholly-owned subsidiary of China National Offshore Oil Corporation (***CNOOC***).

- The participants to the Sanjiaobei PSC are SGE, as the Foreign Contractor, and PetroChina CBM Company (***PCCBM***)[7], the SOE participant. SGE currently has a 100% participating interest in the PSC. Under the terms of the PSC, upon ODP approval PCCBM has the right to participate at up to 51% participating interest in the PSC by contributing its share of future costs.

The interests in the Linxing and Sanjiaobei PSCs are shown in the following diagram, which assumes that the SOE participants in each of the PSCs has exercised its right to participate at 51% participating interest in the relevant PSC.



Note:

1 If Sino Gas exercises the Linxing Option:

- SGE's participating interest in the Linxing PSC would decrease to 45.325%.
- Sino Gas would acquire a direct 3.675% participating interest in the Linxing PSC.
- Sino Gas' effective participating interest would increase from 24.01% (being, 49% of SGE's 49% participating interest) to 25.884% (being, 49% of SGE's remaining 45.325% participating interest plus the 3.675% participating interest acquired upon exercise of the Linxing Option).

2 Sino Gas' principal asset is a 49% shareholding in Sino Gas & Energy Limited (***SGE***). The remaining shares in SGE are held by Asia Gas & Energy Ltd, which Sino Gas understands is a subsidiary of CNEML.

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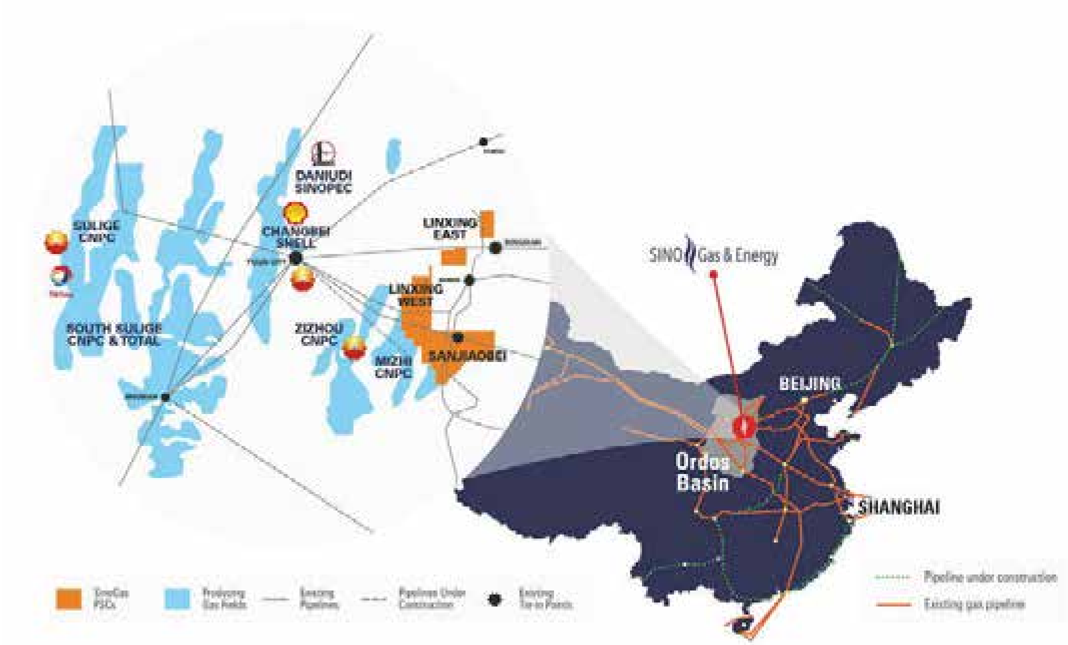
7 A wholly-owned subsidiary of PetroChina Company Limited (***PetroChina***). The counterparty to the Sanjiaobei PSC is China National Petroleum Company (***CNPC***). However, CNPC has requested PetroChina to act as operator of the Sanjiaobei PSC and PetroChina has delegated responsibility for operations to PCCBM.

A summary of SGE's interests in the Linxing and Sanjiaobei PSCs is set out in the table below.[8]

	Participating interests (exploration)	Participating interests[9]	Effective date	Term[10] and expiry	Area	Field Facilities	Current status
Linxing PSC **SOE: CUCBM** **Status: Operator (SGE)**	SGE 100%	CUCBM 51% SGE 45.325% Sino Gas 3.675%	1 September 1998	38 years[11] 31 August 2036	877 km^2, including 722 km^2 in Linxing West / East and 155 km^2 of prospective CBM acreage in Linxing East	Central Gathering Station, with processing facilities tie-in to local pipeline infrastructure	Exploration period expires 31 August 2019 Pilot Production Start-Up: December 2014
Sanjiaobei PSC **SOE: PCCBM** **Status: Operator (SGE)**	SGE 100%	PCCBM 51% SGE 49%	1 September 1998	35 years 31 August 2033	1,056 km^2	Central Gathering Station, with processing facilities tie-in to local pipeline infrastructure	Exploration period expires 31 August 2018 Pilot Production Start-Up: December 2014

SGE has been selling all gas produced from the Linxing and Sanjiaobei PSCs pilot program since 1 December 2014. The gas is sold via gas sales agreements (***GSA***s) which are currently one year in duration and are extended via negotiation on an annual basis.

Revenue from production is distributed among the PSC participants in accordance with an agreed cost recovery model that first recovers operational expenditure, then past exploration and appraisal expenditure, then development expenditure.



8 Under the Linxing PSC, in the event of future coalbed methane (***CBM***) developments, the CBM participating interests are 70% for SGE (pre exercise of the Linxing Option by Sino Gas) and 30% for CUCBM, with a PSC expiry date of 31 August 2028. SGE does not currently have any CBM development projects that are considered material.

9 This assumes that each SOE (i.e. CUCBM and PCCBM) has exercised its right to participate at 51% participating interest and, in terms of the Linxing PSC, that Sino Gas has exercised the Linxing Option.

10 The term of the PSC includes the exploration, development and production periods.

11 The original term of the PSC was 30 years. However, an 8 year extension was granted by CUCBM as part of 11th Modification Agreement to the Linxing PSC.

SGE has received confirmation from the Shanxi Government that the Linxing and Sanjiaobei PSCs have been named as key development projects, reinforcing the Provincial Government's ongoing support for the projects and the Central Government's commitment to accelerate development of key domestic supply sources to meet growing natural gas demand.

4.4 Linxing PSC operations overview

The Linxing PSC is currently in the exploration period. The Linxing PSC is divided into three areas, Linxing (West), Linxing (East) and Linxing (East CBM). Linxing (West) is considered to be fully discovered, with Reserves and Contingent Resources assigned. The majority of the Linxing (East) area is discovered with some prospective areas. The Linxing (East CBM) area is to the east of a major fault and contains shallow CBM.

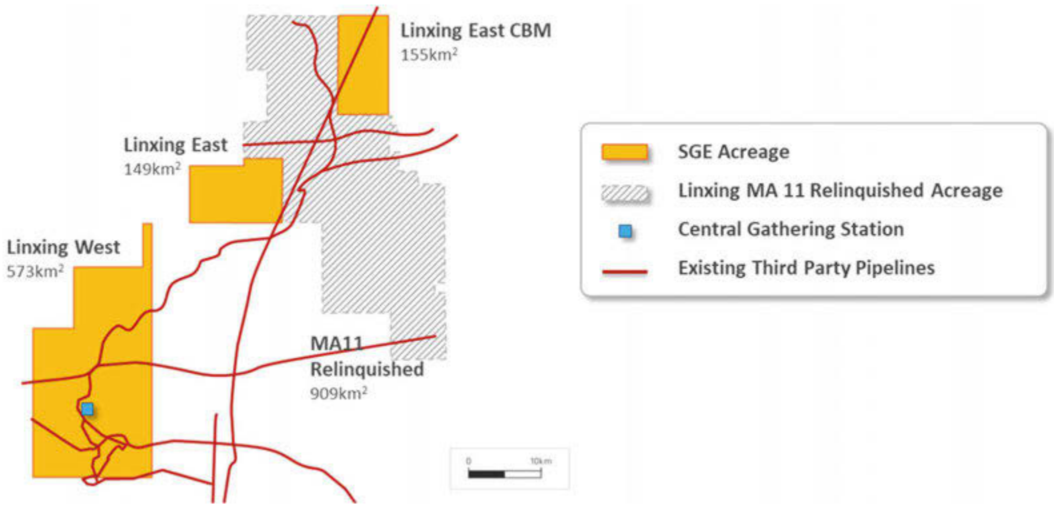
The first Linxing PSC ODP from CUCBM covering approximately 20% of the discovered area was received in May 2018.

CUCBM has the right to participate at up to 51% participating interest in the PSC by contributing its share of future costs. CUCBM is considering its level of participation and is currently expected to provide formal notification to SGE prior to mid-2019.

(a) 11th Modification Agreement

It was announced to ASX on 12 June 2018 that SGE and CUCBM had entered into the 11th Modification Agreement (***MA11***) which includes:

- a reduction in SGE's natural gas participating interest from 70% to 49%;[12]
- an 8-year extension of the natural gas PSC to 31 August 2036;
- relinquishment of approximately 1,000 km^2 of the Linxing East natural gas exploration acreage; and
- extension of the natural gas exploration licence period to 31 August 2019.



(b) Drilling and Production

As of 30 June 2018, 125 wells have been drilled in the Linxing PSC. Gross pilot production for the six months ended 30 June 2018 was 16.1 million standard cubic feet per day (***MMscf/d***) (Sino Gas: 6.5 MMscf/d) with 57 wells online. Gross sales for the first half of 2018 were 2.9 billion cubic feet (***Bcf***) at an average realised price of US$6.8/Mscf. Cumulative gross production was 11.4 Bcf to 30 June 2018 (4.5 Bcf net to Sino Gas).

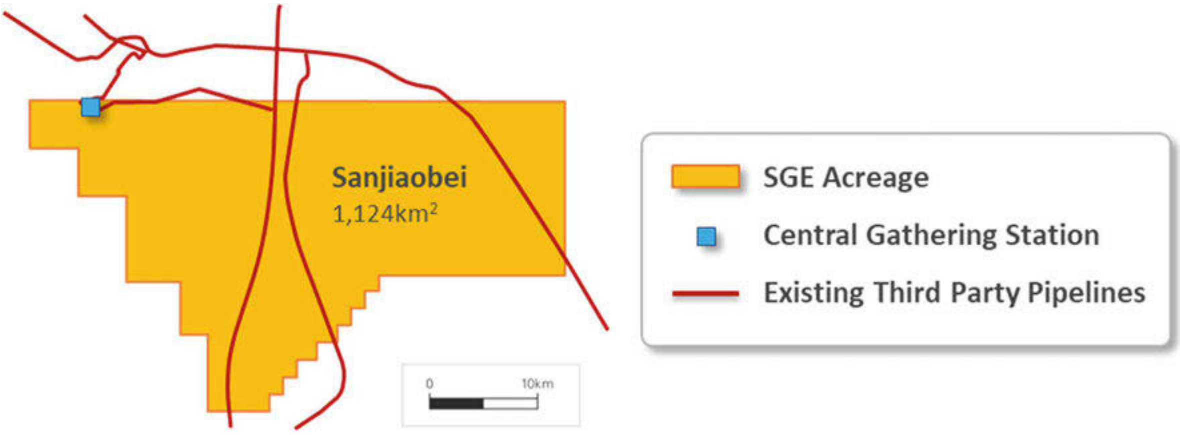
12 Assuming CUCBM elects to participate at up to 51% participating interest and before Sino Gas elects to exercise the Linxing Option.

Further detail regarding the Linxing PSC is set out in sections 3 and 4 of the Independent Technical Specialist's Report that forms part of the Independent Expert's Report (see Annexure A).

4.5 Sanjiaobei PSC operations overview

The Sanjiaobei PSC is currently in the exploration period. The Sanjiaobei resource area is divided into a discovered area in the northwest supported by well and well test data, and a prospective area to the south and east where mobile gas has yet to be demonstrated. A series of faults separate the prospective area from an area further east where the formations are shallow and no resources are assigned.

The first Sanjiaobei ODP is currently undergoing final review, with approval now expected in the second half of 2018. In anticipation of the first Sanjiaobei ODP approval, confidential preliminary discussions have commenced between SGE and PSC SOE partner PCCBM pertaining to the timing and extent of PCCBM's participation in the project up to its maximum 51% participating interest, operational matters related to the development stage of the project, allocation of pilot production above the previously announced 3 Bcf prior to ODP approval[13] and the extension of the exploration period that expires on 31 August 2018. Discussions are currently expected to be concluded around the time of the first ODP approval.



As of 30 June 2018, 60 wells have been drilled in the Sanjiaobei PSC. Gross pilot production for the six months ended 30 June 2018 was 8.1 MMscf/d (Sino Gas: 3.1 MMscf/d) with 21 wells online. Gross sales for the first half of 2018 were 1.5 Bcf at an average realised price of US$7.3/Mscf. Cumulative gross production was 2.6 Bcf to 30 June 2018 (1.0 Bcf net to Sino Gas).

Further detail regarding the Sanjiaobei PSC is set out in sections 3 and 4 of the Independent Technical Specialist's Report that forms part of the Independent Expert's Report (see Annexure A).

4.6 Reserves and Resources

RISC Advisory has certified that as at 30 June 2018:

- gross (total project) mid-case discovered Resources for the Linxing and Sanjiaobei PSCs of 5.1 trillion cubic feet (***Tcf***), comprised of gross 2P Reserves of 1.3 Tcf and gross 2C Resources of 3.8 Tcf;
- Sino Gas attributable net mid-case discovered Resources of 1.1 Tcf, comprised of net 2P Reserves of 256 Bcf and net 2C Resources of 806 Bcf; and
- Sino Gas attributable net P50 Prospective Resources of 376 Bcf.

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

Sino Gas attributable net Reserves and Resources	1P Reserves[1] (Bcf)	2P Reserves[1] (Bcf)	3P Reserves[1] (Bcf)	2C Contingent Resources (Bcf)	P50 Prospective Resources[2] (Bcf)
30 June 2018	176	256	346	806	376
31 December 2017	384	578	776	899	821
100% Gross Total Project Reserves and Resources for the PSCs					
30 June 2018	874	1,323	1,788	3,789	2,002

Notes:

1 RISC Advisory has separately assessed the Reserves and Resources for each of the Linxing and Sanjiaobei PSCs by probabilistic methods and added the resultant estimates arithmetically. RISC Advisory and Sino Gas caution that the aggregate 1P Reserves estimate may be conservative and the aggregate 3P Reserves estimate may be optimistic as a result of the portfolio effects of arithmetic addition.

2 Prospective Resources are the estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) related to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

3 For the purposes of determining SGE's Reserves and Resources, RISC Advisory assumes:

(a) full CUCBM and PCCBM take up of their respective 51% participating interests in the Linxing and Sanjiaobei PSCs; and

(b) the Linxing Option has been exercised resulting in SGE having a 45.325% participating interest in the Linxing PSC. However the impact of the Linxing Option has not been included in Sino Gas' attributable net Reserves and Resources.

4.7 Sino Gas' exploration activities

As at the date of this Scheme Booklet, Sino Gas also has agreements to undertake exploration studies in the following blocks.

Geographic area	Block	Operator
Ordos Basin	Heng Shan Pu South	Sino Gas
Qinshui Basin	Shou Yang West	Sino Gas
Offshore Pearl River Mouth Basin	Block 28/06	Sino Gas

4.8 Sino Gas' key priorities and guidance for FY 2018

Sino Gas' key priorities for the financial year ending 31 December 2018 (***FY 2018***) are to:

(a) maintain a strong and committed focus on health, safety and the environment;

(b) secure first ODP approvals for the Linxing PSC[14] and Sanjiaobei PSC;

(c) maximise production and revenue through existing and new facilities; and

(d) prepare for continued production growth post-ODP approval.

14 The first Linxing PSC ODP from CUCBM covering about 20% of the discovered area was received in May 2018.

Sino Gas' FY 2018 guidance is set out in the table below with a comparison to the actual results for the financial year ending 31 December 2017 (***FY 2017***).

Key indicator	Unit	FY 2017 actual	FY 2018 guidance
Annual average production	MMscf/d	17	22 – 27
Production exit rate	MMscf/d	25	38 – 42
Gross capital expenditure	US$mm	28	60 – 70
Drilling program	Wells	28	40 – 50

Sino Gas' Development Plan, as announced to ASX on 30 October 2017, and as adjusted by MA11, as announced to ASX on 12 June 2018, includes approximately 1,400 wells to be drilled in Phase 1 resulting in approximately 325 – 475 MMscf/d of plateau production for approximately six years with expected free cash flow from 2020. Targeted Phase 2 plateau production is up to approximately 600 MMscf/d.

4.9 Sino Gas Board and key management personnel

(a) Sino Gas' Board

The Sino Gas Board comprises the following directors.

Name	Position
Philip Bainbridge	Chairman and Independent Non-Executive Director
Glenn Corrie	Managing Director
Matthew Ginsburg	Independent Non-Executive Director
Gavin Harper	Independent Non-Executive Director
Bernie Ridgeway	Independent Non-Executive Director

(b) Sino Gas' Key Management Personnel

Sino Gas' Key Management Personnel comprises the following individuals.

Name	Position
Glenn Corrie	Managing Director
Ian Weatherdon	Chief Financial Officer
Frank Fu	Chief Operating Officer
Harry Spindler	Company Secretary

(c) Interests of Sino Gas Directors in Sino Gas

As at the date of this Scheme Booklet, the number of Sino Gas Shares held by or on behalf of the Sino Gas Directors is as follows.

Director	Sino Gas Shares	% of Sino Gas Shares held
Philip Bainbridge	2,491,173	0.12%
Glenn Corrie	10,319,145	0.49%
Matthew Ginsburg	1,830,000	0.09%
Gavin Harper	16,711,044	0.79%
Bernie Ridgeway	11,455,000	0.54%

Mr Corrie acquired a Relevant Interest in 1,946,786 Sino Gas Shares on 17 May 2018, which were issued following the vesting of Deferred Share Entitlements (defined below) that were part of Mr Corrie's 2016 short-term incentive (***STI***) payment pursuant to the STI scheme.

No other Sino Gas Director has acquired or disposed of a Relevant Interest in any Sino Gas Shares in the four month period ending on the date immediately before the date of this Scheme Booklet.

In addition, as at the date of this Scheme Booklet, Mr Glenn Corrie also holds 16,718,671 Performance Rights under the Sino Gas Executive, Officer and Employee Performance Rights Plan (***PRP***) and 1,199,057 Deferred Share Entitlements under his employment arrangements, the terms of which are described in section 8.3.

(d) **Interests of Sino Gas Directors in LS BidCo or any of its Associates**

No Sino Gas Director has a Relevant Interest in any shares in LS BidCo or any of its Associates.

No Sino Gas Director acquired or disposed of a Relevant Interest in any shares in LS BidCo or any of its Associates in the four month period ending on the date immediately before the date of this Scheme Booklet.

4.10 Capital structure

(a) **Capital structure and market capitalisation**

As at the date of this Scheme Booklet, Sino Gas had the following securities on issue.

Type of security	Number
Ordinary shares	2,118,854,285
Options	30,000,000
Performance Rights	27,238,984
Deferred Share Entitlements	1,744,744

As at 25 July 2018, being the last practicable day before the date of this Scheme Booklet, Sino Gas had a market capitalisation of approximately $487,336,486 (based on a closing price of $0.23 per Sino Gas Share).

(i) Options

As at the date of this Scheme Booklet, Sino Gas has a total of 30,000,000 unlisted options (***Macquarie Options***), which are held by Macquarie Bank Limited (***Macquarie***). The key terms of the Macquarie Options are summarised as follows.

Number	Date of issue	Exercise price	Expiry date
30,000,000[15]	1 September 2014	$0.25	1 September 2018

Under the terms of the Macquarie Options Deed, half of the Macquarie Options (i.e. 15,000,000) are subject to an escrow arrangement. For the escrowed Macquarie Options to be released from escrow, 'Facility B' under the debt facility agreement between Sino Gas and Macquarie dated 29 August 2014 must be drawn to at least US$10 million. Facility B was not drawn to this amount.

15 Half of these are subject to an escrow arrangement.

In December 2017, Sino Gas and Macquarie agreed to amend and restate the debt facility agreement, under which a new debt facility was put in place (see section 4.16 below for further details regarding the new facility). There are no provisions under the amended and restated debt facility agreement relating to the escrowed options being released if the new debt facility is drawn to a certain amount or otherwise. Therefore, the release condition for the escrowed Macquarie Options cannot be satisfied and these Macquarie Options will lapse on 1 September 2018.

Sino Gas expects that the other half of the Macquarie Options, which are not escrowed, will also lapse prior to implementation of the Scheme because the exercise price of the Macquarie Options is equal to the Scheme Consideration.

(ii) Performance Rights and Deferred Share Entitlements

(A) Performance Rights

Sino Gas operates the PRP, which was last approved at the Annual General Meeting held on 10 May 2018.

Pursuant to the PRP, Sino Gas may grant performance rights to eligible senior executives of Sino Gas (***Performance Rights***). Each Performance Right entitles the holder to be issued with one Sino Gas Share subject to the satisfaction of certain performance and other conditions.[16]

As at the date of this Scheme Booklet, the following senior executives have interests in Performance Rights issued under the PRP.

Name	Number of Performance Rights
Glenn Corrie	16,718,671
Ian Weatherdon	7,467,637
Frank Fu	1,296,801
Ling Lai	1,755,875

The PRP provides that an unvested Performance Right may be exercised by its holder if there is a change of control event, which is defined to include:

(1) where a statement is lodged with the ASX to the effect that a person or group of associated persons has become entitled to no less than 50% of the Sino Gas Shares; or

(2) where a person gains a Relevant Interest in sufficient Sino Gas Shares to give it the ability, in a general meeting, to replace all or a majority of the Sino Gas Directors in circumstances where such ability was not already held by a person associated with such person.

A change of control event will occur when the Scheme becomes Effective.

If the Scheme becomes Effective, it is anticipated that each senior executive will exercise all their unvested Performance Rights.

Upon the exercise of the Performance Rights held by Mr Corrie, Mr Weatherdon and Mr Lai, Sino Gas will procure the issue and allotment of 25,942,183 Sino Gas Shares in satisfaction of their vested Performance Rights.

16 Mr Fu's Performance Rights may be partly cash settled due to his employment arrangements.

Upon the exercise of the Performance Rights in which Mr Fu has an interest, Sino Gas will procure the issue and allotment of 912,853 Sino Gas Shares in satisfaction of 912,853 of the vested Performance Rights, and pay an amount equivalent to the Scheme Consideration multiplied by the number of remaining vested Performance Rights (being, 383,948).

The issue of Sino Gas Shares will occur on or before the Record Date, such that these Sino Gas Shares will be acquired by LS BidCo as part of the Scheme.

(B) Deferred Share Entitlements

Eligible senior executives of Sino Gas are entitled, under the terms of their Executive Services Agreements, to participate in a STI scheme under which the senior executives have the opportunity to earn an STI payment of up to 50%, (or 80% in the case of Mr Glenn Corrie) of their fixed annual salary, subject to successful completion of agreed performance hurdles.

The terms of Mr Corrie's and Mr Weatherdon's Executive Services Agreements provide that Mr Corrie and Mr Weatherdon are required to elect whether to receive the STI payment as either 100% in Sino Gas Shares (issued at the end of the relevant calendar year) (***Deferred Share Entitlements***) or 50% Deferred Share Entitlements and 50% in immediately available cash. Both Mr Corrie and Mr Weatherdon elected to receive their 2017 STI payment as 50% Deferred Share Entitlements and 50% in immediately available cash.

As at the date of this Scheme Booklet, Sino Gas has granted 1,744,744 Deferred Share Entitlements to senior executives.

Name	Number	Vesting date
Glenn Corrie	1,199,057	31 December 2018
Ian Weatherdon	545,687	31 December 2018

The terms of Mr Weatherdon’s Executive Services Agreement provide that any unvested Deferred Share Entitlements will vest in their entirety, if there is a change of control event under the PRP. Subject to the Scheme proceeding, such a PRP change of control event will occur when the Scheme becomes Effective. If the Scheme becomes Effective, all of Mr Weatherdon's unvested Deferred Share Entitlements will vest and he will be issued with an equivalent number of fully paid Sino Gas Shares. These Sino Gas Shares will then be acquired by LS BidCo as part of the Scheme.

The terms of Mr Corrie's Executive Services Agreement do not provide for the acceleration of vesting of any unvested Deferred Share Entitlements, if there is a change of control event in relation to Sino Gas. LS BidCo requested that, upon the Scheme becoming Effective, the vesting of the Deferred Share Entitlements be accelerated to enable LS BidCo to acquire 100% of the share capital of Sino Gas under the Scheme. Accordingly, Sino Gas has sought and received a waiver of ASX Listing Rule 6.23.3 to permit the acceleration of the vesting of the Deferred Share Entitlements such that, if the Scheme is approved by the Sino Gas Shareholders, they will vest when the Scheme becomes Effective. If the Scheme proceeds, these Sino Gas Shares will then be acquired by LS BidCo as part of the Scheme.

4.11 Substantial holders

As at 25 July 2018, being the last practicable day before the date of this Scheme Booklet, based on filings to ASX, the substantial holders of Sino Gas Shares are as follows.

Substantial holder	Number of shares	% of Sino Gas Shares held
FIL Limited[17]	150,650,332	7.11%
Morgan Stanley[18]	140,542,452	6.63%
Mitsubishi UFJ Financial Group, Inc.[19]	140,542,452	6.63%
Commonwealth Bank of Australia[20]	137,695,079	6.50%

4.12 Sino Gas Group structure

As at 31 December 2017, Sino Gas was the ultimate holding company of the following wholly-owned subsidiaries.

Entity name	Country of incorporation	Equity holding (%)
Sino Gas & Energy Nominees Pty Ltd	Australia	100%
Daily Glory Investment Limited	Hong Kong	100%
Lucky Asia Industrial Limited	Hong Kong	100%

Sino Gas also owns a 49% interest in SGE.

4.13 Recent Sino Gas Share Price history

The graph below shows the closing Sino Gas Share Price for the period from 1 January 2017 to 25 July 2018, being the last practicable date prior to the finalisation of this Scheme Booklet.

17 FIL Limited and the entities listed in Annexure A of the Sino Gas ASX Announcement made on 31 July 2014.

18 Morgan Stanley and its subsidiaries listed in Annexure A of the Sino Gas ASX Announcement made on 23 July 2018.

19 Mitsubishi UFJ Financial Group, Inc. has voting power of over 20% in Morgan Stanley, and therefore, has a relevant interest in securities that Morgan Stanley has a relevant interest in under section 608(3) of the Corporations Act.

20 Commonwealth Bank of Australia and its related bodies corporate as listed in Annexure A of the Sino Gas ASX Announcement made on 18 July 2018.

As at 25 July 2018, being the last practicable date prior to the date of this Scheme Booklet:

- the closing Sino Gas Share Price was $0.23;
- the highest recorded closing Sino Gas Share Price during the preceding 3 months was $0.25; and
- the lowest recorded closing Sino Gas Share Price during the preceding 3 months was $0.16.

As at 30 May 2018, being the last trading day before LS BidCo's proposal was announced to ASX:

- the last recorded Sino Gas Share Price was $0.21;
- the 1-month VWAP of the Sino Gas Shares was $0.19;
- the 3-month VWAP of the Sino Gas Shares was $0.18;
- the 6-month VWAP of the Sino Gas Shares was $0.17; and
- the lowest and highest Sino Gas Share Prices during the preceding 3 months were $0.14 and $0.24, respectively.

4.14 Historical financial information

(a) Basis of preparation

This section 4.14 sets out historical financial information denominated in US dollars about Sino Gas for the years ended 31 December 2016 and 31 December 2017. The financial information in this section is a summary only and is prepared for the purpose of this Scheme Booklet. It does not contain all the disclosures, presentations, statements or comparatives that are usually provided in an annual report prepared in accordance with the Corporations Act. The information has been extracted from the audited financial reports of Sino Gas for the years ended 31 December 2016 and 31 December 2017.

Further detail on Sino Gas' financial performance and financial statements for the year ended 31 December 2017 as announced to ASX on 29 March 2018 can be found in the Financial Reports section of Sino Gas' website at http://sinogasenergy.com/investors/financial-reports/.

(b) Historical consolidated statement of loss and other comprehensive loss

	2017 US$	2016 US$
Revenue		
Interest income	393,457	279,894
Interest income from loans to JV	6,014,213	2,428,913
Share of loss of JV accounted for using the equity method	(2,335,019)	(2,299,415)
Net income from JV	3,679,194	129,498
Expenses		
Financing costs	1,091,355	1,715,596
Depreciation and amortisation	165,961	117,239
Share-based compensation	890,761	618,115
General and administration	6,447,156	5,323,076
Foreign exchange gain	(108,167)	(23,901)
Loss before income tax	(4,414,415)	(7,340,733)
Income tax expense	82,461	442,365
Loss for the year attributable to Sino Gas Shareholders	(4,496,876)	(7,783,098)
Total comprehensive loss for the year	(4,496,876)	(7,783,098)
Loss per Sino Gas Share for loss attributable to shareholders:	Cents	Cents
Basic loss per Sino Gas Share	(0.21)	(0.38)
Diluted loss per Sino Gas Share	(0.21)	(0.38)

(c) Historical consolidated statement of financial position

	2017 US$	2016 US$
ASSETS		
Current assets		
Cash and cash equivalents	27,972,052	44,233,179
Prepayments and other receivables	2,146,602	277,576
Total current assets	30,118,654	44,510,755
Non-current assets		
Interest in JV accounted for using equity method	53,376,240	53,739,414
Loan receivable from JV	70,240,975	59,690,712
Exploration and evaluation assets	4,165,573	-
Property, plant and equipment	399,997	224,643
Total non-current assets	128,182,785	113,654,769
Total assets	158,301,439	158,165,524
LIABILITIES		
Current liabilities		
Trade and other payables	3,852,408	2,325,535
Borrowings	10,000,000	-
Total current liabilities	13,852,408	2,325,535
Non-current liabilities		
Borrowings	-	10,000,000
Total liabilities	13,852,408	12,325,535
Net assets	**144,449,031**	**145,839,989**
EQUITY		
Contributed equity	177,164,771	174,892,183
Reserves	11,240,812	10,407,482
Accumulated losses	(43,956,552)	(39,459,676)
Total equity	**144,449,031**	**145,839,989**

(d) **Historical consolidated statement of changes in equity**

	Contributed equity US$	Equity settled benefits reserves US$	Accumulated losses US$	Total attributable to equity holders of Sino Gas US$
Balance at 1 January 2017	174,892,183	10,407,482	(39,459,676)	145,839,989
Loss for the year	-	-	(4,496,876)	(4,496,876)
Total comprehensive loss for the year	-	-	(4,496,876)	(4,496,876)
Transactions with owners in their capacity as owners:				
Issue of shares	2,272,588	-	-	2,272,588
Performance rights	-	607,645	-	607,645
Deferred shares	-	225,685	-	225,685
Balance at 31 December 2017	**177,164,771**	**11,240,812**	**(43,956,552)**	**144,449,031**
Balance at 1 January 2016	174,793,004	9,853,326	(31,676,578)	152,969,752
Loss for the year	-	-	(7,783,098)	(7,783,098)
Total comprehensive loss for the year	-	-	(7,783,098)	(7,783,098)
Transactions with owners in their capacity as owners:				
Transfer of shares for the settlement of Deferred Share Entitlements	99,179	(99,179)	-	-
Performance rights	-	534,335	-	534,335
Deferred shares	-	119,000	-	119,000
Balance at 31 December 2016	**174,892,183**	**10,407,482**	**(39,459,676)**	**145,839,989**

(e) **Historical consolidated statement of cash flows**

	2017 US$	2016 US$
Cash flows from operating activities		
Payments to suppliers and employees	(6,149,120)	(5,275,197)
Income tax paid	(234,891)	-
Interest received	411,218	253,989
Interest paid	(1,176,469)	(1,041,600)
Net cash used in operating activities	(7,149,262)	(6,062,808)
Cash flows from investing activities		
Payments for equipment	(341,315)	(14,813)
Purchase of Linxing Option	(3,278,641)	-
Loans to JV	(5,390,000)	(12,779,200)
Other contributions to the JV	(1,514,252)	(633,578)
Repayment of loans from JV	-	345,601
Net cash used in investing activities	(10,524,208)	(13,081,990)
Cash flows from financing activities		
Proceeds from issue of equity securities	1,425,656	-
Borrowing related transaction costs	(116,293)	-
Net cash provided by financing activities	1,309,363	-
Net decrease in cash and cash equivalents	(16,364,107)	(19,144,798)
Cash and cash equivalents at the beginning of the year	44,233,179	63,419,354
Effects of exchange rate changes on cash and cash equivalents	102,980	(41,377)
Cash and cash equivalents at end of the year	**27,972,052**	**44,233,179**

(f) **Material changes to Sino Gas' financial position since 31 December 2017**

Within the knowledge of the Sino Gas Directors and other than as disclosed in this Scheme Booklet or announced to ASX, the financial position of Sino Gas has not materially changed since 31 December 2017, being the date of Sino Gas' financial report for the year ended 31 December 2017.

4.15 Half-year results

Sino Gas expects its consolidated financial statements for the half-year ended 30 June 2018 to be publicly released on or around 17 August 2018. Once available, Sino Gas will provide a copy of the financial statements for the half year ended 30 June 2018 free of charge to any Sino Gas Shareholder who requests a copy, prior to the Scheme being approved by the Court. The financial statements for the half year ended 30 June 2018 will also be made available in the Financial Reports section of Sino Gas' website at http://sinogasenergy.com/investors/financial-reports/.

4.16 Sino Gas' financing arrangements

Sino Gas has a new five year senior secured US$100 million debt facility in place with Macquarie (***New Facility***). As at 30 June 2018, US$16 million of the New Facility has been drawn, mainly to replace the previous facility. For further information on the New Facility, refer to Sino Gas' ASX announcement dated 23 January 2018.

4.17 Sino Gas dividend history

No dividends were paid or declared during the financial year ended 31 December 2017. No dividends have been recommended by the Sino Gas Directors in respect of or since the year ended 31 December 2017.

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4.18 Sino Gas Directors' intentions for the business

The Corporations Act requires a statement by the Sino Gas Directors of their intentions regarding Sino Gas' business. If the Scheme is implemented, the existing Sino Gas Directors will resign and the Sino Gas Board will be reconstituted in accordance with the instructions of LS BidCo after the Implementation Date. Accordingly, it is not possible for the Sino Gas Directors to provide a statement of their intentions after the Scheme is implemented regarding:

(a) the continuation of the business of Sino Gas or how Sino Gas' existing business will be conducted;

(b) any major changes, if any, to be made to the business of Sino Gas; or

(c) the future employment of the present employees of Sino Gas.

If the Scheme is implemented, all Sino Gas Shares will be transferred to LS BidCo. Therefore, LS BidCo will directly own and control all the Sino Gas Shares. The Sino Gas Directors have been advised that the intentions of LS BidCo with respect to these matters are as set out in section 6.5.

If the Scheme is not implemented, the Sino Gas Directors intend to continue to operate in the ordinary course of the business.

4.19 Effect of the Transaction on Sino Gas' material contracts

The following change of control provisions have been identified in material contracts.

(a) **Linxing PSC**

Under the Linxing PSC (as modified by MA11), CUCBM's consent is required for a change in control of SGE and if a change of control circumstance arises CUCBM requires the controller to offer its interest in the Linxing PSC to be sold to CUCBM under a right of first refusal process.

(b) **Sanjiaobei PSC**

Under the Sanjiaobei PSC, PetroChina's consent is required for a change in control of SGE or its majority shareholder, AGE.[21]

(c) **New Facility**

Under the facility agreement for the New Facility, a change of control of Sino Gas is a 'review event' which requires Sino Gas and Macquarie to negotiate amendments to the facility as required. Should the parties be unable to conclude negotiations within a 30 day period, Macquarie may give notice on a date to be specified that is no earlier than 30 days from the date of the notice requiring Sino Gas to repay all outstanding amounts under the facility and the facility will be terminated on such date.

The provisions under each PSC are not expected to apply to the change in control of Sino Gas under the proposed Scheme.

4.20 Publicly Available Information

Sino Gas is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, Sino Gas is subject to ASX Listing Rules which require (subject to some exceptions) continuous disclosure of any information Sino Gas has that a reasonable person would expect to have a material effect on the price or value of Sino Gas securities.

ASX maintains files containing publicly disclosed information about all companies listed on ASX. Information disclosed to ASX by Sino Gas is available on ASX's website at www.asx.com.au.

In addition, Sino Gas is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Sino Gas may be obtained from an ASIC office.

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21 To the best of its knowledge, Sino Gas understands that AGE is a subsidiary of CNEML.

5. RISKS

5.1 Introduction

The Sino Gas Board considers that it is appropriate for Sino Gas Shareholders, in considering the Scheme, to be aware that there are a number of general risk factors as well as risks specific to Sino Gas and/or the industries in which it operates, which could materially adversely affect the future operating and financial performance of Sino Gas, the value of Sino Gas and the potential for any future dividends.

This section outlines:

- general investment risks (refer to section 5.2); and
- risks associated with your current investment in Sino Gas Shares (refer to section 5.3).

While some of these risks can be mitigated, some are out of the control of Sino Gas and the Sino Gas Directors and cannot be mitigated.

This section 5 is a summary only. There is also an explanation of development risks in the Independent Technical Specialist's Report in section 4.11. There may be additional risks and uncertainties not currently known to Sino Gas which may also have a material adverse effect on Sino Gas' financial and operational performance now or in the future.

If the Scheme is implemented you will receive the Scheme Consideration, will cease to be a Sino Gas Shareholder and will also no longer be exposed to some of the risks set out below (and other risks to which Sino Gas may be exposed). If the Scheme does not proceed, you will continue to hold your Sino Gas Shares and continue to be exposed to risks and opportunities associated with that investment.

In making your decision to vote on the Scheme Resolution, you should read this Scheme Booklet carefully. You should carefully consider the risk factors outlined below and your individual circumstances. This section 5 is general in nature only and does not take into account your individual objectives, financial situation, taxation position or particular needs. **While the Board recommends that Sino Gas Shareholders vote in favour of the Scheme in the absence of a Superior Proposal, Sino Gas Shareholders are encouraged to make their own independent assessment as to whether to vote in favour of the Scheme**.

5.2 General investment risks

Like many listed companies, the market price of Sino Gas Shares and the potential for any future dividends to Sino Gas Shareholders are influenced by a number of factors, including the following:

- changes in investor sentiment and overall performance of the Australian and international stock markets, particularly in relation to energy and resources stocks;
- changes in general economic and business conditions, including levels of consumer spending, business demand, inflation, interest rates and exchange rates, access to debt and capital markets, government fiscal, monetary and regulatory policies;
- changes in government fiscal, monetary, taxation and regulatory policies, including foreign investment policies;
- government or political intervention in export and import markets (including sanction controls and import duties) and the disruptions this causes to supply and demand dynamics;
- changes to the rate of company income tax or the tax arrangements between Australia and other jurisdictions in which Sino Gas operates;
- natural disasters and catastrophes, whether on a global, regional or local scale; and
- changes to accounting standards and reporting standards.

5.3 Risks associated with your current investment in Sino Gas Shares

There is a range of business-specific risks associated with your current investment in Sino Gas Shares, as set out below. You will only continue to be exposed to these risks if the Scheme does not proceed, in which case (in the absence of a Superior Proposal that is ultimately consummated) Sino Gas will continue to operate as a stand-alone entity.

(a) **Changes in government laws, regulations, tax regime and policies in the PRC**

Sino Gas' activities are principally conducted in the PRC. Sino Gas and SGE are exposed to government laws, regulations and policies governing (among other things) economic plans, taxation, exploration, production, exports, labour standards, occupational health and safety, environmental protection and foreign investment.

The business environment in the PRC differs significantly from that in Australia. This includes the level of government involvement in business and the control of capital investment and foreign exchange. Also, the approaches taken by one level of government may differ to that taken by other levels.

The Chinese government may, for instance and without being exhaustive of possible changes to policies, withdraw subsidies or forms of preferential treatment such as tax benefits or favourable financing arrangements or alter its current treatment of, or policy regarding, Foreign Contractor participation in PSCs or the treatment of exploration and development of natural gas and CBM resources. Any such change may have a material impact on the business and operations of SGE and directly or indirectly impact Sino Gas.

SGE's approvals, licences, permits and other authorisations (***Approvals***) and any of Sino Gas' Approvals in connection with its exploration activities are granted by the Chinese government, who, at any time, can change the terms and conditions of those Approvals (including whether the Approvals are granted or renewed) and the regulations in connection with those Approvals. There is a risk that any such changes may have a material impact on Sino Gas' business and financial performance.

Further, Sino Gas is subject to geopolitical risks including potential political changes in China or tensions in the Australia – China relationship.

(b) **PSC interests, exploration licence term, title and payment obligations**

The key partnership and economic terms under which SGE conducts business with its PSC partners in China are governed by the PSCs. There is a risk that, at any time, the terms and conditions of those PSCs may be amended, updated or terminated. Any such amendment, update or termination may have a material impact on Sino Gas' business and financial performance.

There is a risk that SGE's participating interest in each PSC may be affected by the timing and extent to which the relevant SOE partner exercises their participation rights in respect of the PSC. This may adversely affect the Reserves and Resources for SGE's PSCs and therefore Sino Gas' interest in these.

Title to the underlying assets of each PSC is dependent upon SGE and the relevant SOE partner holding valid and subsisting licences for the relevant activities to occur or occurring in respect of the PSC. There is a risk a third party may seek to dispute the entitlement of the PSC participants to carry on their activities in accordance with the PSC and, if successful, SGE and the relevant SOE partner could lose their title to the underlying assets of the PSC.

Under the PSCs, SGE (and therefore Sino Gas) is or may become subject to payment and other obligations. If any PSC obligations are not complied with when due, in addition to any other remedies which may be available to the SOE partner, this could result in dilution or forfeiture of interests indirectly held by Sino Gas.

Exploration periods are generally two to three years in duration. The current exploration period under the Linxing PSC expires on 31 August 2019. The current exploration period under the Sanjiaobei PSC expires on 31 August 2018.

In some instances, the exploration period may expire and SGE will continue to operate while working closely with the respective PSC SOE partner to finalise and formalise the terms of the relevant exploration license extension. However, there is a risk that the grant of extension may not occur or be granted on different terms.

As is standard under the PSC regime, Sino Gas may be required to relinquish acreage from time-to-time as it moves towards development of the Linxing and Sanjiaobei PSCs[22]. There is a risk that this may adversely impact the number of wells drilled and / or reduce production targets and, therefore, affect Sino Gas' financial and operational performance.

(c) **Key business relationships including with joint venture and PSC partners**

Sino Gas relies on strategic relationships with other entities such as Sino Gas' joint venture partner, CNEML, and PSC partners, CUCBM in respect of the Linxing PSC and PCCBM in respect of the Sanjiaobei PSC. If Sino Gas fails to maintain a good working relationship with these parties, as well as government agencies, suppliers and customers, there is a risk that this could materially adversely affect Sino Gas' business, operations (including exploration and development plans) and profitability.

The contractual arrangements governing the SGE joint venture require Sino Gas and CNEML to agree on annual budgets, work programs, ODPs, and the terms of GSAs, and to provide funding for SGE and SGE's operations. There is a risk that a breakdown in the relationship between the joint venture partners or a material adverse change in CNEML's financial position may materially adversely affect SGE and its operations, and therefore the business and financial condition of Sino Gas.

The Approvals SGE requires for the exploration and development of, and operating plans for, the PSCs include Approvals granted by governmental departments and agencies of the Central Government of the PRC, the People's Government of the Shanxi Province, the Xin County and the Lin County. Having Approvals from multiple levels of government increases the level of regulatory complexity associated with SGE's operations. Therefore, SGE must maintain strong relationships with relevant governmental departments and agencies at each level of government to mitigate the risk of the terms and conditions of those Approvals changing or their grant being delayed or withdrawn at any time.

(d) **Future capital needs and funding**

While it is expected that the New Facility will, combined with existing cash and cash flow from operations, fully fund Sino Gas' proportion of costs associated with the development plan, budget overruns, differences from expected production levels, changing gas prices or delays in receiving payments from third parties could adversely affect the Company’s ability to fund future cash call requirements.

The ability of CNEML and SGE’s PSC partners to fund their respective share of PSC expenditures may be impacted by their financial position and also affected by budget overruns, differences from expected production levels, changing gas prices or delays in receiving payments from third parties.

22 This occurred recently in relation to the Linxing PSC. For further details see section 4.4(a) above.

Additionally, further funding may be required by Sino Gas to support its own exploration and development activity. There can be no assurance that such funding will be available on satisfactory terms or at all. The ability of Sino Gas to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as exploration and production performance. Any inability to obtain financing may adversely affect the business and financial conditions of Sino Gas and, consequently, its performance. If additional funds are raised through the issuance of new equity or equity-linked securities of Sino Gas other than on a pro rata basis to existing shareholders, the percentage ownership of shareholders may be reduced. Sino Gas Shareholders may experience subsequent dilution and the control of Sino Gas may change. There can be no guarantee that any further capital raisings will be successful.

(e) **ODPs and other key regulatory approvals for the Linxing and Sanjiaobei PSCs**

While Sino Gas continues to expect approval of the first Sanjiaobei ODP in the second half of 2018, there is a risk that the grant of the ODP may not occur, be delayed or that the ODP may be granted on different terms. This risk applies to the grant, obtaining, renewal or extension of any additional ODPs or other key regulatory approvals required for the Linxing and Sanjiaobei PSCs.

(f) **Exploration, development and operating risks**

Oil and gas exploration is a speculative investment and involves a high degree of risk. There is no guarantee that the exploration and development of any oil and gas assets can be profitably exploited.

Oil, condensate, natural gas liquids and natural gas exploration and production activities are subject to numerous risks, including the risk that drilling will result in dry holes or not result in commercially feasible oil or natural gas production. Selecting a drilling location is influenced by the interpretation of geological, geophysical, and seismic data, which is a subjective science and has varying degrees of success. Other factors, including land ownership and regulatory rules, may impact SGE's decisions with respect to well locations. Further, no known technologies provide conclusive evidence prior to drilling a well that oil or natural gas is present or may be produced economically. New wells drilled may not be productive, or may not recover all or any portion of SGE's investment in such wells. Decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend, in part, on the evaluation of production data, engineering studies, and geological and geophysical analyses, the results of which are typically inconclusive or subject to varying interpretations. The cost of drilling, completing, equipping and operating wells is typically uncertain before drilling commences.

There is a risk that SGE's operations may be adversely affected by various factors (including shutdowns or delays due to government actions, unforeseen geological operating difficulties and mechanical failure or plant breakdown) and this may materially adversely affect Sino Gas' business and financial performance.

(g) **Oil and gas estimates risks**

Reservoir engineering is a subjective process and only provides an educated estimate of the volume of underground reserves based on the interpretation and extrapolation of a limited amount of geological data (including seismic). Oil and gas estimates are not precise and are based on knowledge, experience, interpretation and industry practice. There is a risk that any material reduction in estimates of SGE's reserves, or its ability to extract them, could materially adversely affect Sino Gas' business and financial performance.

Further, different variables may impact whether SGE's reserves are economically recoverable (including changes with respect to governmental regulations, commodity prices and taxes). Therefore, there is no assurance that SGE will achieve its cost and production estimates and there is a risk that SGE's actual revenues, expenses and production will vary from such estimates. Such differences could be substantial and materially adversely affect Sino Gas' business and financial performance.

(h) **Health and safety risk**

While Sino Gas maintains a strong focus on health and safety, natural gas exploration, development and production operations present a number of inherent health and safety risks. Sino Gas and SGE employees and professional services contractors undertake work in environments where risk of personal injury is present.

If Sino Gas' or SGE's safety performance deteriorated or there was a serious incident on one of either of their projects, Sino Gas and SGE may suffer reputational damage, impacting their ability to retain employees. In addition, if Sino Gas or SGE fails to comply with the necessary occupational health and safety legislative requirements across the jurisdictions in which it operates, this could result in fines, penalties and compensation for damages. Also, a major health scare in jurisdictions in which either Sino Gas or SGE operates could adversely affect their activities in that jurisdiction, and therefore negatively impact Sino Gas' revenues and profitability.

(i) **Environmental risk**

Each of Sino Gas and SGE is required to comply with the environmental requirements of relevant governmental authorities and legislation in the jurisdictions in which it operates. There is a risk that Sino Gas and/or SGE will breach these requirements due to circumstances beyond their control. There is also a risk that the environmental requirements may change and that Sino Gas and/or SGE will not be able to explore or ultimately produce its product without incurring considerable additional costs.

(j) **Social impact risk**

Social impact assessments are conducted as a part of development approvals for SGE's key assets. Sino Gas and SGE are also subject to laws and regulations to minimise the social impact of any operations. However, there is a risk that, if Sino Gas and/or SGE fails to comply with these laws or regulations, a breakdown in their relationships with community stakeholders may occur, which may result in significant cost or disruptions to Sino Gas' business.

(k) **Securing leasing arrangements for key parcels of land on a timely basis**

SGE's development plan is dependent on acquiring, via leasing arrangements, key parcels of land. There is a risk that, if SGE is unable to secure these leasing arrangements on a timely basis and in accordance with its development plan, it may incur additional costs or lead to delays that may in turn lead to additional costs. If SGE incurs significant additional costs, this may adversely affect Sino Gas' financial performance.

The Approvals SGE requires to secure key parcels of land include Approvals granted by the People's Government of the Shanxi Province, the Xin and Lin Counties, and local farmers who collectively own certain land parcels. Having Approvals from multiple levels of government and other stakeholders increases the level of regulatory complexity associated SGE's operations. Therefore, SGE must maintain strong relationships with relevant governmental departments and agencies at each level of government and local farmers to mitigate the risk of the terms and conditions of those Approvals changing or their grant being delayed or withdrawn at any time.

(l) **Risks associated with short-term GSAs**

SGE is currently selling natural gas on an approximately one-year term basis with established uncommitted minimum production volumes and fixed prices. It is anticipated, as production increases, that a portion of gas sales will be marketed under longer term GSAs to assure the sale of established levels of natural gas production. However, there is a risk that, if production increases above SGE's production estimates before SGE and Sino Gas are able to develop gas marketing strategies to sell all natural gas production, they may be unable to sell all natural gas produced, which may decrease Sino Gas' financial performance.

(m) **Currency and commodity price fluctuations risks**

Sino Gas continuously monitors its currency exposures and may employ hedging techniques as appropriate. SGE’s natural gas proceeds and the majority of payments to suppliers are denominated in Renminbi (***RMB***). Fluctuations in the RMB:AUD exchange rate may impact the AUD denominated financial results of Sino Gas. There is also a risk that Sino Gas is unable to optimise the price received for its gas sales (despite monitoring government policies, pricing trends and continuously refining its gas marketing strategy) and this may materially adversely affect Sino Gas' financial performance.

(n) **Organisational capability risk**

Sino Gas depends on its and SGE's organisational capability, and the individual competencies of its employees and professional services contractors, to ensure the appropriate team is in place to deliver the exploration, development and operating plans for the PSCs. There is a risk that Sino Gas and/or SGE is unable to find appropriately skilled employees and professional services contractors in sufficient numbers to support their businesses, and this could materially adversely affect Sino Gas' financial and operational performance.

(o) **Offshore remittances**

The PRC regulates the exchange and remittance of funds offshore. While Sino Gas remains confident that SGE currently has the contractual and legal rights to remit profits offshore to its shareholders, there is a risk these rights may change, preventing remittance of funds offshore in the future. Such a change could materially adversely affect Sino Gas' financial performance.

(p) **Credit risk and payment delay for suppliers, customers and partners**

Sino Gas is exposed to credit risk of banks, suppliers, customers, gas buyers and partners and there may be delay in payment under key contracts. There is a risk that any material default or payment delay may impact Sino Gas' cash flows and ability to service debt and other obligations, and this may materially adversely affect its business, financial condition and results of operations.

(q) **Insurance**

Insurance against all risks associated with gas exploration is not always available or affordable. Sino Gas will maintain insurance where it is considered appropriate for its needs. However, it will not be insured against all risks either because appropriate cover is not available or because the Sino Gas Directors consider the required premiums to be excessive with regard to the benefits that would accrue.

6. INFORMATION ABOUT LS BIDCO

The information contained in this section 6 has been prepared by LS BidCo. The information concerning LS BidCo and its related bodies corporate and the intentions, views and opinions contained in this section are the responsibility of LS BidCo. Sino Gas and its officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

6.1 Overview of Lone Star, Lone Star Fund X, HoldCo and LS BidCo

(a) Overview of Lone Star

Lone Star Funds (***Lone Star***) is a leading private equity firm that invests globally in a range of different asset classes and industry sectors, including the oil and gas industry. Since the establishment of its first fund in 1995, Lone Star has organised seventeen private equity funds (the ***LS Funds***) with aggregate capital commitments totalling over US$70 billion. The LS Funds are structured as closed-end, private equity limited partnerships, the limited partners of which include corporate and public pension funds, sovereign wealth funds, university endowments, foundations, funds of funds and high net worth individuals.

The LS Funds are advised by Lone Star Global Acquisitions, Ltd. (***LSGA***), an investment adviser registered with the U.S. Securities and Exchange Commission. LSGA and its global subsidiaries advise the LS Funds (including Lone Star Fund X) from offices in North America, Latin America, Western Europe and East Asia.

Lone Star has closed approximately 490 investments in more than 1,430 transactions at an aggregate purchase price of approximately US$196 billion (including acquisition financing and co-investors). The LS Funds have made significant investments in Asia in the past 20 years, comprising US$8.7 billion of equity capital representing US$19.4 billion of total purchase price (including acquisition financing and co-investors) as of 31 December 2017.

Further information on Lone Star is available from its website at: www.lonestarfunds.com.

(b) Overview of Lone Star Fund X

Lone Star Fund X comprises:

(i) LSF X U.S. Holdings, L.P., a Bermuda exempted limited partnership; and

(ii) Lone Star Fund X (Bermuda), L.P., a Bermuda exempted limited partnership.

Lone Star Fund X constitutes Lone Star's most recently established opportunity fund. Lone Star Fund X held their final closings in November 2016 with approximately US$5.5 billion in combined capital commitments. Transactions targeted by Lone Star Fund X include investments in Asia Pacific, North America, Europe and Latin America in financial and other opportunistic investment assets, including single family residential debt and corporate and consumer debt products as well as investments in financially oriented and other operating companies.

Lone Star Fund X is advised by LSGA and its subsidiaries.

(c) Overview of HoldCo

HoldCo is a Bermuda special purpose vehicle that was established for the purpose of indirectly acquiring the Scheme Shares under the Scheme and holding the interests in LS BidCo. HoldCo has not commenced trading or conducted business, and does not own any assets and/or liabilities, other than in connection with its incorporation, the entry into transaction documents in connection with the Scheme and taking of such other actions as are necessary to facilitate the implementation of the Scheme (including actions in relation to the incurrence of costs, fees and expenses in connection with the Scheme).

As at the date of this Scheme Booklet, 100% of the common shares of HoldCo are owned by Lone Star Fund X (Bermuda), L.P.. On the Implementation Date, 100% of the preferred shares will be owned by Lone Star Fund X or its affiliates.

(d) **Overview of LS BidCo**

LS BidCo is a Bermuda special purpose vehicle that was established for the purpose of acquiring the Scheme Shares under the Scheme and holding the interests in Sino Gas. LS BidCo has not commenced trading or conducted business, and does not own any assets and/or liabilities, other than in connection with its incorporation, the entry into transaction documents in connection with the Scheme and taking of such other actions as are necessary to facilitate the implementation of the Scheme (including actions in relation to the incurrence of costs, fees and expenses in connection with the Scheme).

As at the date of this Scheme Booklet, all of the shares in LS BidCo are owned by HoldCo.

6.2 Directors of HoldCo and LS BidCo and Lone Star management

The directors of HoldCo and LS BidCo as at the date of this Scheme Booklet are as follows.

Name	Position
Dawn Griffiths	Director
Marc Lipshy	Director

Profiles of the key members of Lone Star management with responsibility for this investment are set out below:

(a) **Mark Newman, President, Asia**

Mr. Newman is the President responsible for directing origination activities in Asia and is a member of Lone Star's Executive Management Committee. Mr. Newman has over 25 years of experience as a principal investor and lender across a range of businesses and assets spanning North America, Europe and Asia. Prior to joining Lone Star, Mr. Newman was the Founder and Managing Partner of Broadcliff Capital Partners, a real estate private debt and equity investor based in London. Broadcliff served as the international investment advisor to the Lehman legacy real estate private equity funds (known as Silverpeak). Prior to founding Broadcliff, Mr. Newman was Global Co-Head and Chief Investment Officer of the Lehman Brothers' real estate private equity business where he was instrumental in establishing the European and Asian real estate private equity investment operations. Mr. Newman also previously served as a Managing Director with Fortress Investment Group LLP in Europe. Mr. Newman holds a B.A. degree from Dartmouth College and a J.D. from Dalhousie University.

(b) **André Collin, President**

Mr. Collin is the President of Lone Star, responsible for leading origination, operations, and management. Mr. Collin serves as Chairman of Lone Star's Executive Management Committee and is a member of certain portfolio company boards in Europe and the United States. Mr. Collin has more than 25 years of principal investing experience worldwide. Mr. Collin previously served as President, Americas, and in such capacity was responsible for directing origination activities in the Americas for certain of the Funds. Prior to joining Lone Star in 2007, Mr. Collin served for three years as First Vice President, Real Estate Investments, at PSP Investments, a Canadian Crown Corporation, where he was responsible for 10% of the total fund and managed more than US$4 billion of equity invested (gross assets in excess of US$8 billion) in commercial real estate assets (debt and equity) in Europe, Asia and the Americas. Before joining PSP in 2004, Mr. Collin was with the Caisse de dépôt et placement du Québec where he most recently served as President and Chief Operating Officer of Cadim, Inc. – Real Estate from 1997 to 2004 and was responsible for over US$20 billion in commercial real estate assets under management in debt and equity products on public and private markets around the world. He was also responsible for overseeing Caisse de dépôt – Real Estate Group's international development and management. Mr. Collin is a CPA and holds a B.B.A. degree from Montreal's École des Hautes Études Commerciales and an M.B.A. degree from McGill University.

6.3 Rationale for LS BidCo's proposed acquisition of Sino Gas

LS BidCo believes that the acquisition of Sino Gas by LS BidCo is consistent with Lone Star Fund X's investment targets as described in section 6.1(b).

Despite Sino Gas' strong capabilities and well regarded management team, Sino Gas operates in a challenging market as a listed oil and gas company and is subject to a number of risks relating to the development of its key assets, including technical, operational, regulatory and financial risks.

LS BidCo believes that a private structure that is backed by a significant pool of capital is more appropriate to develop Sino Gas' assets and better manage the risks to which Sino Gas is currently exposed.

6.4 Funding arrangements for the Scheme Consideration

LS BidCo intends to fund the Scheme Consideration via indirect investments by Lone Star Fund X in LS BidCo.

Lone Star Fund X held its final closing in November 2016 with approximately US$5.5 billion in combined capital commitments. The limited partners of Lone Star Fund X are a mix of corporate and public pension funds, sovereign wealth funds, university endowments, foundations, funds of funds and high net worth individuals.

LS BidCo has entered into a binding equity commitment letter with LSF X U.S. Holdings, L.P., Lone Star Fund X (Bermuda), L.P. and Sino Gas on 30 May 2018 (***Equity Commitment Letter***) under which LS BidCo will receive investments, in immediately available United States dollar-denominated funds and no later than the second Business Day prior to the Implementation Date, in the proportions and up to the amounts shown in the table below. The investments will be used by LS BidCo for the purpose of paying, and to the extent necessary to pay, the Scheme Consideration, on the terms and subject to the conditions of the Scheme Implementation Agreement and the Equity Commitment Letter.

Investor	Proportion	Investment
LSF X U.S. Holdings, L.P.	45.29%	US$183,441,677.47
Lone Star Fund X (Bermuda), L.P.	54.71%	US$221,558,322.53
Total	**100%**	**US$405,000,000.00**

The equity commitment letter is unconditional except for a condition that the Scheme becomes Effective.

The maximum amount that could be required to fund the Scheme Consideration is $540,613,516.25 (being, approximately US$400,054,002.03[23]) based on Sino Gas' issued share capital as at the date of this Scheme Booklet.

On the basis of the arrangement described above, LS BidCo believes it has reasonable grounds for holding the view, and holds the view, that LS BidCo will be able to satisfy its obligation to fund the Scheme Consideration as and when it is due and payable under the terms of the Scheme.

6.5 LS BidCo's intentions if the Scheme is implemented

This section sets out LS BidCo's current intentions on the basis of facts and information concerning Sino Gas and the general business environment which are known to LS BidCo at the time of the preparation of this Scheme Booklet.

If the Scheme is implemented, LS BidCo intends to undertake a detailed review of Sino Gas' operations covering strategic, financial and commercial operating matters to determine the optimum manner of integrating, operating and managing the business.

23 Based on an Australian dollar to US dollar exchange rate of 0.74 as at 25 July 2018.

Final decisions about any major changes to the future commercial operating plan and management organisation for Sino Gas will be made by LS BidCo following the completion of the post-acquisition review described above and will be based on all material facts and circumstances at the relevant time.

Accordingly, other than where the disclosure below expressly states that LS BidCo has determined to do something, the statements set out in this section are statements of current intention only and may change as new information becomes available or as circumstances change.

(a) **Operations**

It is the current intention of LS BidCo to continue Sino Gas' focus on developing its assets in China in conjunction with Sino Gas' joint venture partner. LS BidCo intends to undertake a full review of Sino Gas' operations following implementation of the Scheme to determine how best to operate, and optimise the development of Sino Gas' assets. Decisions regarding future business development and assets will be made following completion of this review. As at the date of this Scheme Booklet, LS BidCo does not intend to dispose of any of Sino Gas' material assets.

(b) **Board of directors**

If the Scheme is implemented, LS BidCo will replace the board members of Sino Gas and its subsidiaries with nominees of LS BidCo (who are yet to be identified as at the date of this Scheme Booklet).

(c) **Management and employees**

LS BidCo expects there to be significant value and knowledge in the existing staff of Sino Gas. Subject to the post-acquisition review described above, LS BidCo will endeavour to minimise the disruption (if any) to Sino Gas and its employees.

Overall, the key operational responsibilities held by Sino Gas' management are expected to be largely unchanged. However, the final decisions regarding the structure of Sino Gas' business (including in respect of less relevant corporate and administrative functions applicable to a private company) will be made following implementation of the Scheme.

Deferred Share Entitlements and Performance Rights are currently on issue to certain Sino Gas' employees and Macquarie Options are currently on issue. If the Scheme is implemented, those Deferred Share Entitlements and Performance Rights will be dealt with in the manner set out in Section 4.10(a)(ii) of this Scheme Booklet.

(d) **Delisting**

If the Scheme is implemented, it is intended that quotation of Sino Gas Shares on the ASX will be terminated and Sino Gas will be removed from the official list of the ASX on or around the Business Day immediately following the Implementation Date.

6.6 LS BidCo's interests in Sino Gas Shares

(a) **Interest in Sino Gas Shares**

As at the date of this Scheme Booklet, none of LS BidCo or, to the best of its knowledge, any of its Associates directly or indirectly holds any of the issued shares in Sino Gas.

(b) **Dealing in Sino Gas Shares in previous four months**

None of LS BidCo or, to the best of its knowledge, any of its Associates has provided or agreed to provide consideration for any Sino Gas Shares under any other transaction during the period of four months before the date of this Scheme Booklet.

(c) **Benefits to holders of Sino Gas Shares**

During the four months before the date of this Scheme Booklet, none of LS BidCo or, to the best of its knowledge, any of its Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or an Associate to:

- vote in favour of the Scheme; or
- dispose of Sino Gas Shares,

where the benefit was not offered to all Sino Gas Shareholders.

(d) **Benefits to Sino Gas officers**

None of LS BidCo or, to the best of its knowledge, its Associates will be making any payment or giving any benefit to any current officers of Sino Gas as compensation or consideration for, or otherwise in connection with, their resignation from their respective offices if the Scheme is implemented.

7. AUSTRALIAN TAXATION IMPLICATIONS

7.1 Taxation outline

The following is a general description of the Australian tax consequences for a Sino Gas Shareholder that disposes of their Sino Gas Shares under the Scheme (assuming it becomes effective). The comments set out below are relevant only to those Sino Gas Shareholders who hold their Sino Gas Shares on capital account. The description is based upon the Australian tax law in effect at the date of this Scheme Booklet, but is general in nature and is not intended to be an authoritative or complete statement of the tax laws applicable to the particular circumstances of a Sino Gas Shareholder.

This description does not apply to all Sino Gas Shareholders. For example, it does not apply to Sino Gas Shareholders that:

- hold their Sino Gas Shares on revenue account or as trading stock;
- are temporary residents of Australia for Australian taxation purposes;
- hold their Sino Gas Shares in connection with a business carried on through a permanent establishment outside their country of residence;
- acquired their Sino Gas Shares under a tax deferred employee share scheme (***ESS***) and who have not had (or will not have had) their ESS deferred taxing point before the Implementation Date;
- are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* in relation to gains and losses on their Sino Gas Shares;
- obtained rollover relief in connection with the acquisition of their Sino Gas Shares; or
- have not been resident in the same country for tax purposes throughout the period they have owned the Sino Gas Shares.

Sino Gas Shareholders should seek independent professional advice in relation to their particular circumstances.

Sino Gas Shareholders who are tax residents of a country other than Australia (whether or not they are also residents, or are temporary residents, of Australia for tax purposes) should take into account the tax consequences of the Scheme under the laws of their country of residence, as well as under Australian law.

This section does not consider the tax consequences of the cancellation of any of the Macquarie Options or the Performance Rights.

Unless otherwise indicated, this description applies to Sino Gas Shareholders who are individuals.

7.2 Australian resident shareholders

(a) Capital Gains Tax (***CGT***)

The Scheme will, if implemented, result in the disposal by Sino Gas Shareholders of their Sino Gas Shares to LS BidCo. This change in the ownership of the Sino Gas Shares will constitute CGT event A1 for Australian CGT purposes.

The date of disposal of the Sino Gas Shares for CGT purposes will be the Implementation Date.

(b) **Calculation of capital gain or capital loss**

Sino Gas Shareholders may make a capital gain on the disposal of Sino Gas Shares to the extent that the ‘capital proceeds’ from the disposal of the Sino Gas Shares are more than the ‘cost base’ of those Sino Gas Shares. Conversely, Sino Gas Shareholders may make a capital loss to the extent that the ‘capital proceeds’ are less than their ‘reduced cost base’ of those Sino Gas Shares.

- Cost base

  The ‘cost base’ of Sino Gas Shares generally includes the cost of acquisition and any incidental costs of acquisition and disposal that are not deductible to the Sino Gas Shareholder. The ‘reduced cost base’ of the Sino Gas Shares is usually determined in a similar, but not identical, manner.

- Capital proceeds

  The ‘capital proceeds’ received in respect of the disposal of each Sino Gas Share should be the consideration received of $0.25 per Sino Gas Share.

(c) **CGT discount**

Australian resident Sino Gas Shareholders who are individuals, complying superannuation entities or trusts may be entitled to reduce the amount of any capital gain made on the disposal of their Sino Gas Shares if they have held their Sino Gas Shares for at least 12 months prior to the Implementation Date (excluding the acquisition date and the Implementation Date). This reduction is referred to as the 'CGT discount'.

The CGT discount, if it is available, is applied only after any available capital losses have been applied to reduce the capital gain.

This discount rate is 50% for individuals and trusts, and 33.3% for complying superannuation entities. The rules relating to discount capital gains for trusts are complex. As such, Sino Gas Shareholders who are trustees should seek independent tax advice on how the CGT discount provisions will apply to the trustee and the trust's beneficiaries. For trustees the ultimate availability of the discount may depend on a beneficiary’s entitlement to a discount.

The CGT discount is not available to, among others, Sino Gas Shareholders that:

- are companies; or
- have held their Sino Gas Shares for less than 12 months (excluding the acquisition date and the Implementation Date).

In a year of income, capital gains and capital losses made by a Sino Gas Shareholder from all sources are aggregated to determine whether they make a net capital gain or capital loss for the year of income. A net capital loss is not deductible from the assessable income for a Sino Gas Shareholder. However, a net capital loss may be able to be carried forward to offset capital gains made by the Sino Gas Shareholder in future years of income, subject to various requirements being met.

7.3 Non-resident shareholders

For a Sino Gas Shareholder who:

- is not a resident of Australia for Australian tax purposes; and
- does not hold their Sino Gas Shares in carrying on a business through a permanent establishment in Australia,

the disposal of Sino Gas Shares will generally only result in Australian CGT implications if, in broad terms:

- that Sino Gas Shareholder together with its associates held an interest of 10% or more in Sino Gas at the time of disposal or for a 12 month period within two years preceding the disposal (referred to as a 'non-portfolio interest'); and
- more than 50% of the market value of Sino Gas' assets is attributable to direct or indirect interests in 'taxable Australian real property' (as defined in the income tax legislation).

On the basis that less than 50% of the market value of Sino Gas' assets is attributable to direct or indirect interests in 'taxable Australian real property' (as defined in the income tax legislation), Sino Gas Shareholders that are non-Australian tax residents should generally be able to disregard any Australian capital gain or loss otherwise arising as a result of the disposal of the Sino Gas Shares.

A non-resident individual Sino Gas Shareholder who has previously been an Australian tax resident and chose to disregard a capital gain or loss in respect of their Sino Gas Shares on ceasing to be an Australian tax resident will be subject to Australian CGT consequences on disposal of their Sino Gas Shares.

Sino Gas Shareholders that are non-Australian tax residents should seek their own independent tax advice as to the tax implications of the Scheme, including tax implications in their country of residence.

7.4 Foreign Resident Capital Gains Withholding (*FRCGW*)

The FRCGW regime may impose a 12.5% 'withholding' obligation (calculated by reference to the purchase price) on the purchasers of certain assets (including shares which are 'indirect Australian real property interests' as defined in the income tax legislation) in certain circumstances.

On the basis that less than 50% of the market value of Sino Gas' assets is attributable to direct and indirect interests in 'taxable Australian real property' (as defined in the income tax legislation), the FRCGW regime should not apply to LS BidCo's acquisition of Sino Gas Shares from a Sino Gas Shareholder.

7.5 Australian Goods and Services Tax (*GST*)

Sino Gas Shareholders should not be liable for GST on a disposal of Sino Gas Shares pursuant to the Scheme.

Expenses (such as adviser fees) incurred by Sino Gas Shareholders in relation to the Scheme may include GST amounts. Sino Gas Shareholders may not be entitled to input tax credits in relation to such expenses (this will depend on individual shareholder's circumstances).

7.6 Australian stamp duty

No stamp duty should be payable in any Australian jurisdiction by Sino Gas Shareholders on the disposal of their Sino Gas Shares.

8. ADDITIONAL INFORMATION

8.1 Summary of Scheme Implementation Agreement

On 31 May 2018, Sino Gas and LS BidCo entered into a binding Scheme Implementation Agreement under which Sino Gas agreed to propose the Scheme. The Scheme Implementation Agreement contains terms and conditions that are standard for these types of agreements, including in relation to the parties' obligations to implement the Scheme and Sino Gas' obligation to conduct its business in the ordinary course during the Scheme process.

A summary of the key elements of the Scheme Implementation Agreement is set out below. A full copy of the Scheme Implementation Agreement was lodged with ASX on 31 May 2018 and can be obtained from www.asx.com.au or the Announcements section of Sino Gas' website http://sinogasenergy.com/investors/announcements/.

(a) **Conditions**

Implementation of the Scheme is subject to the following conditions which must be satisfied or waived (where capable of waiver) before the Scheme can be implemented:

- **Foreign Investment Review Board (*FIRB*)**: before 5.00pm on the Business Day before the Second Court Date, the Treasurer of the Commonwealth of Australia (or his delegate) either:
  - provides notice that there are no objections to the Transaction under the *Foreign Acquisitions and Takeovers Act* 1975 (Cth), and that notice is not subject to any condition or is subject only to any conditions that LS BidCo considers to be acceptable; or
  - becomes precluded by passage of time from making any order or decision in respect of the Transaction;
- **Sino Gas Shareholder approval**: Sino Gas Shareholders approve the Scheme;
- **Court approval**: the Court approves the Scheme;
- **No regulatory intervention**: no Court or Regulatory Authority has issued an order, temporary restraining order, preliminary or permanent injunction, decree or ruling, or taken any action enjoining, restraining or otherwise preventing the Scheme and no such order, decree, ruling, other action or refusal is in effect as at 8.00am on the Second Court Date;
- **Independent Expert**: the Independent Expert issues a report that concludes that the Scheme is in the best interests of Scheme Shareholders before the date on which the Scheme Booklet is lodged with ASIC;
- **No Sino Gas Prescribed Event**: no Sino Gas Prescribed Event occurs between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date;
- **No SGE Prescribed Event**: no SGE Prescribed Event occurs between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date;
- **No Material Adverse Event**: no Material Adverse Event occurs between the date of the Scheme Implementation Agreement and 8.00am on the Second Court Date;
- **MA11**: before 8.00am on the Second Court Date, SGE and CUCBM sign MA11;

- **No material acquisitions, disposals or new commitments**: except for any proposed transaction publicly announced by Sino Gas before the date of the Scheme Implementation Agreement or disclosed in writing to LS BidCo or its Representatives prior to the date of the Scheme Implementation Agreement (which for the avoidance of doubt includes any transaction the cost of which is budgeted for in any budget referred to in clause 8.5(a) or 8.5(b) of the Scheme Implementation Agreement or any permitted variation thereto) or that is contemplated by the Linxing Option, none of the following events occurs during the period from the date of the Scheme Implementation Agreement to 8.00am on the Second Court Date:
  - any member of the Sino Gas Group acquires, offers to acquire or agrees to acquire one or more companies, businesses or assets (or any interest in one or more companies, businesses or assets) for an amount in aggregate greater than US$5 million or makes an announcement in relation to such an acquisition, offer or agreement, other than in the ordinary course of business;
  - any member of the Sino Gas Group disposes of, offers to dispose of or agrees to dispose of one or more companies, businesses or assets (or any interest in one or more companies, businesses or assets) for an amount, or in respect of which the book value is, in aggregate, greater than US$5 million or makes an announcement in relation to such a disposition, offer or agreement, other than in the ordinary course of business; and
  - any member of the Sino Gas Group enters into, or offers to enter into or agrees to enter into, any agreement, joint venture, partnership, management agreement or commitment which would require expenditure, or the foregoing of revenue, by any member of the Sino Gas Group of an amount which is, in aggregate, more than US$5 million, other than in the ordinary course of business, or makes an announcement in relation to such an entry, offer or agreement.

  Where a member of the Sino Gas Group makes (or offers or agrees to make) an acquisition or disposal, or agrees or commits to expenditure or forgoing revenue (in each case an ***Action***) as a member of a joint venture or partnership, then for the purpose of this condition the dollar value of the Sino Gas Group member's Action will be determined based on its proportionate interest in the joint venture or partnership which undertakes the Action.

Full details of the conditions and the ability of Sino Gas and LS BidCo to rely on the various conditions and the provisions relating to satisfaction or waiver of these conditions are set out in clause 3 of the Scheme Implementation Agreement. A summary of the status of the conditions is set out in section 8.2.

(b) **Exclusivity**

The Scheme Implementation Agreement contains certain exclusivity arrangements in favour of LS BidCo. These arrangements are in line with market practice in this regard and may be summarised as follows:

- **No Shop:** Sino Gas must not, and must ensure that none of its Related Bodies Corporate and their respective Authorised Persons do not, solicit, encourage, initiate or invite any enquiries, discussions or negotiations with any third party with a view to obtaining, or that may reasonably be expected to lead to, a Competing Proposal, or communicate to any person any intention to do any of those things.

- **No Talk:** Sino Gas must not, and must ensure that none of its Related Bodies Corporate and their respective Authorised Persons do not, negotiate or enter into or participate in negotiations or discussions with any third party, or disclose or otherwise provide any material non-public information about the business or affairs of any member of the Sino Gas Group to any third party, in relation to a Competing Proposal (or which may reasonably be expected to lead to a Competing Proposal).
- **No Due Diligence**: Sino Gas must not, and must ensure that none of its Related Bodies Corporate and their respective Authorised Persons do not, enable any third party to undertake due diligence investigations on, or disclose or otherwise provide any material non-public information about the business or operations of, any member of the Sino Gas Group to any third party in connection with the formulation, development or finalisation of a Competing Proposal.
- **Notification:** If Sino Gas receives:
  - any approach, inquiry or proposal with respect to any Competing Proposal; or
  - any request for information relating to Sino Gas or any of its Related Bodies Corporate or any of their business or operations or any request for access to the books or records of Sino Gas or any of its Related Bodies Corporate, which may reasonably be expected to relate to a current or future Competing Proposal,

  Sino Gas must notify LS BidCo within 24 hours (which notice must include the material terms and conditions of the Competing Proposal and the identity of the third party making the Competing Proposal).
- **Matching Right**: Sino Gas must:
  - not enter into any legally binding agreement, arrangement or understanding to undertake or give effect to an actual, proposed or potential Competing Proposal; and
  - use best endeavours to procure that none of the Sino Gas Directors recommend a Competing Proposal or withdraw or change their recommendation or voting intention,

  unless the Competing Proposal is a Superior Proposal and Sino Gas has given LS BidCo at least three Business Days to make a proposal that matches or exceeds the Competing Proposal.

However, Sino Gas is not required to comply with its obligations under the 'no talk', 'no due diligence' and 'notification' provisions in the Scheme Implementation Agreement if the Sino Gas Board determines that complying with those provisions would be likely to constitute a breach of the fiduciary or statutory duties owed by the Sino Gas Board.

These exclusivity arrangements are set out in full in clause 9 of the Scheme Implementation Agreement.

(c) **Break Fee**

Sino Gas has agreed to pay LS BidCo a break fee of $4.5 million (***Break Fee***) if:

- **Failure to recommend:** any Sino Gas Director fails to recommend the Scheme;
- **Change in recommendation:** any Sino Gas Director adversely changes, or qualifies, withdraws or otherwise makes a public statement indicating that he or she no longer supports the Scheme, other than where the Independent Expert concludes in the Independent Expert's Report that the Scheme is not in the best interests of Sino Gas Shareholders, provided that the reasons for the Independent Expert's conclusions do not include (in whole or in part) the existence of a Competing Proposal;

- **Competing Proposal announced and transaction subsequently completed:** a Competing Proposal is announced before the End Date and, within 12 months of the End Date, the third party who announced or made the Competing Proposal (or a Related Body Corporate) obtains Control of Sino Gas, merges with or acquires Sino Gas or acquires (directly or indirectly) an interest in or becomes the holder of:
  - 15% or more of Sino Gas Shares; or
  - all or a substantial part of the business conducted by Sino Gas; or
- **Termination:** LS BidCo terminates the Scheme Implementation Agreement due to a material breach by Sino Gas (and Sino Gas fails to remedy such breach within the required notice period) or breach of any warranties or representation given by Sino Gas under clause 11.1 of the Scheme Implementation Agreement or Sino Gas terminates the Scheme Implementation Agreement after the Sino Gas Board has determined that a Competing Proposal is a Superior Proposal and has complied with the notification and matching right obligations.

However, the Break Fee is not payable if the Scheme nevertheless becomes Effective.

For full details of the Break Fee, see clause 10 of the Scheme Implementation Agreement.

(d) **Termination**

Either Sino Gas or LS BidCo can terminate the Scheme Implementation Agreement by written notice to the other at any time prior to the Effective Date, if:

- the Effective Date for the Scheme has not occurred on or before the End Date;
- the other party has materially breached a provision of the Scheme Implementation Agreement (subject to certain exceptions), at any time prior to 8:00am on the Second Court Date, provided that the party not in breach has given notice to the other setting out the relevant circumstances and the relevant circumstances continue to exist 5 Business Days (or shorter ending at 8:00am on the Second Court Date) after the time such notice is given;
- at any time prior to 8:00am on the Second Court Date, any representation and warranty given by the other party in clause 11.1 or 11.3 of the Scheme Implementation Agreement (as the case may be) is not true and correct in any material respect, where that breach of representation and warranty is material in the context of the transaction as a whole, provided that the party not in breach has given notice to the other setting out the relevant circumstances and the relevant circumstances continue to exist 10 Business Days (or any shorter period ending at 8:00am on the Second Court Date) after the time for such notice is given;
- a Condition is not satisfied, and that Condition is not waived by Sino Gas or LS BidCo, if applicable, and after consulting in good faith the parties are unable to reach an agreement to implement the Scheme by alternative means, extend the relevant time for satisfaction of the Condition or adjourn or change the date of the application made to the Court to approve the Scheme, or extend the End Date;
- the Court refuses to make any order directing Sino Gas to convene the Scheme Meeting, provided that the parties agree that they do not wish to proceed with the Scheme or an independent senior counsel of the New South Wales Bar advises that, in their opinion, an appeal would have no reasonable prospect of success before the End Date; or
- agreed in writing by Sino Gas and LS BidCo.

LS BidCo may terminate the Scheme Implementation Agreement by written notice to Sino Gas if:

- a person (other than LS BidCo or one of its Associates) has an interest under unconditional contracts in more than 20% of Sino Gas Shares on issue (other than existing Sino Gas Shareholders who at the date of the Scheme Implementation Agreement hold an interest in more than 20% of Sino Gas Shares); and
- at any time prior to 8:00am on the Second Court Date if any Sino Gas Director adversely changes their recommendation to the Scheme Shareholders that they vote in favour of the Scheme Resolution, or otherwise makes a public statement indicating that they no longer support the Scheme.

Sino Gas may terminate the Scheme Implementation Agreement by written notice to LS BidCo at any time prior to the Effective Date if the Sino Gas Board determines that a Competing Proposal that was not solicited, invited, encouraged or initiated in breach of the Scheme Implementation Agreement is a Superior Proposal after complying with the notification and matching rights process in the Scheme Implementation Agreement.

8.2 Status of Conditions

The conditions are summarised in section 8.1(a) and are set out in clause 3 of the Scheme Implementation Agreement.

As at 25 July 2018, being the last practicable date prior to the date of this Scheme Booklet:

(a) the FIRB condition in clause 3.1(a) of the Scheme Implementation Agreement has been satisfied;

(b) the independent expert condition in clause 3.1(e) of the Scheme Implementation Agreement has been satisfied;

(c) the MA11 condition in clause 3.1(i) of the Scheme Implementation Agreement has been satisfied;

(d) none of the other conditions have yet been satisfied or waived; and

(e) all of the Sino Gas Directors believe that the other conditions are capable of being satisfied in accordance with the Scheme Implementation Agreement.

Sino Gas will keep Sino Gas Shareholders updated on any material developments through releasing announcements to the market as appropriate.

8.3 Performance Rights and Deferred Share Entitlements

(a) Implications of the Scheme for Performance Rights

The implications of the Scheme on the Performance Rights are set out in section 4.10(a)(ii)(A).

(b) Implications of the Scheme for Deferred Share Entitlements

The implications of the Scheme on the Deferred Share Entitlements are set out in section 4.10(a)(ii)(B).

8.4 Benefits and agreements

(a) Benefits in connection with retirement from office

There is no payment or other benefit that is proposed to be made or given to any director, secretary or executive officer of Sino Gas (or any of its Related Bodies Corporate) as compensation for the loss of, or consideration for or in connection with his or her retirement from, office in Sino Gas (or any of its Related Bodies Corporate) in connection with the Scheme.

(b) Agreements connected with or conditional on the Scheme

Other than as set out in section 8.3 of this Scheme Booklet in relation to the impact of the Scheme on the Sino Gas Performance Rights and Deferred Share Entitlements, there are no agreements or arrangements made between any Sino Gas Director and any other person in connection with, or conditional on, the outcome of the Scheme.

(c) **Interests of Sino Gas Directors in contracts with LS BidCo**

None of the Sino Gas Directors have any interest in any contract entered into by LS BidCo.

(d) **Benefits under the Scheme or from LS BidCo**

None of the Sino Gas Directors have agreed to receive, or are entitled to receive, any benefit from LS BidCo which is conditional on, or is related to, the Scheme[24].

8.5 Consents and disclosures

(a) **Consents**

This Scheme Booklet contains statements made by, or statements said to be based on statements made by:

- LS BidCo in respect of the LS BidCo Information only;
- Grant Thornton as the Independent Expert;
- RISC Advisory as the technical expert engaged by Grant Thornton to prepare the Independent Technical Specialist's Report for inclusion in the Independent Expert's Report.

Each of those persons named above has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Scheme Booklet.

The following parties have given and have not, before the time of registration of this Scheme Booklet with ASIC, withdrawn their consent to be named in this Scheme Booklet in the form and context in which they are named:

- RBC Capital Markets, Sydney Branch as financial adviser to Sino Gas;
- Allens as legal adviser to Sino Gas;
- Ernst & Young as auditors to Sino Gas; and
- Link Market Services Limited as the Sino Gas Registry.

(b) **Disclosures and responsibility**

Further, each party named in section 8.5(a):

- has not authorised or caused the issue of this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than:
  - LS BidCo in respect of the LS BidCo Information only;
  - Grant Thornton, in relation to its Independent Expert's Report; and
  - RISC Advisory in relation to its Independent Technical Specialist's Report included in the Independent Expert's Report.
- to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this section 8.5(b).

24 Other than their entitlement to receive the Scheme Consideration for the Sino Gas Shares they have a Relevant Interest in.

8.6 No unacceptable circumstances

The Sino Gas Directors believe that the Scheme does not involve any circumstances in relation to the affairs of Sino Gas that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A of the Corporations Act.

8.7 No other information material to the making of a decision in relation to the Scheme

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any Sino Gas Director, at the time of lodging this Scheme Booklet with ASIC for registration, which has not previously been disclosed to Sino Gas Shareholders.

8.8 Supplementary information

If, between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date, Sino Gas becomes aware that:

- a material statement in this Scheme Booklet is false or misleading;
- there is a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet has occurred; or
- a significant new matter has arisen which would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC,

Sino Gas will prepare a supplementary document to this Scheme Booklet.

The form which the supplementary document may take, and whether a copy will be sent to each Sino Gas Shareholder, will depend on the nature and timing of the new or changed circumstances.

In all cases, the supplementary document will be available from Sino Gas' website at http://sinogasenergy.com/ and from the ASX website at www.asx.com.au.

8.9 Regulatory relief

Sino Gas has applied for, and ASX has granted, a waiver of ASX Listing Rule 6.23.3 to permit the treatment of Mr Glenn Corrie's Deferred Share Entitlements as set out in section 4.10(a)(ii)(B) of this Scheme Booklet. The waiver is conditional upon, amongst other things, the Scheme becoming Effective.

9. GLOSSARY AND INTERPRETATION

9.1 Glossary

The meanings of the terms used in this Scheme Booklet are set out below:

Term	Meaning
$	Australian dollars (unless otherwise specified).
Adviser	any person who is engaged to provide professional advice of any type (including legal, accounting, consulting or financial advice) to Sino Gas or LS BidCo.
AGE	Asia Gas & Energy Ltd.
Annexure	an annexure to this Scheme Booklet.
ASIC	the Australian Securities and Investments Commission.
Associate	has the meaning given in the Corporations Act.
ASX	ASX Limited (ABN 98 008 624 691) or the financial market that it operates (i.e. the Australian Securities Exchange), as the context requires.
ASX Listing Rules	the listing rules of ASX.
Authorised Persons	in respect of a person: • a director, officer, partner, member or employee of the person; • an Adviser of the person; and • a director, officer or employee of an Adviser of the person.
Bcf	billion cubic feet.
Break Fee	an amount equal to A$4.5 million.
Business Day	has the meaning given in the ASX Listing Rules.
CBM	Coalbed methane.
CEO	Chief Executive Officer.
CFO	Chief Financial Officer.
CNEML	China New Energy Mining Limited.
CNOOC	China National Offshore Oil Company.
CNPC	China National Petroleum Corporation.

Competing Proposal	a proposal, transaction or arrangement which, if completed, would mean a person (other than LS BidCo or its Related Bodies Corporate) whether alone or together with its Associates would:
	• directly or indirectly, acquire a Relevant Interest or such other legal or economic interest in or become the holder of:
	    • 15% or more of the Sino Gas Shares (other than as custodian, nominee or bare trustee);
	    • all or a substantial part of the business conducted by Sino Gas;
	• acquire control of Sino Gas, within the meaning of section 50AA of the Corporations Act;

Term	Meaning
	• otherwise acquire or merge (including by a reverse takeover bid or dual listed company structure) with Sino Gas; or • require Sino Gas to terminate this document or abandon, or otherwise fail to proceed with the Scheme, whether by way of takeover bid, scheme of arrangement, shareholder approved acquisition, capital reduction, buy back, assignment of assets and liabilities, deed of company arrangement, any debt for equity arrangement, sale of assets, sale of shares or joint venture, but not as a custodian, nominee or bare trustee.
Conditions	the conditions to the Scheme set out in clause 3.1 of the Scheme Implementation Agreement and described in section 8.1(a).
Contingent Resources	those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources as defined in the Society of Petroleum Engineers Petroleum Resources Management System.
Corporations Act	the *Corporations Act 2001* (Cth).
Corporations Regulations	the *Corporations Regulations 2001* (Cth).
Court	the Federal Court of Australia, Sydney Registry.
CUCBM	China United Coalbed Methane Corporation Limited.
Deed Poll	a deed poll substantially in the form of Annexure C to the Scheme Booklet.
Deferred Share Entitlement	has the meaning given in section 4.10(a)(ii)(B).
EBITDA	operating profit from continuing operations after adding back interest, taxation, and depreciation and amortisation.
Effective	when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) (and, if applicable, section 411(6) of the Corporations Act) in relation to the Scheme.
Effective Date	the date on which the Scheme becomes Effective.
End Date	31 October 2018 or such other date as agreed by LS BidCo and Sino Gas.
Equity Commitment Letter	the binding executed commitment letter addressed to Lone Star Fund X dated on or about the date of the Scheme Implementation Agreement such commitment being unconditional except for a condition that the Scheme becomes Effective.
Exploration Licence	the exploration licence 0200001630474 and 0200001630473 (for the Linxing Project) and/or 0200001630127 (for the Sanjiaobei Project).
GSA	gas sales agreement.
Grant Thornton	Grant Thornton Corporate Finance Pty Ltd (ACN 003 265 987).

Term	Meaning
HoldCo	LSF10 Summertime Holdings, Ltd. (Bermuda registration number 53632) of Washington Mall, Suite 304, 7 Reid, Hamilton HM 11 Bermuda.
Implementation Date	with respect to the Scheme, the third Business Day, or such other Business Day as the parties agree, following the Record Date for the Scheme.
Independent Expert	Grant Thornton Corporate Finance Pty Ltd (ACN 003 265 987).
Independent Expert's Report	the report by the Independent Expert (including any update or supplementary report), a copy of which is set out in Annexure A.
Independent Technical Specialist's Report	the report prepared by RISC Advisory for inclusion in the Independent Expert's Report.
Jinhong	Jinhong Holding Group Co Ltd, a Shenzhen Stock Exchange listed Chinese urban gas pipe construction company.
JSA	joint study area.
Key SGE Projects	each of the Linxing Project and the Sanjiaobei Project.
Linxing Option	has the meaning given in section 4.3
Linxing Option Agreement	the agreement between Sino Gas and SGE for the Linxing Option.
Linxing Project	the project for the exploration for, development of and exploitation of natural gas consisting of methane stored in coal seams and/or adjacent strata (including the overlying and underlying strata), jointly conducted by SGE and CUCBM in the Lin County and Xing County, Shanxi Province.
Linxing PSC	the 'Production Sharing Contract for the exploitation of coalbed methane resources in Linxian and Xingxian counties, Shanxi Province, The People's Republic of China' dated 29 June 1998 between Phillips China Inc and CBM Energy Associates, L.C., as assigned to SGE and CUCBM and amended from time to time.
Lone Star	the private equity firm described in section 6.1.
Lone Star Fund X	LSF X U.S. Holdings, L.P., a Bermuda exempted limited partnership; and Lone Star Fund X (Bermuda), L.P., a Bermuda exempted limited partnership.
LS BidCo	LSF10 Summertime Investments, Ltd. (Bermuda registration number 53633) of Washington Mall, Suite 304, 7 Reid, Hamilton HM 11 Bermuda.
LS BidCo Deed Poll	the deed poll dated 21 July 2018 executed by LS BidCo relating to the Scheme, the terms of which are set out in Annexure C.
LS BidCo Director	a director of LS BidCo.
LS BidCo Group	LS BidCo and its Subsidiaries (excluding, until implementation of the Scheme, Sino Gas and its Subsidiaries).
LS BidCo Information	the information contained in the question 'Who is Lone Star, Lone Star Fund X, HoldCo and LS BidCo?' in section 2 and section 6, but excludes the Sino Gas Information and the Independent Expert's Report.
LS Funds	the private equity funds described in section 6.1.

Term	Meaning
LSGA	Lone Star Global Acquisitions, Ltd.
MA11	has the meaning given in section 4.4(a).
Macquarie Options	has the meaning given in section 4.10(a)(i).
Macquarie	Macquarie Bank Limited (ACN 008 583 542).
Material Adverse Event	a Specified Event: (a) which has, has had, or is reasonably likely to have, either individually or when aggregated with any Specified Events of a similar kind or category: (i) a material adverse effect on the business, assets, liabilities, financial or trading position, performance, profitability, or prospects of the Sino Gas Group or any Key SGE Project (which Specified Events may include war, natural disaster, or change in law or regulation, but only where they have the material adverse effect referred to above); (ii) a material adverse effect (which includes a suspension, revocation, disclaimer, invalidity, unenforceability, materially adverse variation, lapse or termination of all or any material rights) on the status or terms of (or rights attaching to): (A) any Resource Interest in respect of Key SGE Projects (including the overall development plan), which includes (without limitation) any Regulatory Authority providing any notice or otherwise making known an intention that any Exploration Licence, will be suspended, revoked, disclaimed, made invalid, unenforceable, varied, lapse, terminated or not renewed; or (B) any Material Contract, which includes any counterparty providing formal notice or otherwise making known an intention, to terminate or not to renew a Material Contract; (iii) an effect on the value of consolidated net assets of the Sino Gas Group (taken as a whole) being reduced by at least US$10,000,000; (b) an effect of incurring any obligations, liabilities, accounting impairment, costs or expenses (whether contingent or otherwise) where the quantum (whether individually or aggregated) exceeds US$10,000,000, other than as contemplated by: (i) the Annual Budget or Work Program and Budget (as those terms are defined under the SGE Shareholders' Agreement) fairly disclosed in writing to LS BidCo, including any deviation to such Annual Budget or Work Program and Budget permitted under clause 7.7(a) of the SGE Shareholders' Agreement; (ii) Sino Gas budget approved by the Sino Gas Board and fairly disclosed in writing to LS BidCo, including any deviation to

Term	Meaning
	Sino Gas budget permitted without further approval of Sino Gas's Board; or (iii) the exercise of the Linxing Option Agreement; (c) which is the grant of mining or other rights or interests of any kind over all or part of any area covered by or the subject of a Key SGE Project to any person other than a member of the Sino Gas Group or SGE which materially impacts, or could reasonably be expected to materially impact, on the enjoyment of the rights conferred, or purported to be conferred, by the Key SGE Projects, but does not include: (d) those events or circumstances required to be done or procured by Sino Gas pursuant to the Scheme Implementation Agreement or the Scheme; (e) those events or circumstances relating to changes in business or economic conditions generally affecting the industry or markets in which Sino Gas operates, or industries or the market generally; (f) an event, circumstance, matter or information that is fairly disclosed on or prior to the date of the Scheme Implementation Agreement or otherwise disclosed in public filings by Sino Gas with ASIC or provided to ASX on or prior to the date of the Scheme Implementation Agreement provided that any disclosure of a Regulatory Authority's or counterparty's rights to take any action in respect of any Resource Interest or Material Contract (including suspension, revocation, disclaimer, invalidity, unenforceability, variation, lapse or termination of all or any material rights on the status or terms of any Resource Interest or regulatory approval or termination or non-renewal of any Material Contract) shall not prevent the taking of that action constituting a Material Adverse Event; (g) any event or circumstance which relates to costs or expenses incurred by Sino Gas associated with the Scheme, including all fees payable to external advisers of Sino Gas; (h) any change in interest rates, foreign exchange rates or oil and gas and other commodity prices; (i) any event or circumstance causing a loss which is predominantly covered by insurance; or (j) any change occurring with the written consent of LS BidCo.
Material Contract	each of SGE Shareholders' Agreement, the Linxing PSC, the Sanjiaobei PSC and the Linxing Option Agreement.
MMscf/d	Million standard cubic feet per day.
Mscf	Thousand standard cubic feet.
New Facility	has the meaning given in section 4.16.
Notice of Scheme Meeting	the notice set out in Annexure D to convene the Scheme Meeting.

Term	Meaning
ODP	Overall Development Plan.
PCCBM	PetroChina CBM Company.
Performance Right	a right granted under the PRP to acquire a Sino Gas Share.
Proxy Form	the proxy form for the Scheme Meeting which forms part of this Scheme Booklet.
PRC	People's Republic of China.
PRP	Sino Gas' Executive, Officer and Employee Performance Rights Plan as approved at the 2009 AGM (as amended) and as announced to ASX on 30 March 2015.
PSC	Production Sharing Contract.
Record Date	5.00pm (Sydney time) on the second Business Day (or such other Business Day as Sino Gas and LS BidCo agree in writing) following the Effective Date, being the time and date which determines the entitlements of Sino Gas Shareholders to Scheme Consideration.
Regulatory Authority	includes: (a) ASX, ACCC, ASIC and the Takeovers Panel; (b) the National Development and Reform Commission of the People’s Republic of China, and any provincial Development and Reform Commission; (c) a government or governmental, semi-governmental or judicial entity or authority; (d) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and (e) any regulatory organisation established under statute or any stock exchange.
Related Body Corporate	of a person, means a related body corporate of that person under section 50 of the Corporations Act and includes any body corporate that would be a related body corporate if section 48(2) of the Corporations Act was omitted.
Relevant Interest	has the meaning given by sections 608 and 609 of the Corporations Act.
Representatives	in respect of a party, each of its subsidiaries and each director, officer, employee, contractor, adviser or agent of that party or any of its subsidiaries.
Reserves	are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by development and production status.

Term	Meaning
Resource Interest	any agreement, instrument, lease, tenement, licence, permit, approval, consent, concession, grant, permission, authorisation, renewal, right of any kind and however described, issued, granted or entered into by any Regulatory Authority, which: (a) confers or is expressed or intended to confer a right to explore for, appraise, test, extract, produce, mine, remove, sell, own, export, deal with or otherwise exploit in any way resource of any kind (including coalbed methane and natural gas) and/or to conduct related activities and/or to construct, install or develop and/or operate plant, equipment or facilities of any kind in relation to any such activity; and/or (b) confers or is expressed or intended to confer rights to or in respect of any such agreement, instrument, lease, tenement, licence, permit, approval, consent, concession, grant, permission, authorisation or right which falls within paragraph (a) above or imposes obligations (including without limitation in relation to fiscal, environmental or health and safety matters) in respect of any activity referred to in paragraph (a) above.
Resources	the entire resource base is generally accepted to be all those estimated quantities of hydrocarbon contained in the subsurface.
RISC Advisory	RISC Advisory Pty Ltd (ACN 150 789 030).
RMB	renminbi.
Sanjiaobei Project	the project for the exploration for, development of and exploitation of any coalbed methane and natural gas, jointly conducted by SGE and PCCBM in the Lin County and Xing County, Shanxi Province.
Sanjiaobei PSC	the 'Production Sharing Contract for the exploitation of coalbed methane resources Sanjiaobei area, Shanxi Province, of the People's Republic of China' dated 29 June 1998 between China United Coalbed Methane Corporation, Ltd and Arco China Inc. and Arco Ordos CBM Limited, as assigned to PCCBM and SGE and amended from time to time.
Scheme	the members' scheme of arrangement under Part 5.1 of the Corporations Act between Sino Gas and Scheme Shareholders pursuant to which Scheme Shareholders will transfer each of their Scheme Shares to LS BidCo in exchange for the Scheme Consideration, substantially in the form set out in Annexure B or in such other form as Sino Gas and LS BidCo agree in writing.
Scheme Booklet	this document dated 27 July 2018, including all of the Annexures to and the forms which accompany this document.
Scheme Consideration	the consideration to be provided by LS BidCo to Scheme Shareholders under the Scheme for the transfer of each Scheme Share to LS BidCo, as more fully described in section 3.1.
Scheme Implementation Agreement	the implementation agreement between Sino Gas and LS BidCo dated 31 May 2018 relating to the implementation of the Scheme and summarised in section 8.1.

Term	Meaning
Scheme Meeting	the meeting of Sino Gas Shareholders to be convened by the Court in relation to the Scheme under section 411(1) of the Corporations Act to be held at the Museum of Sydney, Warrane Theatre, Level 2, Corner of Phillip and Bridge Streets, Sydney, NSW 2000 at 10.00am on 5 September 2018.
Scheme Resolution	the resolution to approve the Scheme to be considered by Sino Gas Shareholders at the Scheme Meeting, set out in the Notice of Scheme Meeting contained in Annexure D.
Scheme Share	a Sino Gas Share on issue as at the Record Date.
Scheme Shareholder	a Sino Gas Shareholder as at the Record Date.
Second Court Date	the first day on which an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is scheduled to be heard.
Second Court Hearing	the hearing of an application made to the Court for orders pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.
SGE	Sino Gas & Energy Limited (ACN 115 316 599).
SGE Shareholders' Agreement	has the meaning given in section 4.1.
SGE Prescribed Event	any of the events listed in paragraph 2 of Schedule 2 of the Scheme Implementation Agreement.
Sino Gas	Sino Gas & Energy Holdings Limited (ACN 124 242 422).
Sino Gas Board	the board of directors of Sino Gas.
Sino Gas Director	a director of Sino Gas.
Sino Gas Group	Sino Gas and its Subsidiaries.
Sino Gas Information	all information in this Scheme Booklet other than the LS BidCo Information and the Independent Expert's Report.
Sino Gas Prescribed Event	any of the events listed in paragraph 1 of Schedule 2 of the Scheme Implementation Agreement.
Sino Gas Registry	the share registry of Sino Gas, being Link Market Services Limited (ACN 083 214 537).
Sino Gas Share	a fully paid ordinary share in the capital of Sino Gas.
Sino Gas Share Price	the price of Sino Gas Shares as quoted on ASX.
Sino Gas Share Register	the register of members of Sino Gas maintained in accordance with the Corporations Act.
Sino Gas Shareholder	each person who is registered in the Sino Gas Share Register as the holder of one or more Sino Gas Shares.

Term	Meaning
Sino Gas Shareholder Information Line	the information line set up for the purpose of answering enquiries from Sino Gas Shareholders in relation to the Scheme, being on 1300 223 089 (within Australia), or +61 3 9415 4067 (outside Australia), Monday to Friday between 8.30am and 5.00pm.
SOE	state owned enterprise.
Specified Event	an event, occurrence or matter that: (a) occurs after the date of the Scheme Implementation Agreement; (b) occurs before the date of the Scheme Implementation Agreement but is only announced or publicly disclosed after the date of this document; or (c) will or is likely to occur after the date of the Scheme Implementation Agreement and which has not been publicly announced prior to the date of this document.
STI	short-term incentive.
Subsidiary	has the meaning given in section 9 of the Corporations Act.
Superior Proposal	a bona fide Competing Proposal which the Sino Gas Board determines, acting in good faith and, after taking advice from its legal and financial advisers (who must be reputable advisers experienced in transactions of this nature), determines is: • reasonably capable of being completed taking into account all aspects of the Competing Proposal; and • if completed substantially in accordance with its terms, is more favourable to Sino Gas Shareholders than the Scheme, taking into account all terms and conditions of the Competing Proposal, including the identity, reputation and financial condition of the person making such proposal, and relevant legal, regulatory and financial matters.
Tcf	trillion cubic feet.
Transaction	the proposed acquisition by LS BidCo of all of the Sino Gas Shares through the implementation of the Scheme.
US	United States of America.
US$	United States dollars.
VWAP	the volume weighted average trading price of the relevant securities, calculated by dividing the total value by the total volume of securities traded for the relevant period.

9.2 Interpretation

In this Scheme Booklet:

(a) words of any gender include all genders;

(b) words importing the singular include the plural and vice versa;

(c) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;

(d) a reference to a section or annexure, is a reference to a section of or annexure of, to this Scheme Booklet as relevant;

(e) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;

(f) headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet;

(g) a reference to time is a reference to Sydney, Australia time unless otherwise specified;

(h) a reference to dollars and $ is to Australian currency;

(i) an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia; and

(j) the words 'include', 'including', 'for example' or 'such as' when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

A. ANNEXURE A – INDEPENDENT EXPERT'S REPORT

Grant Thornton
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Sino Gas & Energy Holdings Limited

Independent Expert's Report and Financial Services Guide

26 July 2018

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Directors
Sino Energy & Gas Holdings Limited
311-313 Hay Street
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26 July 2018

Dear Directors

Introduction

Sino Energy & Gas Holdings Limited ("SGEH" or "the Company") is an Australian public company listed on the Australian Securities Exchange ("ASX") focussed on producing and developing gas assets in China. SGEH holds a 49% interest in Sino Gas & Energy Limited ("SGE"), the operator of the Linxing and Sanjiaobei production sharing contracts ("PSC")[1] in the Ordos Basin in the People's Republic of China ("PRC"). China New Energy Mining Limited ("CNEML")[2] owns the other 51% of SGE. As at the date of this report, SGEH has attributable proved plus probable ("2P") reserves and contingent ("2C" together with 2P referred to as "2P+2C") resources of 406 Bcf (deep gas only produced over the life of the PSC including the Linxing Option).

Linxing PSC

SGE currently has 100% participation interests in the PSC. However, State Owned Enterprise ("SOE") partner China United Coalbed Methane ("CUCBM"), a wholly owned subsidiary of China National Offshore Oil Company ("CNOOC") has the right to participate up to 51% interest for natural gas by contributing its share of future costs. As at the date of this report, the Linxing PSC had net to SGEH 2P reserves of 196 Bcf, including the Linxing Option.

The PSC for natural gas expires on 31 August 2036[3]. SGE received approval for the first Overall Development Plan ("ODP") in May 2018 to focus on core development and pilot production areas representing 20% of the current discovered area of Linxing West[4].

SGEH has an option to acquire on ODP approval 7.5% of SGE's participating interest in the Linxing PSC (reduced to 3.675% assuming the SOE participant exercises their right to participate at their full 51% participating interest[5]), by reimbursing SGE for 7.5% of the historical cost and expenses. Upon exercise of the Linxing Option, SGEHs effective participating interest in the Linxing PSC would

[1] A PSC is a contract between one or more investors in which rights to prospection, exploration and extraction of mineral resources from a specific area over a specified period of time are determined.
[2] SGEH understands that the remaining shares in SGE are held by CNEML through its subsidiary Asia Gas & Energy Ltd ("AGE")
[3] Under the Linxing PSC, in the event of future coalbed methane ("*CBM*") developments, the CBM participating interests are 70% for SGE (pre exercise of the Linxing Option) and 30% for CUCBM, with a PSC expiry date of 31 August 2028. SGE does not currently have any CBM development projects that are considered material.
[4] The Linxing PSC is divided into Linxing West and Linxing East. Most of the acreage in Linxing East has been relinquished in conjunction with MA11.
[5] As announced on 22 May 2018, CUCBM is considering its level of participation in the Linxing PSC and is currently expected to provide formal notification to SGE prior to mid-2019.

increase from 24.01%[6] to 25.884%[7].

Sanjiaobei PSC

SGE has partnered with SOE PetroChina CBM[8] ("PCCBM"), which has the right to participate in the Sanjiaobei PSC up to 51% upon ODP approval (SGE currently owns 100% participation interest). The Sanjiaobei PSC expires on 31 August 2033. Based on the latest update on the development of the Sanjiaobei PSC announced by the Company on 12 July 2018, the first ODP approval is expected in the second half of 2018. As at the date of this report, the Sanjiaobei PSC has net to SGEH 2P reserves of 88 Bcf[9].

Proposed Transaction

On 31 May 2018, the Company announced that it had entered into a Scheme Implementation Agreement ("SIA") under which LSF10 Summertime Investments Ltd, a wholly owned subsidiary of Lone Star Fund X Acquisitions LLC (together with its affiliates referred to as "Lone Star"), will acquire all the issued shares of SGEH on a fully diluted basis ("SGEH Shares") for a cash consideration of A$0.25 per share ("Consideration"). The transaction will be implemented by way of Scheme of Arrangement ("Scheme" or the "Proposed Transaction").

Lone Star is a private equity firm which invests globally in a range of different asset classes. Since inception in 1995, Lone Star has organised seventeen private equity funds with aggregate capital commitments totalling over US$70 billion.

The Scheme is subject to customary conditions precedent as set out in Section 1 of this Independent Expert's Report ("IER" or "Report"). Regulatory approval from the Foreign Investment Review Board ("FIRB") is due by 15 July 2018.

Subject to no superior proposal emerging and an independent expert concluding that the Scheme is in the best interests of SGEH shareholders ("SGEH Shareholders"), the Directors have unanimously recommended that SGEH Shareholders vote in favour of the Scheme and have advised that each Director intends to vote all SGEH Shares held or controlled by them in favour of the Scheme.

Purpose of the report

Whilst there is no legal requirement for the preparation of an independent expert's report ("IER") in conjunction with the Scheme, the Directors of SGEH have commissioned this IER to assist SGEH Shareholders in assessing the merits of the Scheme.

When preparing this IER, Grant Thornton Corporate Finance has had regard to the Australian Securities Investment Commission ("ASIC") Regulatory Guide 111 *Contents of expert reports* ("RG 111") and Regulatory Guide 112 *Independence of experts* ("RG 112"). The IER also includes other information and disclosures as required by ASIC.

[6] Being, 49% of SGE's 49% participating interest.
[7] Being, 49% of SGE's remaining 45.325% participating interest plus the 3.675% participating interest acquired upon exercise of the Linxing Option.
[8] A wholly owned subsidiary of PetroChina Company Limited ("PetroChina"), China's largest oil and gas producer.
[9] Assuming the SOE participant exercises their right to participate at their full 51% participating interest in the development.

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For the purposes of this report, Grant Thornton Corporate Finance has engaged RISC Advisory Pty Ltd ("RISC") to review and opine on the reasonableness of the technical assumptions underlying the forecast cash flows of the Linxing PSC and Sanjiaobei PSC and to value other prospective resources. RISC's review was completed in accordance with the VALMIN Code and it is attached in Appendix F ("RISC Report").

Grant Thornton, for the purposes of this Report, and RISC, for the purposes of the RISC Report, have made a number of independent judgements including for example, forecast capital costs and the timing of production ramp-up and plateau rates. These judgements are for the specific purposes of this Report, and as at the date of this Report, and may vary, materially or otherwise, with the intentions or expectations currently held by SGEH, SGE and the SOE Partners.

Summary of opinion

Grant Thornton Corporate Finance has concluded that the Scheme is FAIR AND REASONABLE and hence in the BEST INTERESTS of SGEH Shareholders.

In forming our opinion, Grant Thornton Corporate Finance has considered whether the Scheme is fair and reasonable to SGEH Shareholders and other quantitative and qualitative considerations.

Fairness Assessment

Grant Thornton Corporate Finance has compared the value per SGEH Share before the Scheme (on a 100% and fully diluted basis) to the Consideration of A$0.25 per SGEH Share.

The following table summarises our valuation assessment:

Fairness assessment A$ per share	*Section Reference*	Low	High
Fair market value of SGEH Shares (on a control basis)	*6.1.9*	0.228	0.321
Consideration	*1*	0.250	0.250
Premium / (discount)		**0.022**	**(0.071)**
Premium / (discount) (%)		**9.6%**	**(22.2%)**
FAIRNESS ASSESSMENT		**FAIR**	

Source: GTCF analysis

The Consideration is within our assessed valuation range of an SGEH Share on a 100% and fully diluted basis. Accordingly, we conclude that the Scheme is **FAIR** to SGEH Shareholders.

Whilst the valuation range is wide, we are of the opinion that this is not unreasonable considering the early stage in the PSCs' development, the size of the reservoir and the risks attached to changes of the plateau rates, potential delays and the total production during the PSCs.

SGEH Shareholders should be aware that our assessment of the value per SGEH Share should not be considered to reflect the price at which SGEH Shares will trade if the Scheme is not implemented. The price at which SGEH Shares will ultimately trade depends on a range of factors, including: the liquidity of SGEH Shares; macro-economic conditions; the regulatory and political environment; oil and gas prices; exchange rates; and the performance of SGEH's business.

Sum of Parts ("SOP") approach

Grant Thornton Corporate Finance has selected the market value of net assets as the primary method to assess SGEH's equity value. The market value of net assets is based on the sum of the parts of SGEH's effective interests in the PSCs and other assets and liabilities at the valuation date (30 June 2018). The market value of the Linxing and Sanjiaobei PSCs was assessed applying the discounted cash flow method ("DCF Method").

RISC has developed a number of production scenarios for the PSCs which Grant Thornton Corporate Finance has adopted to calculate the net present value of the PSCs using real, ungeared, post-tax cash flows, having regard to Grant Thornton Corporate Finance's assessment of the gas prices, exchange rates, inflation and discount rate.

In our assessment of the appropriate value range for SGEH, we have relied on the Central Case, Accelerated Central Case and Delayed Central Case which revolve around 2P+2C resources production case. We are of the opinion that this a reasonable production profile to adopt in our valuation assessment given that RISC has estimated that the 2C resources have a 90% probability of maturing to reserves (refer to RISC Report). The cash flow assumptions between these three Central Cases are substantially equivalent however the number of years to plateau production is sensitised[10] which is a critical value driver given the fixed expiry date of the PSC.

We have outlined in the table below the outcomes of the various valuation scenarios.

Scenario	Production profile assumption	Total Gross PSC Production to PSC expiry	Low value (A$ per share)	High value (A$ per share)
Assessed Valuation Range Based on Central Cases Scenarios				
Delayed Central Case	2P+2C with delayed ramp-up	1,906	0.228	0.258
Central Case	2P+2C	1,944	0.239	0.270
Accelerated Central Case	2P+2C with accelerated ramp-up	2,051	0.286	0.321
Assessed Value range			**0.228**	**0.321**
Other Scenario Analysis				
Low Case A	1P	879	0.083	0.100
Low Case B	2P	1,328	0.179	0.203
PSC Extension Case	2P+2C but PSC expiry extended by 8 yrs	2,508	0.262	0.296
Central Case with Withholding Tax	2P+2C withholding tax applied[1]	1,944	0.214	0.245

Sources: RISC, SGEH Management, GTCF Analysis
Note (1): We have applied a withholding tax of 10% to the distributions from SGE to SGEH

As set out in the table above, the high-end of our valuation range has been estimated assuming an accelerated ramp-up to plateau production expected to be achieved in 2022 rather than in 2024 as per RISC's Central Case. Whilst this is possible, we note that SGEH has historically experienced several delays in the development of the PSCs and in securing ODP approvals, often driven by circumstances outside the control of SGEH and SGE. Accordingly, we have estimated the low end of our valuation range assuming a delayed ramp-up to plateau production to be achieved in 2025.

Other key assumptions adopted in the DCF Method are outlined below:

- Gas price between US$7.00/Mscf and US$7.50/Mscf in 2018 dollars.

[10] Plateau achieved in 2024 under the Central Case, 2022 under the Accelerated Central Case and 2025 under the Delayed Central Case.

- Mid-point real discount rate of 12% (real). The risks underlying the PSCs are reflected in our assessment of the discount rate as discussed in detail in Appendix D[11].

- The valuation is undertaken in US$ and converted into A$ using the spot exchange rate of US$1:A$0.75 based on the 1 month average as at 5 July 2018.

EV/2P+2C Multiple cross check

Our valuation assessment of SGEH implies an enterprise value as a multiple of 2P reserves and 2P+2C resources as set out in the following table.

SGEH - Implied Multiples	*Section Reference*	2P reserves	2P + 2C resources
RISC assessed net resources (Bcf)	*4.4*	284	406
Bcf to Mmboe		6.003	6.003
RISC assessed net resources (Mmboe)		**47.3**	**67.6**
EV (US$m) - Low	*6.1.9*	362.6	362.6
EV (US$m) - High	*6.1.9*	512.5	512.5
Exchange rate AUD to USD		**0.75**	**0.75**
EV (A$m) - Low		483.4	483.4
EV (A$m) - High		683.3	683.3
Multiple (A$/boe) (Control basis) - Low		**10.2**	**7.1**
Multiple (A$/boe) (Control basis) - High		**14.4**	**10.1**

Sources: RISC Report and GTCF analysis

Based on the analysis of listed comparable companies and comparable transactions set out in section 6.3, the average 2P multiples[12] of the most comparable companies (AAG[13], Sino Oil and Gas, Senex and Cooper Energy) and the most comparable transaction (50.5% proportional takeover of AAG) is circa A$6.0/boe with a minimum of A$4.6/boe and a maximum of A$7.5/boe.

The 2P multiples implied in our valuation assessment are at the high-end of the 2P multiples of listed comparable companies and comparable transactions which in our opinion is driven by the following:

- The confidence level of SGEH's 2C resources converting into 2P reserves is unusually high at 90%. Accordingly, the total 2P+2C resources of SGEH may be considered a proxy for 2P resources of other comparable companies. Taking this approach, the 2P+2C resource multiple implied in our valuation assessment is not inconsistent with the listed peers when a control premium is taken into account.

- SGE has a large resource base with potential to be expanded via additional drilling or extension of the PSCs' expiry dates.

- Strong gas demand, favourable macro-economic conditions and a strong push by Chinese authorities to increase natural gas' share of the energy mix from 6% in 2015 to 10% by 2020 and 15% by 2030.

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[11] We note that investment analysts may adopt a different approach to reflect the risks of the project in their valuation assessment. The net present value of the cash flows may be assessed based on the risk unadjusted discount rate and then applying a probability factor to the derived value of the project.
[12] Chinese listed entities do not usually report 2C resources.
[13] Including the proportional 50.5% takeover of AAG announced on 14 May 2018 by Xinjiang Xintai at an offer price of HK$1.75.as discussed in section 6.2.1

5

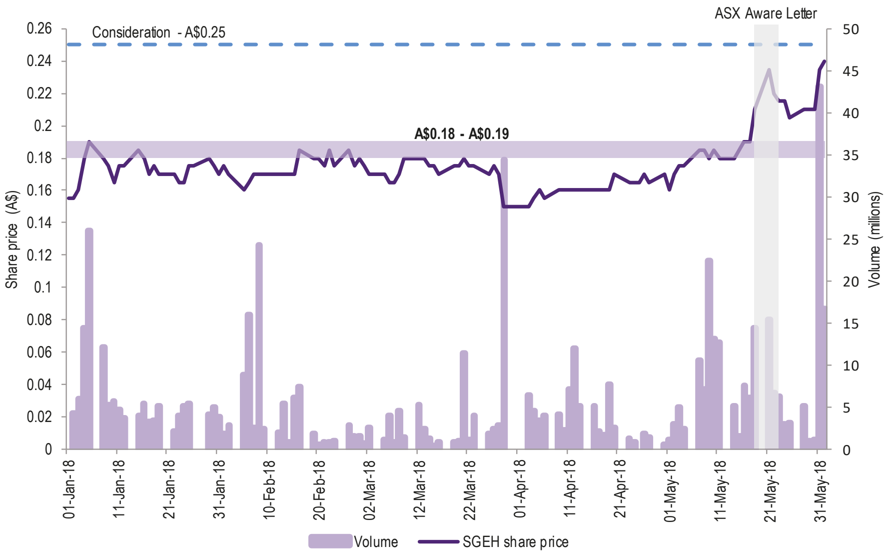
- The PSC fields sit at the bottom of the cost curve for gas production in China which ensures strong cash flow generation going forward for different gas prices.

We note that the implied multiple of the Consideration is c. A$7.9/boe[14].

Comparison with historical trading prices

We have set out in the graph below the trading prices of SGEH since 1 January 2018 compared with the Consideration offered.

Historical share trading prices and volume of SGEH against offer price (prior to offer)



Sources: S&P Capital IQ & GTCF analysis

We have assessed the fair market value of SGEH Shares based on the trading prices between A$0.18 and A$0.19 cents per share on a minority basis before the announcement of the Scheme. We have placed limited reliance on the trading prices immediately before the announcement of the Scheme due to the following:

- On 4 June 2018, SGEH received an ASX Aware Letter, where, among other things, the ASX was investigating the driver for the significant uplift in SGEH's share price from a closing price of A$0.19 on 17 May 2018 to a closing price of A$0.235 on 21 May 2018 on strong volumes and in the absence of announcements released by the Company. The ASX was seeking to ascertain whether trading occurred on insider information before the announcement on 22 May 2018 of the formal approval obtained for the first Linxing ODP. Based on the correspondence between the ASX and SGEH and a review of other publicly available information, there does not seem to be any plausible explanations driven by market or company specific factors to justify the significant

[14] Based on the Consideration (on a fully diluted basis), 2,147,838,013 fully diluted shares, net cash of US$ 5 million as at 30 June 2018 and 2P+2C resources of 67.6 Mmboe as per RISC Report.

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increase in SGEH trading prices from a closing price of A$0.19 on 17 May 2018 to a closing price of A$0.235 on 21 May 2018 shortly before the announcement of the Scheme.

- It appears that the trading prices of SGEH since the beginning of April 2018 have been positively affected by the generally uplifted environment for energy companies listed on the ASX which was influenced by a 15% uplift in the Brent price and the offer for Santos Limited ("Santos") from Harbour Energy. However, we note that over the same period, the Asian Peer Index[15] has decreased by circa 12%. In our opinion, given that SGEH's assets are based in China, the trading prices should be more aligned with the members of the Asian Peer Index rather than the Australian Peer Index.

- One of the reasons that the Board of Santos rejected the Harbour Energy proposal was the circa 15% uplift in the Brent price between the beginning of April 2018 and the end of May 2018. However, in our opinion, SGEH does not have the same exposure as other energy companies listed in Australia to upwards movements in the oil price given that the domestic gas market in China is regulated and not necessarily linked to global market movements.

The selected valuation range based on the trading prices between A$0.18 and A$0.19 implies a premium for control between 32% and 39% based on the offer price of A$0.25 per share. However, if we make reference to the 5 day VWAP before the announcement of the Scheme, the premium for control is significantly reduced to circa 18% which is lower than the historical premium for control paid for oil and gas transactions (refer to section 6.3.2).

Definitive conclusion cannot be drawn given the anomalous trading of SGEH in the period before the announcement of the Scheme. However, under all circumstances, in our opinion the analysis above supports the fairness of the Consideration offered given that that the trading prices of SGEH before the announcement of the Scheme did not reflect the MA11 changes which were announced to the market on 6 June 2018 but the details of the ongoing incomplete and confidential negotiations were provided to Lone Star before entering into the SIA. We note that as a result of the MA11 changes, lower assessed recovery per well, delayed production ramp-up and lower plateau production rates, RISC has reduced the 2P reserves by 56% and the 2C resources by 7%.

Reasonableness Assessment

In considering the reasonableness of the Scheme, we have assessed the following advantages, disadvantages and other factors.

Advantages

Premium for control

A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as the ability to realise synergies, access cash flows, access tax benefits and control of the board of Directors of the company.

[15] The Asian Peer Index consists of AAG Energy Holdings Limited ("AAG"), G3 Exploration Limited ("G3") and Sino Oil and Gas Holdings Limited ("SOGH").

As set out in more detail in section 6.3.2, we have estimated that the premium for control in the oil and gas sector in Australia in the last three and a half year period was between circa 30% and circa 40%.

The Consideration of A$0.25 per SGEH Share represents a premium of:

- 19% compared with the closing price of SGEH on 30 May 2018 of A$0.21.
- 21% compared with the 1 week VWAP of SGEH on 30 May 2018.
- 32% compared with the 1 month VWAP of SGEH on 30 May 2018.
- 39% compared with the 3 month VWAP of SGEH on 30 May 2018.

In our opinion, it is not possible to draw a definitive conclusion in relation to the premium for control paid by Lone Star due to the fact that the trading prices of SGEH before the announcement of the Scheme did not incorporate the MA11 changes to the Linxing PSC. Furthermore we understand that Lone Star considered the potential impact of MA11 based on the status of live negotiations at the time of their review.

We note that MA11 materially reduced SGE's natural gas participating interest from 70% to 49% (prior to the impact of the Linxing Option) and established the relinquishment of circa 1,000 km^2 of Linxing East exploration acreage. Conversely, the PSC for natural gas was extended by 8 years to 31 August 2036. RISC has reduced the 2P reserves by 56% and the 2C resources by 7% as a result of the MA11 changes, lower assessed recovery per well, delayed production ramp-up and lower plateau production rates[16].

Whilst it is not feasible to predict what would have been the share price reaction to the announcement of MA11 in the absence of the Scheme, we have outlined below the key messages and the changes in target prices (if any) of investment analysts before and after the MA11 announcement. We note that SGEH did not release revised estimates of reserves and resources after MA11 until 12 July 2018.

[16] The reduction in 2C resources is lower than the reduction in 2P reserves due to movement of reserves to resources from the delayed production ramp-up and lower plateau production rates.

Broker	Target price (A$) before MA11	Key message before MA11	Target price (A$) after MA11	Key message after MA11
Broker 1	0.30	TP increased from A$0.24 to A$0.30 due to positive outlook for China gas demand and other relevant transactions in the space.	0.30	Reduction to PSC interest largely offset by 8 year PSC extension. However, SGEH cash flow negatively impacted in early years pushing cash flow into out years, increasing tail risk.
Broker 2	0.31	ODP approval announced ahead of expected Q3 approval. This is a major step forward for the Company.	0.25	Target price downgraded following MA11. Forecast a 20% fall in Linxing 2P reserves due to MA11, with some additional reserves recognised in the extension.
Broker 3	0.27	Sino Gas rated as Buy/High Risk. Sino is in infancy of ramping up production. Investment thesis is less about SEH today, but about where it could get to in the future.	0.27	CUCBM negotiations NPV-neutral but crimps the upside. Lower insterest in PSC offset by extension to the PSC. Unrisked valuation 27% lower due to 8 yr extension vs expectation of 15 years.
Broker 4	0.25	Finalisation of LXG ODP progressing with respect to commercial terms. CNPC Full back-in likely to occur mid CY'19, 6mths behind assumption. This highlights key risk to LT valuation and forecasts: timeframe in relation to central government planning.	0.25	The $0.25 cash offer from Lonestar is an excellent achievement by Management in light of today's LXG PSC announcement." Offer is 15% above valuation and citing the recent 'bumps' with respect to ODP timing, funding and ramp-up, it is an excellent outcome for shareholders.
Broker 5	0.24	ODP in-principle approval achieved for LX and SJB with final finalisation expected H1 2018. Only cloud looming over ODP process is the ongoing negotiation with CUCBM regarding profit/cost allocation under PSC. SGEH should emerge with equivalent or better economic standing than present	0.24	SGEH had share of the LXG PSC reduced to an unexpected 49% along with relinquishment of exploration and development ground. The uncertainty created and change in value will make the Lone Star bid of $0.25/sh. an attractive option for shareholders.

Sources: Investment analysts covering SGEH, GTCF Analysis

Certainty of the cash consideration

SGEH Shareholders have the opportunity to receive a certain cash amount at a premium to the trading prices of SGEH before the announcement of the Scheme and at a premium to the prices that SGEH Shares may trade in the short term in the absence of the Scheme or an alternative transaction.

The underlying value of an SGEH Share is expected to materially change as its PSCs, in particular the Linxing PSC, move through the development cycle. Whilst the range of values attributed to SGEH in our fairness assessment are considered reasonable at the date of this Report, the fair value of the Company may increase significantly, or conversely decline materially in value, depending upon the outcome of future well performance, further ODP approvals and the terms of the gas supply agreements ("GSA").

If the Scheme is implemented, SGEH Shareholders will no longer be exposed to the ongoing risks associated with holding an investment in SGEH which are summarised below in a non-exhaustive manner:

- *Jurisdiction risk* – SGEH is a single asset company with tight-gas interests in two adjacent PSCs in the Ordos Basin, PRC. SGEH is concentrated both geographically and at asset level and the PRC is considered a risky jurisdiction for doing business. China is ranked 78 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings whereas for example Australia is ranked 14. In addition, China ranked 77 among 180 countries on the Corruption Perception Index which measures the perceived level of public sector corruption. The jurisdiction risk is exacerbated by the fact that SGE is expected to move from pilot production to commercial production over the medium term which will require several procedural and permitting authorisations from the SOE which are often used as opportunities to renegotiate the terms of the agreements in place. In particular we note the following:

- ODP for Sanjiaobei is yet to be obtained and it has been postponed a number of times. The Company announced on 12 July 2018 that it now expects this to occur in the second half of 2018. Similarly to what occurred with the Linxing PSC, in anticipation of the first Sanjiaobei ODP approval, confidential preliminary discussions have commenced between SGE and PCCBM pertaining to the timing and extent of PCCBM's participation in the project up to its 51% interest, operational matters related to the development stage of the project, allocation of pilot production above the previously announced 3 Bcf prior to ODP approval and the extension of the exploration period that expires on 31 August 2018.

- ODP for Linxing was recently obtained, however it only refers to 20% of the production area.

- CUCBM expects to obtain full Linxing project investment committee approval from CNOOC by mid-2019. At the same time, CUCBM is considering its level of participation in the Linxing PSC and it is expected to provide formal notifications by mid-2019. During this period, SGE has agreed to fund CUCBM's share of development costs.

- Completion of Environmental Impact Assessment report, land leasing, risk evaluation on social stabilisation, land reclamation, etc.

All the above procedural and approval steps may delay the ramp-up production phase and accordingly significantly impact the fair market value of SGEH which is sensitive to small delays given the fixed tenure of the PSC.

- *SOEs* – Over the course of the last twelve months, SGE faced a number of difficulties in receiving payments from the sale of pilot gas from the SOE Partners. Specifically, we note the following:

  - In May 2017, SGEH announced that SGE received the outstanding pilot gas sales from the Sanjiaobei PSC for the period between December 2014 and December 2016. Payments were supposed to be remitted by PCCBM on a quarterly basis.

  - In May 2018, SGE finalised the Linxing PSC development phase cost allocation principles which allowed the resumption of Linxing PSC gas sales proceeds. The development phase cost allocation principles are required to determine the correct distribution of natural gas proceeds. These negotiations resulted in overdue gas sales accounts receivable at 31 December 2017 of US$7.8 million (US$3.8 million net to SGEH). An additional US$9.8 million (US$4.8 million net to SGEH) became overdue at the end of March 2018.

  Whilst all the above issues have been successfully resolved by SGE, they demonstrate some of the difficulties and delays that may be faced by companies doing business in China. These delays in receiving payments that SGE was entitled to caused significant volatility in SGEH trading prices.

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- *CERCG default* – We note that based on publicly available information[17], it appears that CNEML is a wholly owned subsidiary of China Energy Reserve and Chemical Group ("CERCG") In a statement to the Hong Kong stock exchange, China Energy Reserve & Chemicals Overseas Capital Company, a subsidiary of CERCG, announced that it had failed to pay the principal amount and accrued interest of the US$350 million bond due on 11 May 2018. The default also triggered cross-defaults on other borrowings including bonds due in 2021 and 2022 and CERCG has indicated that it intends to engage with the bond holders to renegotiate the terms, including potentially suspending interest payments. The default by CERCG on the bond creates uncertainty in relation to CNEML's ability to carry its share of the cost going forward. This may impact the ability of SGE to ramp-up production in a timely manner and maximise the gas production over the PSC. Whilst the SGE Shareholders Agreement includes remedies to deal with the inability of one of the joint venture partners to meet their cash calls, it may be difficult to enforce and nevertheless slowdown commercial production.

Risk of future capital raising

As announced on the ASX in January 2018, SGEH expects that as a result of the new US$100 million debt facility provided by Macquarie Bank Limited ("Macquarie Facility") along with cash on hand and anticipated cash flows from operations, it will be able to fully fund future cash calls for the development of the PSCs. However there are always risks associated with the development plan, budget overruns, differences from expected production levels, changing gas prices or delays in receiving payments from third parties which could adversely affect the Company's ability to fund future cash calls.

No brokerage costs

SGEH Shareholders will be able to realise their investment in SGEH without incurring any brokerage or stamp duty costs.

Disadvantages

Favourable market conditions

Market and macro-economic conditions are currently very favourable in China for the development and ramp-up of the PSCs due to the following:

- *Domestic Gas Prices* – Gas prices in China are set on an annual basis by the National Development and Research Commission ("NDRC") which has recently announced a reform of the wholesale pricing mechanism of natural gas for residential users to align it to the pricing mechanism for non-residential gas. This will increase the wholesale residential price and encourage more upstream natural gas production. The price will be allowed to rise by no more than 20% from a benchmark price and drop to whatever level is agreed by suppliers and purchasers.

[17] The link between CNEML and CERCG has been highlighted in a number of publicly available documents including a presentation on CERCG in relation to the proposed takeover of AWE Limited in September 2017 and investment analyst reports. Furthermore, the link was discussed between investment analysts and SGEH Management on a Q&A conference call on May 31, 2018.

With a rise in the residential tariff, upstream suppliers (including SGE) are more motivated to produce and import gas to satisfy growing residential demand. The updated policy also helps to mitigate the losses incurred on LNG imports which was previously sold cheaply into the residential market. The reform will also encourage gas storage companies to increase capacity to profit from seasonal arbitrage as the prices are expected to fluctuate materially between the various seasons.

Whilst SGE is a domestic gas supplier that currently sells circa 90% of its gas to industrial customers based on ad-hoc GSAs, a strong residential gas price will ensure sustainability of strong profit margins going forward.

- *Natural gas demand* – Natural gas demand in China has strengthened significantly in the last few years led by Government intervention for stricter environmental standards leading to an aggressive coal to gas mandated replacement which supported an increase of natural gas demand of 15% in 2017. As a result, natural gas' share of the primary energy mix is expected to increase from 6% in 2017 to 10% by 2020 and 15% by 2030.

Within this backdrop, SGE is one of the lowest cost natural gas producers in China targeting full-cycle operational expenditure and capital expenditure at less than US$2/Mscf which will ensure ongoing strong profitability for the remaining tenure of the PSC. In the first quarter of 2018, SGE achieved a net margin (after operating cost and government take) of circa US$5/Mscf.

Shareholders will not be able to participate in the future upside of SGEH

If the Scheme is implemented, SGEH Shareholders will forgo the opportunity to participate in the future upside potential of the Company and any uplift in current market conditions. However, our valuation assessment reflects the current known growth opportunities as outlined below:

- Our valuation of the PSCs is based on a Central Case Scenario which assume the development plan for the 2P and 2C resources and a plateau production rate of 429.1 MMscf/d with a total gas recovered over the PSCs of 1,942 Bcf.

- RISC has assumed that development wells will produce circa 2.1 Bcf of deep gas over the 30 year recovery. The development wells are initially estimated to be completed on 40% of the total pay and Gas Initially In Place ("GIIP") with a workover after four years to recover an additional 15% of the pay/GIIP and a second workover after 8 years which brings the total recovered gas over the 30 year life of the well to 70%. The remaining 30% GIIP is considered a potential target for infill drilling or further recompletions. However there is greater risk and uncertainty in pursuing this remaining 30% and therefore these volumes have been categorised by RISC as contingent resources for development outside the PSC life.

- There are some risks attached to the repatriation of funds from China to Australia in particular in relation to withholding tax which have not been factored into our valuation assessment.

- RISC has not included any abandonment liability cost in the capital expenditure forecast based on the assumptions that both the PSCs will be relinquished to the local partners with significantly more years of production. Whist the assumption seems reasonable, we note Management has made us aware of circumstances where the PSC contractors have been requested by the local partner to accumulate an annual abandonment provision during the life of

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the PSC. In addition, we note that that formal abandonment regulations were introduced for offshore oil and gas producing facilities requiring producers to pay into a sinking fund over the life of the PSC, however this does not apply to onshore PSCs.

- The 2P and 2P+2C resource multiples implied in our valuation assessment are at the high-end of listed comparable companies and comparable transactions.

- The Consideration offered is a premium to the trading prices before the announcement of the Scheme even if the trading prices of SGEH before the announcement of the Scheme did not reflect the MA11 changes which were announced to the market on 6 June 2018 but details of the ongoing incomplete confidential negotiations were provided to Lone Star before entering into the SIA. We note that as a result of the MA11 changes, lower assessed recovery per well, delayed production ramp-up and lower plateau production rates, RISC has reduced the 2P reserves by 56% and the 2C resources by 7%.

However, if the Scheme is implemented, SGEH Shareholders will forgo the benefits that may arise from:

- Further discoveries and upgrades of the resource base.

- Increase in gas prices not reflected in the current market conditions and consensus forecasts. It should be noted that the value of SGEH could vary materially based on favourable movements in the gas price. Grant Thornton has undertaken a sensitivity analysis in section 6.1.10 of the IER to highlight the impact on our valuation of SGEH of different gas prices.

- As the PSCs move towards plateau, most of SGEH's resources (which are currently undeveloped) will become "developed" which should trigger a significant market re-rating.

- The PSCs may be extended beyond the current tenure however this is likely to be on less favourable terms for SGE.

Other factors

Share price after the announcement

As set out below, following the announcement of the Scheme, the trading price of SGEH has traded substantially in line or slightly below the Consideration which seems to indicate good support from investors for the Proposed Transaction, perceived low risk of the Scheme not being implemented and limited expectations for a superior proposal.

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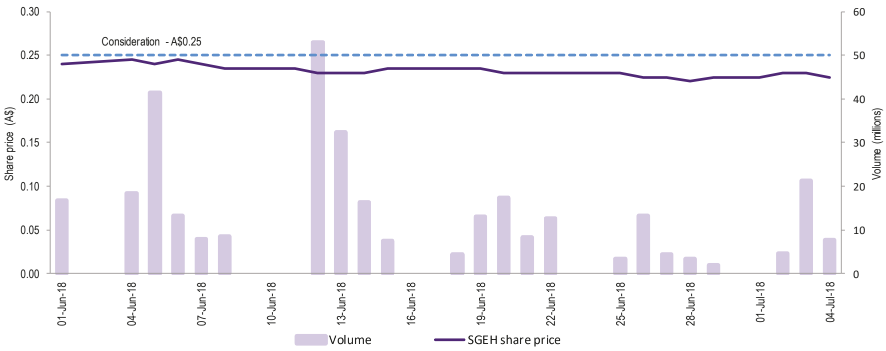
Historical share trading prices[1] and volume of SGEH against offer price (post offer)



Sources: S&P Capital IQ & GTCF analysis
Note: 1. Historical share trading prices correspond to the last sales price on that day

Future gas prices

The assessed fair value of SGEH is sensitive to movements in the gas price, exchange rate and the general market conditions in China. Domestic gas prices in China are currently regulated however the industry is moving more towards liberalisation which may increase volatility going forward.

Grant Thornton Corporate Finance's forecast gas price assumptions have been determined after consideration of views from investment analysts, the current GSAs in place, discussions with Management and other publicly available information. However, a wide range of assumptions could credibly be adopted, which could impact assessed fair values either positively or negatively. Depending upon the views taken by individual shareholders in relation to these assumptions, it is possible that individual shareholders could reach a different conclusion on the appropriate range of values for SGEH. We have set out below a sensitivity analysis of the fair market value of SGEH in conjunction with movements in the adopted gas price (assumed flat in real terms over the life of the PSCs).

SGEH equity value sensitivity							
Gas price (US$/Mscf)	6.0	6.5	7.0	7.5	8.0	8.5	9.0
Low value (A$ per share)	0.168	0.198	0.228	0.258	0.288	0.317	0.346
High value (A$ per share)	0.215	0.251	0.286	0.321	0.356	0.392	0.426

Source: GTCF analysis

Prospect of a superior offer

Whilst SGEH has agreed not to solicit any Competing Proposals or, subject to a fiduciary exception, to participate in discussions or negotiations in relation to any Competing Proposals, there are no material impediments to an alternative proposal being submitted by potential interested parties. The transaction process should act as a potential catalyst for potential interested parties and it will provide significant additional information in the Scheme Booklet and Independent Expert's Report to enable such potential acquirers to assess the merits of potential alternative transactions. If a superior proposal emerges before SGEH Shareholders cast their vote on the Scheme, the Scheme meeting will be adjourned or SGEH Shareholders will be able to vote against it.

We note that the Consideration agreed with Lone Star follows a series of negotiations and price increases. Lone Star first proposed to acquire all of the SGEH Shares on issue at a price equivalent to $0.17 per SGEH Share on 18 December 2017. That initial price was subsequently increased to $0.21 on 5 April 2018, then to $0.23 on 13 April 2018 and finally to $0.25 per SGEH Share after due diligence had been completed on 28 May 2018.

Share price in the absence of the Scheme

In the absence of the Scheme or alternative transactions, all else being equal, in our opinion, it is likely that SGEH Shares will trade at prices below the Consideration and potentially below the trading prices before the announcement of the Scheme, at least in the short term. This is driven by the fact that the trading prices before the announcement of the Scheme did not reflect the MA11 changes and the updated resources which were reduced by c. 56%.

Break fee

In the event that a competing superior proposal emerges or the Directors withdraw their recommendation of the Scheme, SGEH will pay to Lone Star a break fee of A$4.5 million. The break fee may also become payable under other circumstances as set out in the Scheme Booklet.

Tax implications

Implementation of the Scheme may crystallise a capital gains tax liability for SGEH Shareholders, however the taxation consequences for SGEH Shareholders will vary according to their individual circumstances and will be impacted by various factors such as place of residence. SGEH Shareholders should read the overview of tax implications of the Scheme set out in the Scheme Booklet and also seek independent financial and tax advice.

Directors' recommendations and intentions

As set out in the Scheme Booklet, as at the date of this Report, the Directors of SGEH have recommended that SGEH Shareholders vote in favour of the Scheme subject to the independent expert concluding and not changing its conclusion that the Scheme is in the best interests of SGEH Shareholders. The Directors also intend to vote the shares they hold or control in favour of the Scheme.

Reasonableness conclusion

Based on the qualitative factors identified above, it is our opinion that the Scheme is **REASONABLE** to SGEH Shareholders.

Overall conclusion

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Scheme is **FAIR AND REASONABLE and hence in the BEST INTERESTS** of the SGEH Shareholders in the absence of a superior alternative proposal emerging.

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Other matters

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to vote in favour of the Scheme is a matter for each SGEH Shareholder to decide based on their own views of value of SGEH and expectations about future market conditions, SGEH's performance, risk profile and investment strategy. If SGEH Shareholders are in doubt about the action they should take in relation to the Scheme, they should seek their own professional advice.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN
Director

JANNAYA JAMES
Director

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26 July 2018

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by SGEH to provide general financial product advice in the form of an independent expert's report in relation to the Proposed Transaction. This report is included in SGEH's Scheme Booklet.

2 Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance will receive from SGEH a fee of A$135,000 (plus GST) which is based on commercial rates, plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of SGEH in order to provide this report. The guidelines for independence in the preparation of independent expert's reports are set out in RG 112 *Independence of expert* issued by ASIC. The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with SGEH *(and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Scheme.*

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Scheme, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Scheme. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

Grant Thornton Corporate Finance considers itself to be independent in terms of RG 112 "Independence of expert" issued by the ASIC."

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

Financial Ombudsman Service Limited
GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 367 287

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the General Meeting should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

7 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

Contents

1 Outline of the Scheme

1.1 Key terms of the Scheme

The other key terms of the Scheme pursuant to the SIA are outlined below:

- *Performance Rights* – As at the date of this report, the Company has 27,238,984 performance rights issued to its executives under a long term incentive plan ("Performance Rights"). Upon certain conditions being achieved, the Performance Rights convert into SGEH Shares on a 1-for-1 basis without the payment of any consideration. Vesting of the Performance Rights can be accelerated in conjunction with, among other things, a change of control of SGEH which is what the parties have agreed in the SIA[18].

- *Options* – the Company has on issue 30,000,000 options with an exercise price of A$0.25 and maturity on 1 September 2018 ("Options"). Of these options, 15,000,000 options are subject to an escrow arrangement and the release condition cannot be satisfied, therefore they will lapse on 1 September 2018. Under the terms of the SIA, the Scheme is extended to the Options converted into SGEH Shares before the Scheme Record Date.

- *Deferred share entitlements* – the Scheme is extended to the 1,744,744 deferred share entitlements that would vest on a change of control event[19].

- *Conditions precedent* – the SIA includes the following conditions precedent:

  - Approval of the Scheme by SGEH Shareholders at the Scheme Meeting.

  - Approval of the Scheme by the Court in accordance with Section 411 of the Corporations Act.

  - Foreign Investment Review Board ("FIRB") approval is received before the Second Court Date. Regulatory approval from FIRB is due by 15 July 2018.

  - The Independent Expert stating that in its opinion the Scheme is in the best interests of SGEH Shareholders and the Independent Expert does not change or publicly withdraw this conclusion before the Scheme becomes effective.

  - Other conditions precedents customary for a transaction of this type including material adverse changes and prescribed occurrences (refer to the Scheme Booklet for details).

  - SGE and CUCBM sign MA11 before the Second Court Date. We note this condition has been satisfied.

- *Break fee* – A$4.5 million break fee may become payable by SGEH to Lone Star if during the exclusivity period:

  - Any SGEH Director fails to recommend the Scheme.

[18] The vesting of the performance rights into SGEH Shares will be accelerated prior to the Scheme Record Date.
[19] The deferred share entitlements will vest, and an equal number of SGEH Shares will be issued upon the Scheme becoming effective.

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- Any SGEH Director adversely changes, or qualifies, withdraws or otherwise makes a public statement indicating they no longer support the Scheme (other than where the IER concludes the Scheme is not in the best interests of SGEH Shareholders).
- A Competing Proposal is announced by a third party during the exclusivity period and it completes within twelve months from its announcement.
- A Competing Proposal is announced and the person (or a related body corporate) who made the announcement obtains an interest in or becomes the holder of 15% or more of SGEH's Shares, or all or a substantial part of the business conducted by SGEH.
- Lone Star terminates the SIA due to a material breach by SGEH or breach of any warranties or representation given by SGEH under clause 11 of the SIA or SGEH has determined that a Competing Proposal is a superior proposal and has complied with the notification and matching rights obligations.

• *Others* – other terms common for a transaction of this nature, including customary exclusivity arrangements such as "no shop", "no talk", and "no due diligence" and a right for Lone Star to be notified of and to match any Competing Proposals.

Refer to the Scheme Booklet and SIA for further details.

2 Purpose and scope of the report

2.1 Purpose

Section 411 of the Corporations Act

Section 411 of the Corporations Act 2001 regulates schemes of arrangement between companies and their members. Part 3 of Schedule 8 of the Corporations Regulations 2001 prescribes information to be sent to shareholders and creditors in relation to members' and creditors' schemes of arrangement pursuant to Section 411 of the Corporations Act.

Part 3 of Schedule 8 (s640) of the Corporations Regulations requires an independent expert's report in relation to a scheme to be prepared when a party to that scheme has a shareholding greater than 30% in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether a scheme is in the best interests of shareholders and state reasons for that opinion. Even where there is no requirement for an independent expert's report, documentation for a scheme of arrangement typically includes an independent expert's report.

As at the date of the report, Lone Star does not hold any SGEH Shares and SGEH and Lone Star do not have common directors. Accordingly, there is no legal requirement for an independent expert's report to be prepared in respect of the Scheme. Notwithstanding this, the Directors of SGEH have requested that Grant Thornton Corporate Finance prepare an independent expert's report to express an opinion as to whether the Scheme is in the best interests of SGEH Shareholders.

2.2 Basis of assessment

In determining whether the Scheme is in the best interests of the Company's members, Grant Thornton Corporate Finance has had regard to relevant Regulatory Guides issued by the ASIC, including RG 111, Regulatory Guide 60 Scheme of arrangement ("RG60") and RG 112. The IER will also include other information and disclosures as required by ASIC. We note that neither the Corporations Act nor the Corporations Regulations define the term "in the best interests of members".

RG 111 establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. RG111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" in the context of a takeover offer. RG111 requires an independent expert report prepared for a change of control transaction implemented by way of scheme of arrangement to undertake an analysis substantially the same as for a takeover bid. However, the opinion of the expert should be whether or not the proposed scheme is "in the best interests of the members of the company". If an expert were to conclude that a proposal was "fair and reasonable" if it was in the form of a takeover bid, it will also conclude that the proposed scheme is "in the best interests of the members of the company".

Pursuant to RG111, an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are subject of the offer. A comparison must be made assuming 100% ownership of the target company.

RG111 considers an offer to be "reasonable" if it is fair. An offer may also be reasonable if, despite not being "fair" but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

In our opinion, the most appropriate way to evaluate the fairness of the Scheme is to compare the fair market value of SGEH on a control basis with the Consideration.

In considering whether the Scheme is in the best interests of SGEH Shareholders, we have considered a number of factors, including:

- Whether the Scheme is fair.
- The implications to SGEH Shareholders if the Scheme is not approved.
- Other likely advantages and disadvantages associated with the Scheme.
- Other costs and risks associated with the Scheme that could potentially affect SGEH Shareholders.

2.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance (a 100% subsidiary of Grant Thornton Australia Limited) considered its independence with respect to the Proposed Transaction with reference to RG 112 issued by ASIC.

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Proposed Transaction other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Transaction.

In our opinion, Grant Thornton Corporate Finance is independent of SGEH and its Directors and all other relevant parties of the Scheme.

2.4 Consent and other matters

Our report is to be read in conjunction with the Scheme dated on or around 25 July 2018 in which this report is included, and is prepared for the exclusive purpose of assisting SGEH Shareholders in their consideration of the Scheme. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Scheme Booklet.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Transaction to SGEH Shareholders as a whole. We have not considered the potential impact of the Scheme on individual SGEH Shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Transaction on individual shareholders.

The decision of whether or not to approve the Scheme is a matter for each SGEH Shareholder based on their views on the value of SGEH and expectations about future market conditions, together with SGEH's performance, risk profile and investment strategy. If SGEH Shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.

2.5 Compliance with APES 225 Valuation Services

This report has been prepared in accordance with the requirements of the professional standard APES 225 Valuation Services ("APES 225") as issued by the Accounting Professional & Ethical Standards Board. In accordance with the requirements of APES 225, we advise that this assignment is a Valuation Engagement as defined by that standard as follows:

"An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time."

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3 Industry overview

3.1 Introduction

The industry is highly regulated by the Chinese Government ("the Government") which controls access to the different basins, key project approvals, pipeline tariffs and domestic gas prices. The upstream and midstream sectors are controlled by an oligopoly of three Chinese national oil companies (collectively "NOCs") which are China National Petroleum Corporation ("CNPC"), China Petrochemical Corporation ("Sinopec"), and China National Offshore Oil Corporation ("CNOOC").

The NOCs and Shaanxi Yanchang Petroleum Group—a Shanxi local government–owned company—are the only companies with permission to independently perform conventional oil and gas exploration and production ("E&P"). Conventional acreage blocks have been offered to non–NOCs since 2015 by the Ministry of Land and Resources ("MLR") in pilot programs for upstream reforms. However, the percentage of reserves assigned is limited.

International companies are typically involved in partnerships related to the development of unconventional assets, which are more technically challenging from a production perspective. The Linxing and Sanjiaobei PSCs are predominantly for the extraction of tight gas which requires hydraulic fracturing and is therefore more complex than the production of onshore conventional gas[20,21].

Besides the MLR, which administers oil and gas resources and issues licenses for the exploration and production of gas, other key government bodies are the Ministry of Ecology and Environment ("MEP") and the NDRC. The MEP is charged with inspecting and approving the environmental impact assessment prior to project construction, and post construction but prior to operations. The NDRC is the major planning committee for the oil and gas industry. Its responsibilities include planning and ODP approvals and determining pricing frameworks which are used to set citygate prices.

3.2 Gas demand

China was the fastest growing energy market globally for the 17th consecutive year in 2017. More than a third of global energy consumption growth was attributed to China, which increased its energy consumption by 3.1% compared to 2016[22].

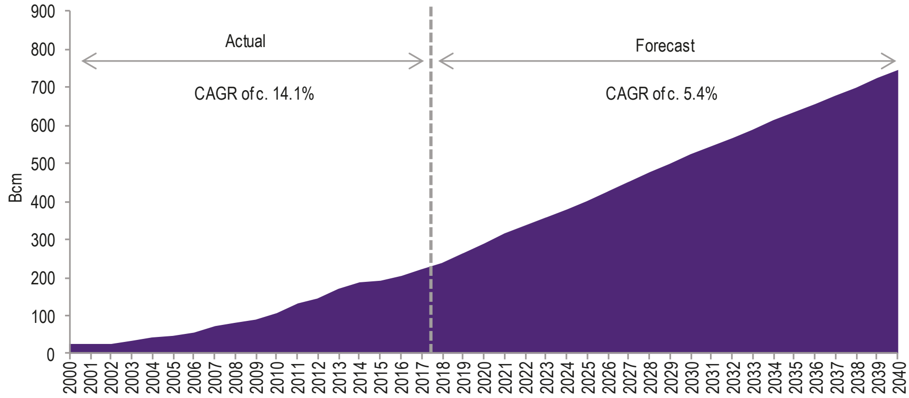
Global natural gas consumption rose by 3% in 2017, the fastest rate since 2010. China, which experienced a 15% increase in consumption in 2017, was the single biggest factor driving global growth and accounted for a third of the global increase in consumption[23].

China's mix of primary energy consumption consists mostly of coal at c.60% due to its lower price compared to other energy sources. However, over the past decade the Chinese government has implemented policies aimed at increasing natural gas' share of the energy mix to help improve air quality and meet environmental targets. Natural gas demand has undergone considerable growth in recent years

[20] The difference between conventional and unconventional reservoirs relates to the source rocks that create the gas and the porosity and permeability of the gas reservoirs. Conventional gas is contained in sedimentary rocks and is trapped by an impermeable cap rock and can be extracted without the need to pump the gas to the surface. Instead, unconventional gas is typically found in more complex geological formations requiring the use of different and more technologically advanced extraction methods, such as additional wells and hydraulic fracture stimulation, to allow gas to enter the well.
[21] However, from a pricing perspective, the Chinese Government regulates onshore tight gas in the same way as onshore conventional gas, whereas coal-bed methane ("CBM") and shale gas prices are deregulated.
[22] BP Statistical Review of World Energy June 2018
[23] BP Statistical Review of World Energy June 2018

with consumption more than tripling since 2007. The growth in demand has been the result of a number of Government policies promoting the use of gas and other sources of clean energy in key regions as a substitute for coal ("Coal to gas switching policy") and economic growth.

Chinese historical and forecast natural gas demand



Source: HIS Markit – China Natural Gas Market Fundamentals 2017

The 12th five-year plan, released in March 2011, identified natural gas as a clean energy source and one of the tools to help the country shift from a policy of maximising growth to balancing growth with social harmony and environmental sustainability. The plan promoted gas consumption and provided economic incentives such as pricing reform and infrastructure investment to accelerate unconventional gas related projects. The 12th five-year plan was supported by the National Action Plan on Air Pollution ("Clean Air Action Plan") which further promoted natural gas consumption in order to improve the air quality[24].

As a pre-cursor to the release of the 13th five-year plan, the State Council published a new Energy Development Action Plan ("EDAP") for the period 2014 to 2020 and which formed the basis for the 13th five-year plan for the energy sector, which was released in 2016. The 13th five-year plan announced by the National Energy Administration ("NEA") in January 2017 aims to increase natural gas' share of the energy mix to 10% by 2020 and 15% by 2030, from less than 6% in 2015. This target implies gas consumption growth of 10% to 14% per year on average.

Currently, the Industrial & Feedstock sector is the largest consumer of natural gas and accounts for approximately 50% of overall demand. The Electricity & Heating and Residential sectors are the second and third largest sectors accounting for c. 20% and c. 15% of total demand respectively in 2017. The following graph highlights the historical and forecast share of total gas consumption in China by sector.

[24] One of the objectives of the Clean Air Action Plan was to cut the density of inhalable particulate matter by at least 10 percent from 2012 levels by 2017.

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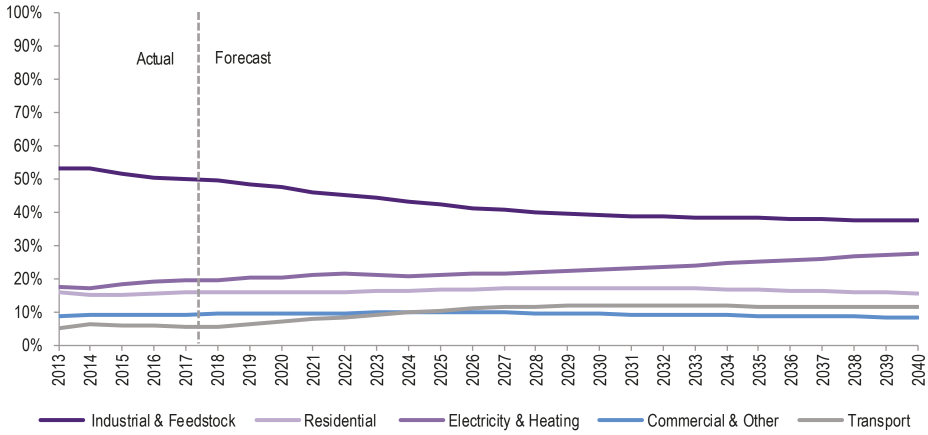
Chinese share of total natural gas demand by sector



Source: IHS Markit – China Natural Gas Market Fundamentals, September 2017

In the Industrial & Feedstock and Electricity & Heating sectors the Government is promoting its coal to gas switching policy and has implemented mandates to shut down coal boilers and factories running on coal, which has resulted in industrial users and power plants in these regions switching to natural gas. In 2017, five new gas-fired combined heat and power plants ("CHP") started operations, however, most gas-fired capacity is located in wealthier coastal provinces as the cost of gas fired power is greater than coal-fired power. Due to public outcries over air pollution in recent years, the central and local governments have published a series of policies to encourage the development of gas-fired power to replace coal consumption in the Electricity & Heating sector[25].

In order to support the growth in the gas demand, China is investing heavily in infrastructure with natural gas pipelines expected to grow from 64,000km in 2015 to 163,000km by 2025. By the end of 2015, approximately 290 million residential users representing 21% of the total population were connected to the natural gas grid, up from 190 million residents in 2010. By 2025, it is estimated that 550 million residents will be connected to the grid[26]. In China, residential gas prices are subsidised, sometimes more than 1 yuan per cubic metre (c. US$4.4/Mscf[27]) less than the industrial sector, to support gas use in households. We note from discussions with SGEH Management that the residential subsidies are expected to be phased out.

3.3 Gas supply

Despite the considerable growth of imported natural gas into China over the last decade, domestic production remains China's primary source of supply accounting for c. 60% of total supply in 2017. Domestic gas production in China is dominated by the three NOCs with CNPC contributing 72% of national gas production in 2016 followed by Sinopec with 16% and CNOOC with 9%. Non–NOCs accounted for approximately 3%. Domestic gas production is highly seasonal owing to low gas storage capacity, domestic gas production typically ramps up during the winter peak and reduced during lower-demand seasons. Peak-month production volumes can be 30-40% higher than production volumes in shoulder months.

[25] As part of the 13th five-year plan, the Chinese Government is targeting to increase gas-fired power capacity from 66 GW in 2015, to 110 GW by 2020.
[26] Bernstein Global Gas: China's War on Pollution. The end of the beginning? Implications for gas and LNG stocks.
[27] Using an RMB/US$ exchange rate of 6.50 based on the historical 30 day average rate as at 5 July 2018.

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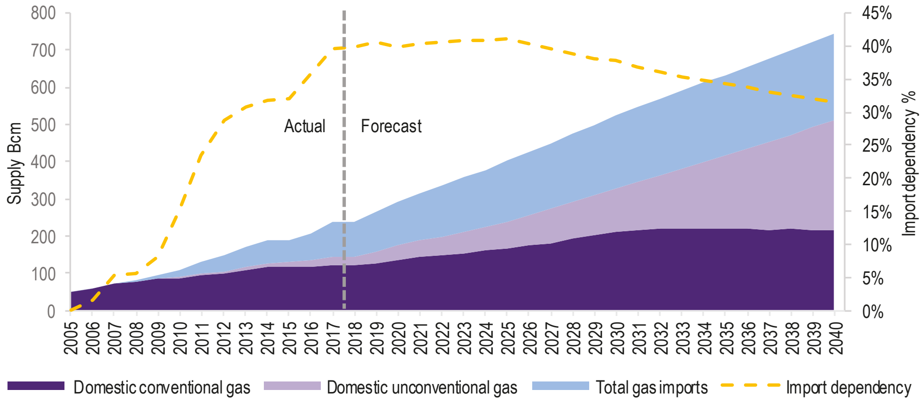
China's imports of 40% of total supply in 2017 ("Import Dependency") was split c. 57% to LNG imports from Australia, Qatar, Indonesia and Malaysia and c.43% to pipeline imports predominantly from Turkmenistan through the Central Asia–China pipeline which feeds into the Chinese West to East pipelines II and III ("WEP II" and "WEP III"). Both LNG and pipeline imports are expected to grow considerably with both contributing approximately half of total imports over the period to 2040. Imports of LNG from the United States commenced in 2018 with the signing of the first long-term LNG contract between Cheniere Energy and CNPC for 1.2 mtpa. Additional global LNG supply from the United States, Russia and Australia is expected in future years as LNG terminals are brought online in 2018 and 2019. Pipeline imports are also forecast to increase considerably with the completion of the Russia-China Power of Siberia pipeline due by the end of 2019, which will have a capacity of 38bcm. A sales and purchase agreement between Gazprom and CNPC was signed in May 2014 for 30 years. The contract stipulates that 38bcm of gas from Russia will be supplied annually to China under a take-or-pay agreement with the price formula linked to oil prices[28].

In 2017, approximately 86% of China's domestic production was from conventional gas deposits, however this is forecast to change considerably as the country develops its unconventional gas resources, which include large deposits of CBM and the largest shale resources of any country in the world[29], reducing import dependency from a peak of roughly 41% in 2025 to c. 32% by 2040. The share of unconventional gas production volumes increased from 4% in 2010 to 14% in 2017 while conventional gas production declined in 2015 and 2016[30] before recovering in 2017[31]. The fall in conventional gas volumes over this period was mainly the result of the sustained low oil price environment, which favoured cheaper energy sources and led to slower demand whereas the growth in unconventional gas production was the result of the Government's efforts to develop unconventional gas resources by providing financial support[32].

China natural gas supply sources and import dependency



Sources: IHS Markit, IHS Waterborne LNG, National Bureau of Statistics, National Development and Reform Commission, and China Customs

[28] Gazprom Media Release
[29] United States Energy Information Administration – World Shale Resource Assessments of Unproved technically recoverable wet shale gas.
[30] IHS Markit – China Natural Gas Data tables, May 2018
[31] IHS Markit – China Natural Gas Data tables, May 2018
[32] In April 2015, the Ministry of Finance ("MOF") announced that the shale gas subsidy would be extended through 2020 but set at RMB 0.2 per cubic metre for 2019-20, down from RMB 0.3 per cubic metre in 2016-18. In March 2016, the MOF announced that the financial subsidy on CBM would be increased from RMB 0.2 per cubic metre to RMB 0.3 to 2020. More recently, in April 2018, in order to lift domestic gas supplies, the MOF reduced the resources tax on shale gas from 6.0% to 4.2% effective from 1 April 2018 for 3 years. We note these subsidies do not apply to SGEH as its operations relate to the production of tight gas.

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Unlike in the United States, China's shale resources are deeper, more fractured and located in densely populated mountainous regions which creates uncertainty regarding China's ability to fully exploit the resources[33]. Many international companies have decided to exit shale gas development in China with British Petroleum ("BP") the only international company still active in shale gas E&P in China[34]. Local oil companies are proceeding with shale development across three key projects[35] with approximately 700 new wells expected to come online over the period 2018 to 2020, which will approximately double shale gas production to 17bcm by 2020 compared to 2017. Despite the significant increase in production, this still falls short of the 2020 targets set in 2016 by the 13th five-year plan of 30bcm and the previous 2020 target of between 60-100bcm set in 2012. Despite the challenges facing the shale gas industry in China, it is expected to contribute approximately 27% of total supply by 2040.

In 2017, China produced approximately 9.6bcm of CBM gas, accounting for c. 4% of total supply[36]. The key challenge facing CBM production is the higher cost of extraction compared to other sources. For instance, it typically costs double or more to extract CBM gas compared to conventional gas. Companies involved in the CBM E&P sector, struggle to be profitable despite the financial subsidies provided by the Government.

3.4 Gas pricing mechanism

In China gas price regulations are complex and involve several levels of state and local government. Pricing regulation is undertaken by a number of government bodies for the various gas supply streams, which are categorised by the Government based on several parameters, such as the location of reservoirs (onshore or offshore), the nature of the gas (conventional or unconventional) or if the gas is imported through LNG or pipelines.

Domestic prices for conventional gas and pipeline imports are regulated, whereas for unconventional gas, offshore gas, land-based domestically produced LNG, and LNG imports, prices are deregulated. Despite being unconventional gas, tight gas is categorised with onshore conventional gas by the Chinese Government for the purpose of price regulation, which is mostly regulated by the NDRC.

The entire onshore gas value chain, from the wellhead to the citygate and to the final customer, is affected by different regulations at different points which impacts the price of the gas. Furthermore differences in the price mechanism exist depending on whether the end user is residential or non-residential[37]. Approximately 80%-90% of SGE's end users are non-residential.

Prior to 2013—the year the Chinese Government began to implement national pricing reform ("National Gas Price Reform")—producers and buyers were allowed to negotiate the final wellhead price in the range of plus or minus 10% of an established ex-factory price established by the NDRC. The ex-factory price referred to the set wellhead price for each gas field, plus a gas processing fee and a margin for the producers. In December 2005, the Government announced its intention to increase the ex-factory price periodically, ideally on annual basis. However, over the period to July 2013, ex-factory prices increases were unpredictable and irregular, occurring twice, in November 2007 and June 2010.

[33] Reuters - China shale gas output to nearly double over three years: consultancy
[34] In 2016, Shell announced it would not proceed with investment after facing challenging geology and mixed drilling results.
[35] Sinopec's Fuling and PetroChina's Changning-Weiyuan and Zhaotong projects.
[36] IHS Markit – China Natural Gas Data Tables – May 2018
[37] Residential sector refers to the in-house gas consumption, whereas non-residential users include, but not limited to, centralized heating, commercial, transportation, power, industrial and feedstock.

Implementation of the National Gas Price Reform began in 2013 and was completed in 3 steps by April 2015 and related to non-residential sector prices. The reform moved the pricing control point from the wellhead to the citygate price and changed the pricing mechanism from a cost-plus basis to market-based pricing. The formula for the citygate price is linked to the cost of the imported fuels.

During the National Gas Price Reform period, the Shanghai price was considered as a ceiling price for the sale of gas. Subsequent to November 2016, producers and buyers have been allowed to negotiate the final price within a range of plus or minus 20% of the determined Shanghai citygate, now Benchmark Price.

The Shanghai citygate price is calculated through a formula which accounts for the trading price of imported natural gas, fuel oil and LPG; and accounts for VAT. The formula is overseen by the local pricing bureaus under the NDRC and the local development and reform commission ("DRCs") following the NDRC guidelines. Since completion of the National Gas Price Reform, the NDRC performed two citygate price adjustments for non-residential users which did not follow completely the trend in the oil prices.

In November 2015, the NDRC lowered citygate prices by RMB 0.7 per cubic metre (US$ 2.98/Mscf[38]), a 28% reduction on average. The adjustment was motivated mainly by the fall of oil fuel and LPG prices which are part of the citygate price mechanism, and to stronger incentivise the use of natural gas in the non-residential sector.

In September 2017, the NDRC lowered the citygate prices by RMB 0.1 per cubic metre (US$ 0.44/Mscf), a 5% drop on average. The price reduction was a combination of a RMB 0.06-0.07 per cubic metre reduction in pipeline transmission tariffs and a RMB 0.03-0.04 per cubic metre reduction in VAT.

The adjustments highlight the significant control over the gas price in China. Moving forward, the Government aims to further deregulate the market to achieve a more efficient market base pricing mechanism.

[38] Using an RMB/US$ exchange rate of 6.50 based on the historical 30 day average rate as at 5 July 2018

3.5 Ordos Basin

As at the end of 2017, China has 193.5Tcf[39] of proven natural gas reserves which are concentrated in a few basins as shown in the map below.

Source: SGEH website

The Ordos Basin, where SGEH operates, is the second largest sedimentary basin in China and is located approximately 500km southwest of Beijing in Central China. It is considered one of the three key basins in China for large scale production, with gas first discovered in 1989. The basin has the advantage of a competitive well cost relative to large resource potential and recoverability. The Basin extends over an area of 13,894km^2 overlapping the Gansu, Inner Mongolia, Ningxia, and Shanxi provinces[40].

Core to the Ordos Basin is its pipeline infrastructure. The basin acts as a key transcontinental gas transport hub that has facilitated the expansion of gas from that of a local business to a nationwide business. The pipelines in the Ordos Basin are owned by Shanxi Gas, Sinopec and CNPC and they have ample spare capacity. Nearby gas fields are operated by Total, Shell, CNPC and Sinopec.

[39] BP – Statistical Review of World Energy, June 2018.
[40] Wood Mackenzie, July 2017

4 Profile of SGEH

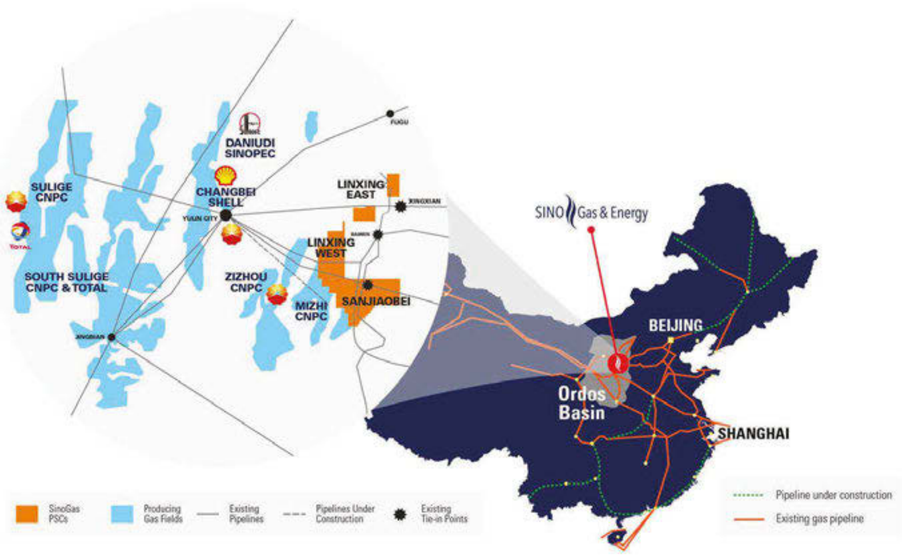
4.1 Introduction

SGEH is an independent Australian energy company focused on developing natural gas assets in China. The Company has a 49% joint venture interest in SGE through a strategic partnership with CNEML, which owns the remaining 51%. SGE, which was established in Beijing in 2005, is the operator of the Linxing and Sanjiaobei PSCs in the Ordos Basin, Shanxi Province, the largest producing gas basin in China. The basin, which is located approximately 500km southwest of Beijing, is in proximity to major long distance pipelines with ample spare capacity.

SGE has a 49%[41] interest in the Linxing PSC with SOE CUCBM, a wholly-owned subsidiary of CNOOC and a 49%[42] interest in the Sanjiaobei PSC held with SOE PCCBM, a PetroChina wholly-owned subsidiary. Both the Linxing and Sanjiaobei PSCs are for the production of tight gas.

A map of the basin, showing the Linxing and Sanjiaobei PSC areas is shown below:

Linxing and Sanjiaobei PSC areas in the Ordos Basin



Source: SGEH Management

4.2 Linxing and Sanjiaobei PSC

Linxing PSC

The first Linxing ODP covering 20% of the discovered PSC area was approved in-principle on 29 March 2018 by SOE Partner CUCBM, with approval formally confirmed on 22 May 2018. The Ordos Basin, and the Linxing PSC specifically, were identified in the Chinese Government's 13th Five Year Energy Plan as strategic to the country's attempts to grow natural gas' share of the energy mix and reduce pollution.

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41 Assuming CUCBM exercises its right to participate at their full 51% participating interest and excluding the exercise of the Linxing option.
42 Assuming PCCBM exercises its right to participate at their full 51% participating interest.

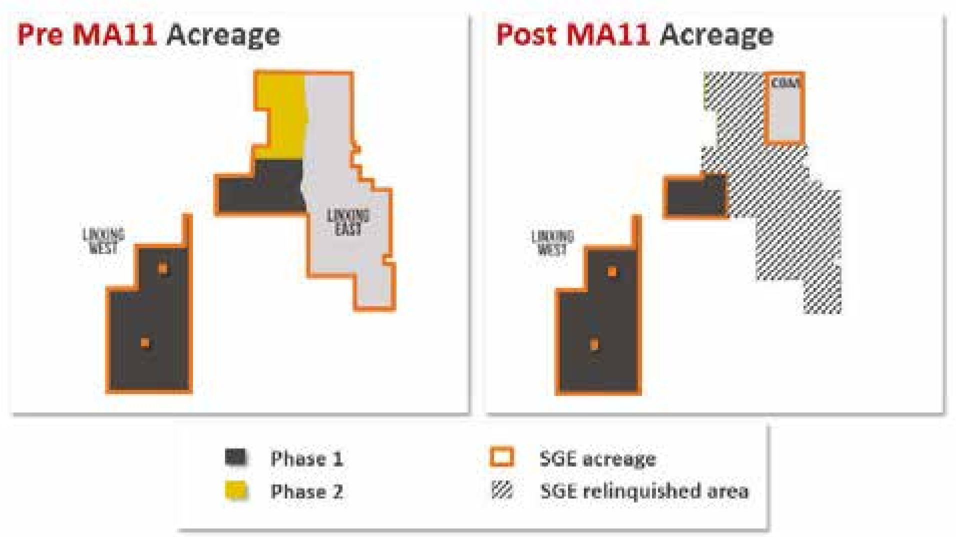
The Linxing PSC comprises an area of 877km^2 including 722km^2 in Linxing West and Linxing East and 155km^2 of prospective coal bed methane ("CBM") acreage in Linxing East[43]. Linxing West contains deep gas and has sufficient wells and associated test data to classify the entire area as discovered. Linxing East is divided into a deep gas discovered area in the west and a shallow CBM area in the east.

On 12 June 2018, SGEH announced an update to the Linxing PSC following SGE entering into MA11 with CUCBM to modify the terms of the Linxing PSC. As a result of MA11, a number of modifications to the Linxing PSC were made, including:

- A reduction in the SGE's natural gas participating interest from 70% to 49% to satisfy CUCBM's internal requirements of not holding an interest less than 51%.
- An eight year extension of the natural gas PSC to 31 August 2036.
- Relinquishment of c. 1,000 km^2 of Linxing East exploration acreage and extension of the exploration period to 31 August 2019.

The development plan announced by SGEH on 30 October 2017 ("Development Plan") is affected by the changes to the PSC resulting from MA11, with a reduction of the development area. As a result, SGE now expects to drill 200 fewer wells, from c. 1,600 previously, to c. 1,400, with an associated reduction in reserves and resources. Below is a map showing the Linxing PSC acreage pre- and post-MA11.

Linxing PSC Acreage: pre- and post-MA11



Source: SGEH Management

In addition to the 49% interest in SGE, SGEH also has the option[44] to acquire 7.5% of SGE's participating interest in the Linxing PSC (reduced to 3.675% on SOE Partner back-in) on ODP approval by reimbursing

[43] While SGE does not currently have any CBM development projects that are considered material, in the event of any future CBM developments, the CBM participating interests remain at 70% for SGE and 30% for CUCBM.
[44] SGEH's wholly-owned subsidiary Lucky Asia Industrial Limited is the option holder.

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SGE for 7.5% of historical back costs. Due to the staged nature of ODP approvals, SGEH is considering the most appropriate time to exercise the Linxing Option.

Sanjiaobei PSC

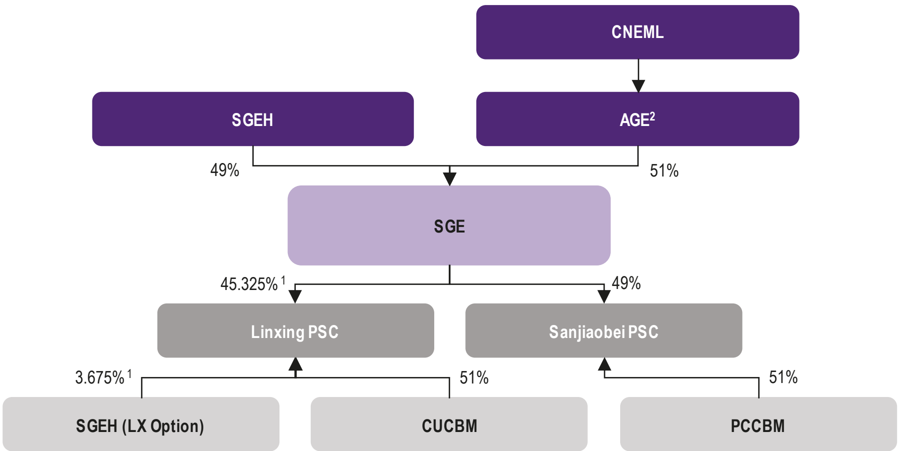
The PSC currently has an expiry date of 31 August 2033 with exploration currently expiring on 31 August 2018[45]. In January 2018, the first ODP covering c. 60% of the PSC area was submitted to PCCBM for approval. At the time, SGEH had expected the Sanjiaobei ODP to be approved in the first half of 2018, however as set out in the announcement released on 12 July 2018 the Sanjiaobei ODP approval is now expected to occur in the second half of 2018.

The Sanjiaobei PSC covers an area of approximately 1,056km^2 and adjoins Linxing West to the north and the producing Mizhi gas field to the southwest. The area consists of c. 370km^2 of reserves and contingent acreage in the north and west which is supported by well and well test data and approximately 595km^2 of prospective acreage to the south and east. A series of faults separate the prospective area from an area further east where no resources are assigned.

4.3 Ownership structure

The ownership structure of the Linxing and Sanjiaobei PSCs is shown below.

Ownership structure of Linxing and Sanjiaobei PSCs



Source: SGEH Management
Notes: (1) Assuming exercise of the Linxing Option and the SOE participant exercises its right to fully participate at its 51% interest; (2) To the best of its knowledge, SGEH understands that this interest in SGE is held by CNEML through its subsidiary AGE.

The terms of SGEH's shareholding in the SGE are governed by a shareholders' agreement between SGEH and CNEML ("SGE Shareholders' Agreement").

The SGE Shareholders' Agreement regulates the business arrangements between SGEH and CNEML in regards to SGE, including the appointment of Board members ("SGE Board") and senior management team. It also governs the preparation of the strategic plan, work program, the preparation of financial reports and annual budget, and shareholder funding obligations among other things.

45 The initial 5 year exploration phase has been extended a number of times.

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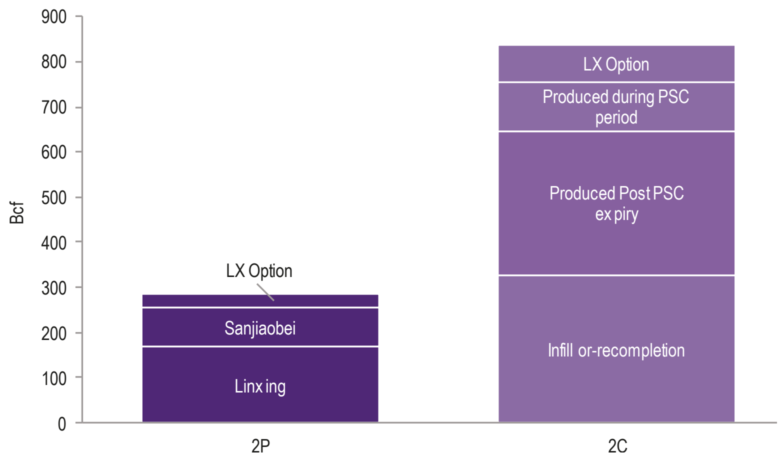
The SGE Board consists of seven Directors, of which SGEH and CNEML have the right to appoint three and four Directors respectively with CNEML having the right to appoint the SGE Board Chairperson. A number of key actions requires unanimous Board approval. Subject to this approval, SGE must not adopt, vary or replace the annual budget, the annual work program and the ODP. In addition, the SGE may not enter into or terminate any GSAs without the approval of all Directors. Furthermore, in the instance where the Board fails to approve the budget or work program and budget, the Board will be taken to have adopted the budget or work program and budget on the same terms as the financial year prior.

With regards to senior management, CNEML has the right to appoint the CEO, whereas SGEH has the right to appoint the CFO.

4.4 Resources, Production and Infrastructure

SGEH's key assets, the Linxing and Sanjiaobei PSCs, are currently in the exploration phase of operations with pilot production underway since 2014. Over 180 wells have been drilled with a total gross cumulative production since the commencement of the pilot program to 30 June 2018 of 13.96 Bcf. The table below provides a breakdown by PSC of SGEH's 2P reserves and 2C contingent resources as at 30 June 2018. We have included the Linxing Option associated 2P reserves and 2C resources in the table as we consider it highly likely that SGEH will exercise the Linxing Option.

SGEH Net 2P reserves and 2C resources (post exercise of Linxing Option)[1,2]



Source: RISC Report

Notes: (1) 2P and 2C resources as per RISC Report. (2) 2C resources exclude Shallow CBM in the north east of Linxing PSC.

Asset	2P produced during PSC (Bcf)	2C produced during PSC period (Bcf)	2C Produced post PSC expiry (Bcf)	2C Infill or re-completion
Linxing	168	85	187	215
Sanjiaobei	88	23	132	112
Linxing Option	28	14	31	36
Total	**284**	**122**	**350**	**363**

Source: RISC Report

Pilot gas production started in December 2014, with up to 10 wells on production. At the time, production was directed to the Sanjiaobei central gathering station ("CGS"), which had an initial capacity of 4 MMscf/d, which was subsequently ramped up to 8 MMscf/d in 2015. The construction of a second CGS at Linxing ("Linxing South CGS") was completed in late 2015 and increased total installed nameplate

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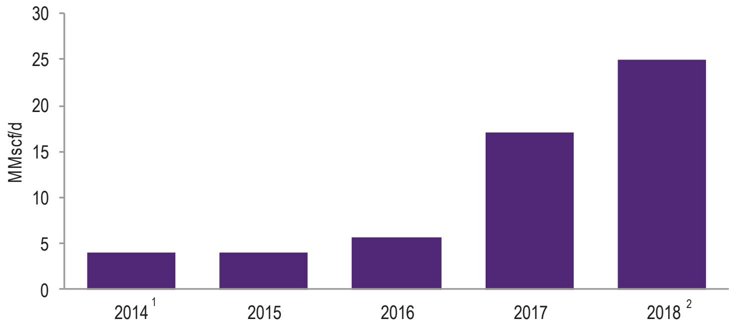
capacity to 25 MMscf/d[46]. In late 2015 the Sanjiaobei CGS was shut-in following a dispute over the payment of pilot production gas sales proceeds from PCCBM to the SGE. Production from the Sanjiaobei CGS recommenced in Q4 2016 following SGE reaching an agreement with PCCBM for the allocation of revenues from pilot gas production.

A third CGS is currently being developed in Linxing ("Linxing North CGS") and is expected to be commissioned by Q4 2018. The new facility will increase total installed nameplate capacity from 25 MMscf/d to 42 MMscf/d. We show the average daily gas production for both the Linxing and Sanjiaobei PSCs since the commencement of pilot production in the chart below.

Average daily gross production rates for Linxing and Sanjiaobei



Source: SGEH Annual Reports and Q1 2018 Activities Report

Notes: (1) 2014 production is for the period following commencement of pilot production in November 2014 to 31 December 2014. (2) 2018 average production is for 1H 2018.

Pilot gas production is currently supplied on short term contracts[47] to three separate buyers on a best efforts[48] basis (i.e. no take or pay agreements) with the gas buyers contracting with SOE-partners CUCBM and PCCBM for the purchase of the gas. Shanxi Guohua Energy Company ("Guohua"), a subsidiary of Sinopec and Shanxi International Energy Group, recontracted its GSA with CUCBM to 31 March 2019 at an average price of US$7.01/Mscf[49]. The other GSA with Linxing PSC partner CUCBM expires on 31 March 2019 and is contracted at an average price of US$7.01/Mscf[50].

For Sanjiaobei, there is currently one GSA contracted at an average annual price of US$6.94/Mscf[51]. We understand from discussions with SGEH Management that approximately 80%-90% of the gas is sold to industrial clients.

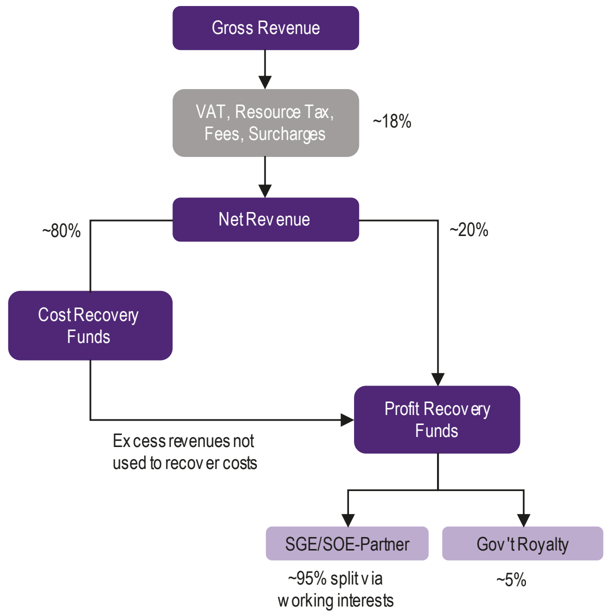
4.5 PSC Mechanism

Foreign enterprises investing in upstream oil and gas exploration and production activities in China are required to partner with Chinese SOEs through PSCs. PSCs typically involve a foreign investor making an upfront investment in the identified resource in the form of exploration, development and production costs,

[46] First delivery of gas from the LX CGS occurred in October 2015.
[47] Contracts are typically for a one year period.
[48] An agreement between a gas supplier and gas buyer in which the buyer promises to use its best efforts to purchase the contract specified quantity of gas.
[49] Based on an average agreed price of RMB 1.61 per m^3 assuming an RMB/US$ exchange rate of 6.50 (30 day average rate as at 5 July 2018).
[50] Ibid.
[51] Based on an average agreed price of RMB 1.594 per m^3 as advised by Management and assuming an RMB/US$ exchange rate of 6.50 (30 day average rate as at 5 July 2018).

with the revenues generated from the sale of the resources used in the first instance to recover the contractor's expenses. The remaining profits from sale of the resource is then split between the contractor and the host government. We provide an overview of PSC structure used for the Linxing and Sanjiaobei PSCs below and highlight key differences between to the two PSCs.

Cost Recovery Mechanism[1]



Source: SGEH Management
Notes: (1) In the Pre-ODP stage, all costs incurred are classified as Exploration Costs and any Cost Recovery Funds are used to repay Exploration Costs to SGE. (2) As operator of the Linxing and Sanjiaobei PSCs, SGE can claim overheads which consist of indirect costs for managerial and operational services provided by the operator's management organisation.
(3) If Linxing Option is exercised, a cash payment of 7.5% of historical costs is made at ODP to SGE. Following Linxing option exercise, then SGE's share of costs and revenues is split 45.325%/3.675% for SGE/SGEH respectively.

In the first instance, c. 18% is deducted from Gross Revenue for value added tax ("VAT"), resource tax, Government Surcharges and Fees. The resulting Net Revenue is then split c. 80% for cost recovery ("Cost Recovery Funds") and c. 20% for profit recovery, along with any excess revenues not used to cover costs ("Profit Recovery Funds").

Cost Recovery Funds

Cost Recovery Funds are used to pay the expenses incurred by SGE and the SOE-partner in a waterfall cashflow model in the order of priority as follows: production costs, overheads, exploration costs and development costs. Costs are paid to the various stakeholders according to their working interests. However, prior to ODP-approval, all costs are classified as exploration costs and are recovered entirely by SGE out of Cost Recovery Funds. As a result, the SGE take of Gross Revenues in the period prior to ODP is considerably higher until exploration costs have been fully recovered.

CUCBM is obliged to pay 9% interest to SGE on the Carried Development Costs ("Deemed Interest") by way of an increased share of revenue through the cost recovery mechanism. After CUCBM obtains CNOOC investment committee approval, CUCBM is expected to pay SGE's share of cash calls until the Carried Development Costs have been repaid in full.

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Profit Recovery Funds

Profit Recovery Funds are split between SGE and the Government based on an amount of production. Approximately c. 5% of Profit Recovery Funds are paid to the Government in royalties, however, this percentage increases as the amount of production increases. The remaining profit (c. 95% of Profit Recovery Funds) is paid to SGE and the SOE Partner. SGE shareholders split their share based on their working interests, with income tax levied at the SGE level at a rate of approximately 25%.

4.6 Financial information

4.6.1 Financial performance

The table below illustrates the Company's audited consolidated statements of comprehensive income for the last three financial years. We note that the Company has a December year end and it reports in US$.

Consolidated statements of comprehensive income for the period US$ '000	CY15[1]	CY16[1]	CY17[1]
Revenue			
Interest income from loans to JV	-	2,429	6,014
Share of loss of JV accounted for using the equity method	(387)	(2,299)	(2,335)
Net income from JV	**(387)**	**129**	**3,679**
Interest income	232	280	393
Expenses			
Financing costs	(3,958)	(1,716)	(1,091)
Depreciation and amortisation	(106)	(117)	(166)
Share-based compensation	(567)	(618)	(891)
General and administration	(6,399)	(5,323)	(6,447)
Foreign exchange gain/(loss)	(1,852)	24	108
Loss before income tax	**(13,037)**	**(7,341)**	**(4,414)**
Income tax expenses	-	(442)	(82)
Loss for the year attributable to shareholders	**(13,037)**	**(7,783)**	**(4,497)**
Total comprehensive loss for the year	**(13,037)**	**(7,783)**	**(4,497)**

Sources: SGEH annual reports
Note (1): The information presented in the table above has been extracted/derived from the audited financial statements.

In relation to the above, we note the following:

- The investment in SGE is accounted for by using the equity method.
- SGE incurred a loss in CY17, which is equity accounted in SGEH account, mainly due to the interest paid on shareholders loans. SGEH's shareholder loan to SGE was US$70.2 million as at 31 December 2017 which bears an interest rate benchmarked against the PRC borrowing rate for loans over five year. As at 31 December 2017, this rate was 4.90%.
- SGE had revenue from the sale of gas of circa US$31 million, which is an increase of circa 160% from the previous year. SGE recorded an EBITDA of US$17.9 million in CY17.
- SGEH incurred corporate costs of $6.4 million in CY17.

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4.6.2 Financial position

The consolidated statement of financial position of SGEH as at 31 December 2016 and 31 December 2017 is summarised in the table below.

Consolidated statements of financial position US$ '000	CY16[1]	CY17[1]
Current assets		
Cash and cash equivalents	44,233	27,972
Prepayments and other receivables	278	2,147
Total current assets	**44,511**	**30,119**
Non-current assets		
Interest in JV accounted for using the equity method	53,739	53,376
Loan receivable from JV	59,691	70,241
Exploration and evaluation assets	-	4,166
Property, plant and equipment	225	400
Total non-current assets	**113,655**	**128,183**
Total assets	**158,166**	**158,301**
Current liabilities		
Trade and other payables	2,326	3,852
Borrowings	-	10,000
Total current liabilities	**2,326**	**13,852**
Non-current liabilities		
Borrowings	10,000	-
Total non current liabilities	**10,000**	**-**
Total liabilities	**12,326**	**13,852**
Net assets	**145,840**	**144,449**
Equity		
Contributed equity	174,892	177,165
Reserves	10,407	11,241
Accumulated losses	(39,460)	(43,957)
Total equity	**145,840**	**144,449**

Sources: SGEH annual reports
Note (1): The information presented in the table above has been extracted/derived from the audited financial statements.

We note the following in relation to SGEH's financial position:

- Interest in SGE accounted for using the equity method represents 49% share of SGE net assets less capitalised interest and other loan notes. SGE has a minimum spending commitment of US$52.8 million in accordance with the PSCs.

- Exploration and evaluation assets represent the cost capitalised to acquire the Linxing option.

- Non-current borrowing represents a loan facility from Macquarie Bank Limited ("Macquarie") denominated in US$ with a weighted average interest rate of 10.94%. In 2014, SGEH entered into a US$50 million term debt facility with Macquarie. The full amount of Tranche A (US$10 million) was drawn down in September 2014. In January 2018, SGEH entered into a new five year senior secured US$100 million debt facility with Macquarie which replaces the previous US$50 million facility. US$68 million of the new facility is fully committed whilst the balance is subject to credit approval. The commitment component of the new facility will be used, among other things, to repay the drawn down amount of the previous facility (US$10 million) and to pay for the exercise of the Linxing Option (US$18 million). Interest rates on the new facility are Libor+8.2% prior to ODP approval and Libor+6.5% after ODP approval.

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4.6.3 Cash flow statement

SGEH's cash flow statements for the 3 years ending CY15, CY16, CY17 are set out below:

Consolidated statement of cash flows US$ '000	CY15[1]	CY16[1]	CY17[1]
Cash flows from operating activities			
Payments to suppliers and employees	(6,407)	(5,275)	(6,149)
Income tax paid	-	-	(235)
Interest received	232	254	411
Interest paid	(997)	(1,042)	(1,176)
Net cash used in operating activities	**(7,172)**	**(6,063)**	**(7,149)**
Cash flows from investing activities			
Payments for equipment	(250)	(15)	(341)
Purchase of the Linxing Option	-	-	(3,279)
Loans to JV	(27,537)	(12,779)	(5,390)
Other contributions to the JV	-	(634)	(1,514)
Repayment of loans from the JV	2,746	346	-
Net cash used in investing activities	**(25,040)**	**(13,082)**	**(10,524)**
Cash flow from financing activities			
Proceeds from issue of equity securities	65,871	-	1,426
Share issue cost (net of tax)	(2,691)	-	-
Purchase of treasury shares	(160)	-	-
Borrowing related transaction costs	-	-	(116)
Net cash provided by financing activities	**63,019**	**-**	**1,309**
Net decrease in cash and cash equivalents	**30,807**	**(19,145)**	**(16,364)**
Cash and cash equivalents at the beginning of the year	34,141	63,419	44,233
Effects of exchange rate changes on cash and cash equivalents	(1,529)	(41)	103
Cash and cash equivalents at the end of the year	**63,419**	**44,233**	**27,972**

Sources: SGEH annual reports
Note (1): The information presented in the table above has been extracted/derived from the audited financial statements.

- Loans to SGE reduced over time as the proceeds from the sale of pilot gas assisted with the funding of the ongoing development of the PSCs.
- In CY17 SGEH paid circa US$3.3 million in cash (and an additional 12 million Sino Gas Shares) to purchase the Linxing Option.
- In CY17, SGEH issued shares upon exercise of options.

4.7 Share capital structure

As at the date of this report, SGEH had the following securities on issue:

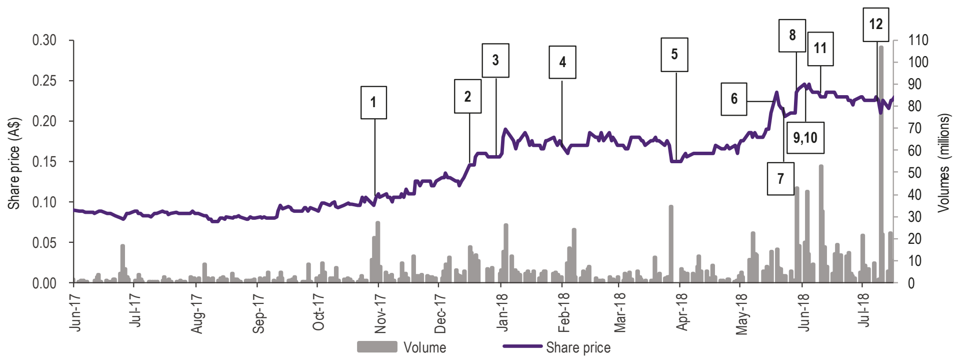
- 2,118,854,285 ordinary shares on issue.
- 30,000,000 Options[52] issued to Macquarie with an exercise price of A$0.25 and an expiry date of 1 September 2018.

[52] Of these options, 15,000,000 are subject to an escrow arrangement and the release condition cannot be satisfied, therefore they will lapse on 1 September 2018.

- 27,238,984 Performance Rights issued to senior executives of the Company which entitle the holder to be issued with one SGEH Share subject to certain performance conditions being met over the three year performance period. The vesting of the Performance Rights is accelerated (without the need for the performance criteria to be satisfied) in conjunction with a change of control transaction. The performance criteria for the vesting of the Performance Rights are outlined below:
  - 30% will be based on the relative shareholder return of SGEH compared with a peer group of listed entities.
  - 30% will vest based on the absolute performance of SGEH share price.
  - 40% will vest based subject to obtaining ODP for Linxing and Sanjiaobei PSCs (50/50 weighted).
- 1,744,744 deferred share entitlements. Eligible senior executives are entitled to participate in a Short Term Incentive (STI) scheme under which the senior executives have the opportunity to earn an STI payment of up to 50%, (or 80% in the case of Mr Glenn Corrie) of their fixed annual salary, subject to successful completion of agreed performance hurdles. Subject to the scheme proceeding, all of Mr Glenn Corrie and Ian Weatherdon's shares will vest and form part of the Scheme.

Our analysis of the daily movements in SGEH's share price and volumes for the period from June 2017 to July 2018 is set out below:

Historical share trading prices and volume of SGEH



Sources: S&P Global and GTCF analysis

The following table illustrates the key events from January to July 2018, which may have impacted the share price and volume movements shown above.

Event	Date	Comment
1	Oct-17	We note the following key events: - SGEH announced its proposed development plan for both the Sanjiaobei and Linxing PSC, with targeted free cash flow generation from 2020 and gross plateau production of 350 to over 550 MMscf/d from 2022. - SGEH submitted its first Linxing ODP to its PSC partner, China United Coalbed Methane Limited ("CUCBM"), for approval. The ODP covers approximately 20% of the current discovered area of Linxing East and West. - The Company also announced it has secured a USD 100 million debt facility with Macquarie

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Event	Date	Comment
		bank in anticipation of ODP approvals expected later next year.
2	Dec-17	The Company announced record production rates with total daily production for the quarter to date of 20 MMscf/d, a result of sustained production from the Linxing Central Gathering Station ("CGS") and increase in production at Sanjiaobei. SGEH also announced PetroChina CBM ("PCCBM") have agreed to extend the current Gas Sales Agreement ("GSA") by 1 year and have generally increased prices stipulated in the contract.
3	Jan-18	SGEH announces the submission of Sanjiaobei Overall Development Plan ("ODP") for approval to PetroChina CBM ("PCCBM"). This signifies the second ODP to be submitted for approval following the submission of the Linxing ODP in October 2017.
4	Feb-18	The Company released its 2018 guidance including the following targets: - The gross production exit rate is expected to be between 38 – 48 MMscf/d (6,300 – 7,000 boe/d²), which represents a 50-70% from the 2017 exit rate. - Annual gross production is expected to be between 22 – 27 MMscf/d (3,700 – 4,500 boe/d²). - Installed capacity across the Linxing and Sanjiaobei Production Sharing Contracts ("PSCs") is expected to be approximately 42 MMscf/d, following expected ODP approval in Q3 2018. - Capital expenditure is approximately expected to be between USD 60 – 70 million, which is significantly higher than actual capital expenditure of A$28 million in FY17. Proposed capital expenditure covers the development of 40 – 50 wells across both PSCs and includes the commissioning of the new Linxing North facility expected by Q3 2018.
5	Mar-18	On 29 March 2018, SGEH released an announcement regarding the approval of the first Linxing Overall Development Plan ("ODP"). As result of the announcement, SGEH experienced higher than normal trading volumes resulting in ASX Limited issuing an "Aware Query" to SGEH. SGEH responded to the query on 3 April 2018. Furthermore, the slight drop in SGEH's share price in March 2018, is mostly attributable to SGEH's announcement surrounding overdue gas accounts receivable from the joint venture. SGEH announced USD 7.8 million of overdue gross sales receivable has accrued as at 31 December 2017 and a further USD 9.8 million was expected to be accrued in Q1 2018. Based on past issues SGEH has had with SOE, the market had significantly reacted to this announcement, whereas due to its classification as development capex, there is not significant uncertainty over the receivable. Following similar optimistic views by brokers in the market the share price has quickly corrected itself.
6	May-18	SGEH received an ASX Aware Letter, where, among other things, the ASX was investigating the driver for the significant uplift in SGEH's share price from a closing price of A$0.19 on 17 May 2018 to a closing price of A$0.235 on 21 May 2018 on strong volumes and in the absence of announcements released by the Company.
7	May-18	First Linxing ODP approval. SGEH announced SGE has received approval for the first Linxing PSC ODP from CUCBM. Approval represents development to approximately 20% of discovered area of Linxing East and West. Approval for the remaining area is expected to be phased, with full approval expected by mid-2019.
8	May-18	SGEH announced it has entered into a SIA with Lone Star. Lone Star proposes to acquire 100% of the issued shares by way of a scheme of arrangement at an offer price of $0.25 per share. The offer price represents a 19% premium to the closing price on 30 May 2018 and a 32% premium to the one month VWAP. The implied EV/(2P+2C) Is c. A$7.9/boe[53].
9	June 18	SGEH JV Company, SGE, in conjunction with CUCBM, has agreed terms for a one-year extension to 31 March 2019 of a GSA with Shanxi GuoHua Energy Limited Company. The agreed average sales price, effective 1 April 2018, has increased 5% from the previous contract to RMB 1.61 per cubic metre (circa US$7.01/Mscf, assuming an RMB/US$ exchange rate of 6.5 based on the historical 30 day average rate as at 5 July 2018) taking into account seasonal adjustments, and is the same price agreed with the other current gas buyer of Linxing gas per the announcement made on 29 March 2018.
10	June 18	SGEH published its response to the ASX Aware Letter in relation to SGEH's announcement entitled "First Linxing ODP Approved" lodged on the ASX Market Announcements Platform on 22

[53] Based on the Consideration (on a fully diluted basis), 2,147,838,013 fully diluted shares, net cash of US$ 5 million as at 30 June 2018 and 2P+2C resources of 67.6 Mmboe.

Event	Date	Comment
		May 2018. SGEH provided information regarding when the Company first became aware of the first Linxing ODP approval and the steps the Company took to confirm the information and the timeline from receiving the information to releasing it to the market. SGEH confirmed its compliance with the Listing Rules and in particular with Listing Rule 3.1.
11	June 18	SGEH announced that SGE has entered into MA11 with CUCBM to modify the terms of the Linxing PSC following confidential commercial discussions referenced in its 29 March 2018 announcement. The modifications to the PSC include: - A reduction in SGE's natural gas participating interest from 70% to 49% (prior the impact of the Linxing Option). - An 8-year extension of the natural gas PSC to 31 August 2036. - Relinquishment of approximately 1,000 km2 of Linxing East exploration acreage and an extension of the exploration period to 31 August 2019.
12	July 18	SGEH provided an update on Reserves and Resources, operations and the proposed acquisition of SGEH by Lone Star, including: - Independent Reserves and Resources estimates updated by RISC as at 30 June 2018. Gross (total project) 2P + 2C Resources decreased by 4% to 5.1 Tcf. Net SGEH 2P + 2C Resources decreased 28% to 1.1 Tcf. Net 2P Reserves decreased 56% to 256 Bcf and net 2C Resources decreased 10% to 806 Bcf. - Gross production for the first half of CY2018 averaged approximately 24MMscf/d and SGEH remains on track to deliver 2018 production guidance even though Linxing North CGS start-up has been delayed to Q4 2018. - Sanjiaobei first ODP currently under final review with approval now expected in the second half of 2018; concurrently discussions are underway regarding PCCBM's participation, gas allocation and operational matters. - Lone Star and SGEH continue to work together to progress the proposed acquisition of SGEH by Lone Star and remain on track to meet the announced indicative timetable.

The monthly share price performance of SGEH since June 2017 is summarised below:

Sino Gas & Energy Holdings Limited	Share Price			Average
	High	Low	Close	weekly volume
	$	$	$	000'
Month ended				
Jun 2017	0.090	0.077	0.086	10,985
Jul 2017	0.089	0.081	0.085	4,666
Aug 2017	0.088	0.073	0.080	9,498
Sep 2017	0.099	0.078	0.092	9,108
Oct 2017	0.105	0.087	0.096	17,351
Nov 2017	0.130	0.097	0.120	23,415
Dec 2017	0.170	0.115	0.155	31,530
Jan 2018	0.202	0.155	0.170	30,036
Feb 2018	0.190	0.145	0.180	22,693
Mar 2018	0.180	0.135	0.150	19,220
Apr 2018	0.175	0.150	0.170	17,502
May 2018	0.255	0.160	0.235	42,609
Jun 2018	0.245	0.220	0.225	72,810
Week ended				
23 Mar 2018	0.180	0.170	0.175	18,239
30 Mar 2018	0.180	0.135	0.150	41,408
6 Apr 2018	0.170	0.150	0.155	18,157
13 Apr 2018	0.165	0.160	0.160	30,590
20 Apr 2018	0.175	0.155	0.170	18,971
27 Apr 2018	0.175	0.165	0.165	5,259
4 May 2018	0.180	0.160	0.175	11,778
11 May 2018	0.187	0.170	0.180	65,745
18 May 2018	0.210	0.180	0.210	34,483
25 May 2018	0.235	0.202	0.205	34,265
1 Jun 2018	0.255	0.200	0.240	66,921
8 Jun 2018	0.245	0.235	0.235	89,336
15 Jun 2018	0.237	0.222	0.235	109,107
22 Jun 2018	0.240	0.230	0.230	55,584
29 Jun 2018	0.235	0.220	0.225	35,119
6 Jul 2018	0.232	0.225	0.225	42,074

Sources: S&P Global, GTCF analysis

4.7.1 Top shareholders

We have set out below the top 20 shareholders of SGEH as at 23 July 2018:

Top 20 shareholders of ordinary shares as at 23 July 2018			
Rank	Name	No. of shares	Interest (%)
1	JP Morgan Nominees Australia Limited	482,060,762	22.75%
2	HSBC Custody Nominees (Australia) Limited	388,686,956	18.34%
3	Citicorp Nominees Pty Limited	277,561,335	13.10%
4	National Nominees Limited	120,395,196	5.68%
5	BNP Paribas Nominees Pty Ltd	88,432,144	4.17%
6	HSBC Custody Nominees (Australia) Limited-GSCO ECA	68,025,289	3.21%
7	HSBC Custody Nominees (Australia) Limited - A/C 2	50,415,283	2.38%
8	Azure Sea Ltd	16,399,896	0.77%
9	G&S Harper Pty Ltd	14,511,048	0.68%
10	Durbin Superannuation Pty Ltd	12,430,000	0.59%
11	CS Fourth Nominees Pty Limited	11,171,176	0.53%
12	Keeble Nominees Pty Ltd	11,155,000	0.53%
13	G&N Lord Superannuation Pty Ltd	10,000,000	0.47%
14	Mr Peter John Box	9,708,331	0.46%
15	Monex Boom Securities (HK) Ltd	9,340,697	0.44%
16	Brispot Nominees Pty Ltd	9,119,561	0.43%
17	Salty Nominees Pty Ltd	8,875,001	0.42%
18	Mr Glenn Corrie	7,986,223	0.38%
19	BNP Paribas Noms Pty Ltd	7,640,322	0.36%
20	BNP Paribas Nominees Pty Ltd	6,889,258	0.33%
Top 20 shareholders total		**1,610,803,478**	**76.02%**
Remaining shareholders		**508,050,807**	**23.98%**
Total ordinary shares outstanding		**2,118,854,285**	**100.00%**

Source: Link Market Services

5 Valuation methodologies

5.1 Introduction

As discussed in Section 2, our fairness assessment involves comparing the Consideration of A$0.25 per SGEH Share to the fair market value of SGEH Shares on a control and fully diluted basis.

Grant Thornton Corporate Finance has assessed the value of SGEH using the concept of fair market value. Fair market value is commonly defined as:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

5.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Discounted cash flow and the estimated realisable value of any surplus assets ("DCF Method").
- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets ("FME Method").
- Amount available for distribution to security holders on an orderly realisation of assets ("NAV Method").
- Quoted price for listed securities, when there is a liquid and active market ("Quoted Security Price Method").
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe any above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

5.3 Selected valuation methods

Grant Thornton Corporate Finance has selected the market value of net assets as the primary method to assess SGEH's equity value. The market value of net assets is based on the sum of the parts of SGEH's producing, development and exploration assets, and other assets and liabilities as reported in the balance sheet.

The market value of the Linxing and Sanjiaobei PSCs was assessed applying the DCF Method. We believe this methodology to be appropriate due to the following:

- SGE has well defined 2P reserves. In addition, the confidence level of the 2C resources converting into 2P reserves is estimated by RISC at 90%.
- In the first half of 2018, gross average production ramped-up to circa 24 MMscf/d and drilled 25 wells. SGE remains on track to complete its planned 2018 drilling program of 40 – 50 wells. Based on the current capital expenditure program, SGE has provided a 2018 production guidance of gross exit rate of 38-42 MMscf/d and a gross average rate of 22-27Mscf/d
- SGE, in conjunction with the SOE Partners, have already in place a number of GSAs for the sale of the pilot gas which provide support for the assessment of the gas sale price going forward.
- The PSCs combined existing gross processing capacity is circa 25 MMscf/d which will increase to 42 MMscf/d when the Linxing North CGS will be completed in the fourth quarter of 2018.
- The DCF Method is the most appropriate approach in valuing assets with a finite life such as petroleum assets. This reflects the fact that the reserves deplete over time, and the significant level of capital and time required for the development of petroleum assets.
- Grant Thornton Corporate Finance has engaged RISC to independently review the technical assumptions in relation to the PSC projections.

5.3.1 Cross check valuation methodologies

We have cross-checked our valuation assessment having regard to the following:

- Reserve and resource multiples implied in our SOP valuation which we have compared with the reserve and resource multiples of listed peers and comparable transactions.
- SGEH's trading price before the announcement of the Scheme.
- Other relevant transaction benchmark in the share capital of SGEH.

5.3.2 Independent technical specialist

For the purposes of this report, Grant Thornton Corporate Finance has engaged RISC to review and opine on the reasonableness of the technical assumptions underlying the PSCs projections.

RISC's review was completed in accordance with the VALMIN Code and is attached in Appendix F.

6 Valuation assessment of SGEH Shares

6.1 SOP Method

For the purpose of our valuation assessment of SGEH utilising the SOP approach, SGEH has prepared a financial model ("Financial Model") reflecting the terms of the PSCs.

Grant Thornton Corporate Finance has engaged RISC to review and express an opinion on the technical assumptions included in the Financial Model in relation to, amongst other things, reserves and resources, production profiles, operating costs and capital expenditures.

Based on RISC's review and suggested changes to the Financial Model, Grant Thornton Corporate Finance has assessed the net present value of the PSCs and SGEH using real, ungeared, post-tax cash flows, having regard to Grant Thornton Corporate Finance's assessment of the gas prices, exchange rates, inflation and discount rate.

Whilst Grant Thornton Corporate Finance believes that the assumptions underlying the Financial Model are reasonable and appropriate to be adopted for the purpose of our valuation, in accordance with the requirements of RG111, we have not disclosed them in our Report. In addition, the projections contain commercially sensitive information and they do not meet the requirements for presentation of prospective financial information as set out in ASIC RG170.

In accordance with the requirement of RG 111, we have undertaken a critical analysis of the Financial Model before relying on it for the purpose of our valuation assessment. Specifically, we have performed the following tasks:

- Conducted high level checks, including limited procedures in relation to the mathematical accuracy of the Financial Model.
- Performed a broad review, critical analysis and benchmarking with the historical performance of the producing assets.
- Held discussions and interviews with Management of the Company to discuss the Financial Model.
- Held discussions and interviews with RISC.

The assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of similar businesses. We note that the assumptions are inherently subject to considerable uncertainty and there is significant scope for differences of opinion. It should be noted that the value of SGEH could vary materially based on changes to certain key assumptions, in particular gas prices, exchange rates and discount rates. Accordingly, we have conducted further sensitivity analysis to highlight the impact on the value of SGEH Shares caused by movements to certain key assumptions. As a result, the outcomes of the SOP approach should be considered with caution by SGEH Shareholders.

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6.1.1 Valuation assessment of Linxing and Sanjiaobei PSC

6.1.1.1 Gas prices

In our assessment of the future gas prices, we have taken the following into account:

- The Chinese government is currently pursuing an aggressive coal-to-gas switching policy to reduce air pollution and meet environmental targets. The Government's 13th five-year plan targets to increase natural gas' share of the energy mix from 6% in 2015, to 10% by 2020 and 15% by 2030. On the back of this, natural gas consumption surged in 2017, growing by 15% over 2016 levels. While increasing gas demand could potentially put upward pressure on prices, the Chinese Government is keen to encourage the use of natural gas to meet environmental targets and therefore may attempt to limit the impact of any potential price increases. We note that since June 10 2018, the Shanxi citygate Benchmark price was c. US$7.79/Mscf[54] RMB 1.79 per cubic metre, however we note that the citygate price includes transmission tariffs and adjustments for provincial affordability which have to be deducted to determine the ex-plant price to the producer.

- SGEH is covered by a number of investment analysts who provide regular updates on the performance of the Company and related valuations. Some of these investment analysts disclose the forecast gas prices adopted in their models for their valuation assessment of the PSCs as outlined in the table below.

Broker forecast natural gas prices

Broker	Date	2018 Price (US$/Mscf)
Broker 1	Jun-18	7.30
Broker 2	Jun-18	6.60
Broker 3	Jun-18	6.80
Broker 4	Jun-18	7.49

Source: Broker reports covering SGEH

- SGE, in conjunction with its SOE Partners, have a number of GSAs in place in relation to Linxing and Sanjiaobei at an average sales price of RMB 1.60 per cubic metre which is equivalent to US$6.97/Mscf[55]. Given that the Company is still in the pilot production phase, the existing GSAs usually have one year tenure and they do not contain take or pay clauses.

Based on the above, we have selected a gas price for the valuation of the PSCs between US$7.00 and US$7.50 in 2018 dollars.

6.1.1.2 Production forecast

RISC's estimates of SGEH's reserves and resources are set out in Section 1 of the RISC Report. We note that the reserves and resources have materially reduced compared with RISC's previous estimates due to the following:

- MA11 changes which have reduced SGE's interest in the Linxing PSC from 70% to 49% but increased the expiry of the PSC by 8 years. The combination of these two factors is a small reduction in the 2P + 2C resources.

[54] Using an RMB/US$ exchange rate of 6.50 based on the historical 30 day average rate as at 5 July 2018.
[55] Using an RMB/US$ exchange rate of 6.50 based on the historical 30 day average rate as at 5 July 2018.

- Reduction in the 2P reserves by circa 50% due to lower assessed recovery per well, delayed production ramp-up and lower plateau production rates. The lower recovery per well is driven by additional pilot production data and recently available information on analogue fields. We note that circa 25% of the reduced reserves are transferred to contingent resources as they will be recovered after expiry of the PSC.

RISC has assumed that development wells will produce circa 2.1 Bcf of deep gas over the 30 year recovery. The development wells are initially estimated to be completed on 40% of the total pay and GIIP with a workover after four years to recover an additional 15% of the pay/GIIP and a second workover after 8 years which brings the total recovered gas over the 30 year life of the well to 70%. The remaining 30% GIIP is considered a potential target for infill drilling or further recompletions. However there is greater risk and uncertainty in pursuing this remaining 30% and therefore these volumes have been categorised by RISC as contingent resources for development outside the PSC life.

The type curve adopted by RISC is similar but slightly higher to the type curve of pilot wells which have produced 0.16 Bcf in the first year of production and a similar amount in the second year. RISC has developed a number of production scenarios for the PSCs as outlined below:

1. Low Case A – Based on the RISC development plan for the proved reserves only (1P reserves) producing 914 Bcf on a gross basis from circa 1,000 producing wells. This is considered a worst case scenario where well performance is significantly below expectations and the contingent resources fail to convert into reserves.

2. Low Case B – Based on the RISC development plan for the proved and probable reserves only (2P reserves) producing 1,383 Bcf on a gross basis from circa 1,000 producing wells. The plateau production is circa 350 MMscf/d and it is only maintained for one year. Whilst the 2P production case is often adopted as base case valuation scenario, we have considered it a low case given the low risks of converting contingent resources into reserves, the quality and volume of gas in the reservoir, the existing infrastructure in place and strong expected gas demand.

3. Central Case – Based on the RISC development plan for the 2P and 2C resources producing 1,942 Bcf of gas on a gross basis from circa 1,500 producing wells. Gas production plateau rates are achieved in 2024 at 429.1 MMscf/d and it is maintained for a period of 5 year.

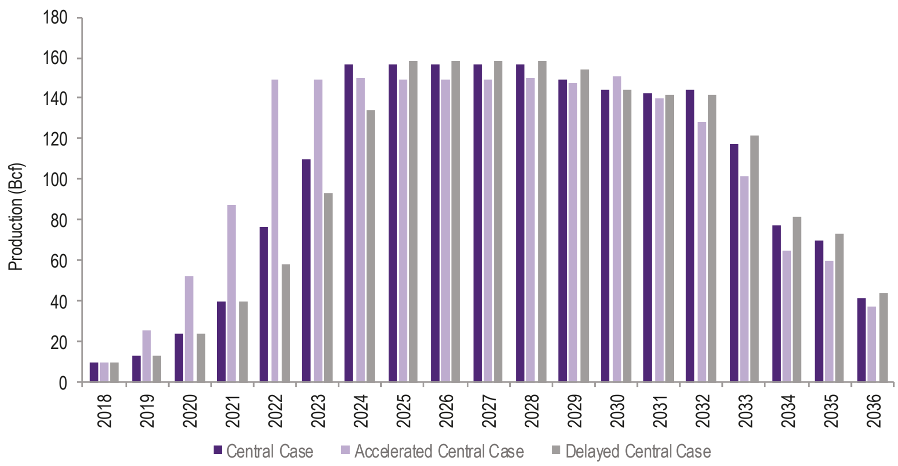
4. Delayed and Accelerated Central Case – The underlying assumptions are substantially equivalent to the Central Case but with a delayed (2025) and accelerated (2022) ramp-up to plateau production respectively. Under the Accelerated Central Case plateau is reached in 2022 at 409 MMscf/d and maintained for 7 years whereas under the Delayed Central Case plateau production is reached in 2025 at 433 MMscf/d and maintained for 4 years.

5. PSC Extension Case – The underlying assumptions are substantially equivalent to the Central Case, however we have assumed that both PSCs are extended for an additional period of 8 years at substantially the same terms. This case is for illustrative purpose only given that if the PSCs are extended, the terms are likely to be changed to be less favourable to SGE. Accordingly, we have increased the discount rate by 3% to reflect this as the illustrative value.

In addition the above cases where the production profile is varied, we have also undertaken a number of sensitivities and other scenarios as outlined in section 6.1.10.

We have set out below a graphical representation of the production profile under the three Central Case scenarios prepared by RISC.

Production profiles of Central Cases



Source: RISC Report

RISC has selected the plateau gas rate of the 2P+2C forecast in order to give plateau production until end 2028 as this plateau duration optimises value before PSC expiry while maintaining a reasonable plateau length. Under the Delayed Central Case a higher plateau rate is expected to be maintained until 2028 as the ramp up in gas rates is delayed. Conversely, under the Accelerated Central Case, the plateau rate has been reduced in order to be maintained for a longer period of time until 2028.

In our assessment of the appropriate value range for the PSCs we have relied on the three Central Cases which, in our opinion, is consistent with the assumption that would be adopted by a pool of potential purchasers due to the following:

- RISC has elected the Central Case based on the 2P+2C as the most appropriate case.
- As indicated in the RISC Report, the contingent resources have a 90% probability to maturing to reserves as the development wells appraisal the contingent area to confirm commercially productive reservoir.
- Given the fixed expiry dates of the PSCs, a pool of potential purchasers will seek to accelerate production and raise the plateau rates to extract as much gas as possible before end of the PSCs (Accelerated Central Case). However, on the flip-side, ramp-up to production may be delayed as occurred in the past (Delayed Central Case).
- Strong gas demand, favourable macro-economic conditions and strong local partners at the PSCs level will support the increased production profile.
- The Linxing and Sanjiaobei PSCs sit at the bottom of the cost curve for gas production in China and accordingly even if domestic production ramps up significantly, the PSCs will remain competitive even in conjunction with volatile demand.

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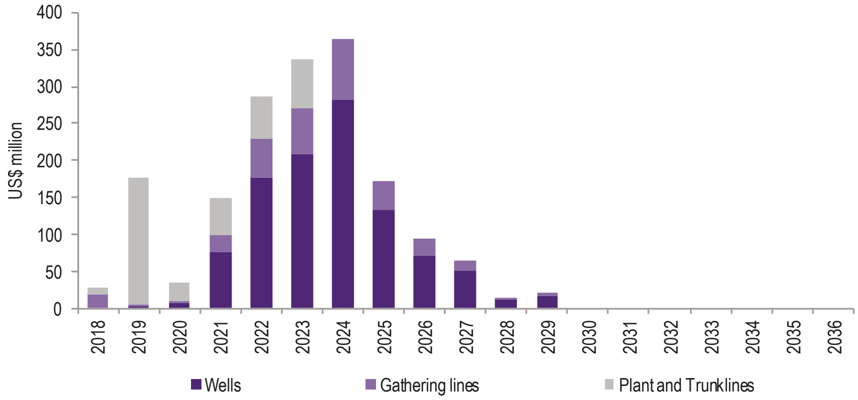
6.1.1.3 Capital and operating expenditure

The total gross capital expenditure under the 1P, 2P and 2P+2C production cases to expiry of the PSC are set out below.

Capital Expenditures US$ million	1P	2P	2P+2C
Wells	627	627	1,038
Gathering lines	204	205	327
Plant and Trunklines	245	300	377
Total Capex	**1,076**	**1,132**	**1,742**

Source: RISC Report
Notes: Sunk costs up to 1 January 2018 excluded

Based on the RISC Report, we have set out below the forecast capex under the Central Case Scenario.



Source: RISC Report

We note the following in relation to RISC's assessment of the capital expenditure:

- Over the last two years, SGE has materially reduced the well costs and RISC has factored into its forecast capex assumption a further reduction of 15% in drilling and hydraulic fracturing costs.
- The capital expenditure estimate is considered to have an accuracy of +50% and -25% which poses greater downside risk to the value of SGEH. We have undertaken a sensitivity analysis in relation to this matter.
- RISC has not included any abandonment liability cost in the capital expenditure forecast based on the assumptions that both the PSCs will be relinquished to the local partners with significant more years of production. Whist the assumption seems reasonable, we note Management has made us aware of circumstances where the PSC contractors have been requested by the local partner to accumulate an annual abandonment provision during the life of the PSC.

The operating costs have been estimated by RISC based on scaling from the number of development wells and facilities configuration and phasing. Based on the terms of the PSCs, the valuation assessment of SGEH is not particularly sensitive to changes in the opex assumptions. We note that the opex includes the corporate costs of SGE but it excludes the overheads of the listed entity which are considered separately.

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6.1.2 Exploration prospective resources

As set out in the RISC Report, the PSCs have prospective resources in undrilled and untested areas of the PSC and additional exploration wells are required to demonstrate mobile and commercial gas. However most of the exploration area in the Linxing PSC has been relinquished as a result of the MA11 changes. Therefore any additional resources discovered in these areas will be categorised as contingent with very limited production before the PSC expiry. Accordingly, RISC has not attributed any value to the prospective resources.

SGEH has additional contingent resources associated with the shallow CBM discovery in the north east of Linxing PSC. RISC has assessed the development of these resources as marginal economically due to low well gas production rates.

6.1.2.1 Linxing Option

The valuation of the Linxing Option is based on the net present value of the pro-rata future cash flows derived from the Linxing PSC less the exercise price of circa US$18 million. Based on discussion with Management and a review of the terms of the Linxing Option, we have assumed that exercise will occur in mid-2019. In our valuation assessment, we have assumed that a rational investor will seek to exercise the Linxing Option as soon as possible in order to be entitled to underlying pro-rata cash flows and considering that based on our valuation assessment of the Linxing PSC, the Linxing Option is deeply in the money[56].

6.1.3 Corporate costs of SGEH

The net present value of the future cash flows included in the Financial Model does not include the corporate costs incurred by SGEH to run its operations.

SGEH has budgeted ongoing corporate costs of circa US$8 million. In our assessment of the net present value of the corporate costs, we have reduced the current corporate costs of SGEH to take into account the synergies and cost savings likely to be available to a pool of potential purchasers. We note that the savings are mainly associated with listing costs, directors' fees and a portion of duplicated corporate functions and senior employees. Our estimate of the on-going corporate costs is circa US$6 million (i.e. US$2 million synergies per annum). However, we note that Lone Star, as a financial buyer, is likely to realise limited or no-synergies.

6.1.4 Tax rate

We have adopted the following assumptions from a tax perspective:

- A value added tax of 10% on the sales of gas.
- Resource tax for natural gas of 6% on the sale of gas.
- SGE is subject to enterprise income tax at 25%.

We note that based on discussions with Management, a review of the tax advices received by SGEH and its current circumstances, we have assumed that the profit distributions from SGE to SGEH will not be

[56] It indicates that the exercise price payable by SGEH is significantly lower than the underlying fair market value of the participating interest.

subject to 10% income withholding tax. This is based on the presumption that SGE is an Australian incorporated company and it is considered a foreign contractor from a tax perspective. If SGE does not meet the criteria to be considered a foreign contractor, the dividends distributed by SGE to SGEH may be subject to withholding tax at 10%. Whilst there are not set objectives criteria to test whether or not a corporation is a foreign entity or a PRC tax resident, the key elements that are likely to be considered are the composition of the board of directors and senior management, their location when they make business related decisions and where the book and records are kept.

The tax residency of SGE at the time of future dividend distributions may depend on the facts and circumstances at that point in time. In our opinion, it is reasonable to assume that a pool of potential purchasers will put in place checks and balances to ensure that SGE continues to be considered a foreign contractor from a tax perspective and accordingly the withholding tax has not been applied in our valuation assessment. However, we have undertaken a sensitivity to show the potential impact for SGEH Shareholders if a 10% withholding tax is levied on SGE distributions.

6.1.5 Working capital

Movements in working capital have been calculated based on the current terms with suppliers.

6.1.6 Discount rate

SGEH's cash flow assumptions have been prepared on a real, ungeared and post-tax basis. Grant Thornton Corporate Finance has selected a real, post-tax weighted average cost of capital ("WACC") between 11.5% and 12.9% with a mid-point of 12%.

In our assessment of the discount rate, we have adopted a specific risk premium between 3.0% and 4.0% to take the following into account:

- China country risk premium of c. 1%. We note this is broadly comparable to the country risk premium for China estimated by Professor Aswath Damodaran in January 2018.

- SGE's approval, licences, permits and other authorisations yet to be obtained before ramp-up in production can occur. We note that as at the date of the valuation, ODP for the Linxing PSC has only been obtained for 20% of the area whereas the Sanjiaobei PSC ODP is still pending.

- RISC has estimated a 90% probability of contingent resources maturing in time to reserves. In our valuation assessment of SGEH, we have not risk-adjusted the 2C resources, but we have reflected this risk into the selected specific risk premium. We note that the 2C resources accounts for circa US$100 million of the total overall value of SGEH under the Central Case.

- The vast majority of SGEH's resources are undeveloped which carry a significantly higher risk than developed resources. As SGE moves towards plateau and commercial production and the 2P reserves will become "developed" should trigger a market re-rating (i.e. reduction in the discount rate).

- As set out in the RISC Report, there is significant uncertainty in forecasting GIIP density, well type curves and performance of the tight gas reservoir. All these risks will be largely removed when plateau production is achieved.

- Given the fixed term of the PSC, any delays in the ramp-up to plateau will have a significant impact on the value of SGEH as demonstrated under the Accelerated and Delayed Central Case Scenarios. We note that in general, companies doing business in China often experience delays in their timetable to grow their business or ramp-up the production of a mineral or petroleum assets, which is outside of their control.

- Capital expenditure estimate is considered to have an accuracy of +50% and -25% which accordingly provides for greater downside exposure.

We note that investments' analysts may adopt a different approach to reflect the aforementioned risks of the project in their valuation assessment. The net present value of the cash flows may be assessed based on the risk unadjusted discount rate and then by applying a probability factor to the derived value of the project.

We have summarised in the table below, the discount rate and probability factors adopted by investments analysts in their valuation of SGEH.

Investment analysts - Valuation parameters			Risk factor	
	Date	WACC	LX	SJB
Broker 1	Jun-18	11%	50%	40%
Broker 2	Jun-18	10%	na	na
Broker 3	Jun-18	12%	95%	90%
Broker 4	Jun-18	na	50%	50%

We are of the opinion that the analysis above further support our assessment of the discount rate.

Refer to Appendix D for further details on the calculation of the WACC.

6.1.7 Net debt

We have set out below our calculation of net debt as at 30 June 2018.

SGEH - Pro-forma Net Debt at 30 June 2018	US$ million
Funding - External debt	16.00
Less: Cash balance	(21.0)
Net Debt/(Cash) of SGEH at 30 June 2018	**(5.0)**

Source: SGEH Management

We note that in our valuation assessment of both SGEH and SGE, we have not considered the shareholders' loans of SGEH and SGE as they have the effect to offset each other.

6.1.8 Securities on issue

We have adopted a total number of shares of 2,147,838,013 on a fully diluted basis which comprises the following:

- Ordinary shares – 2,118,854,285 million ordinary shares on issue.

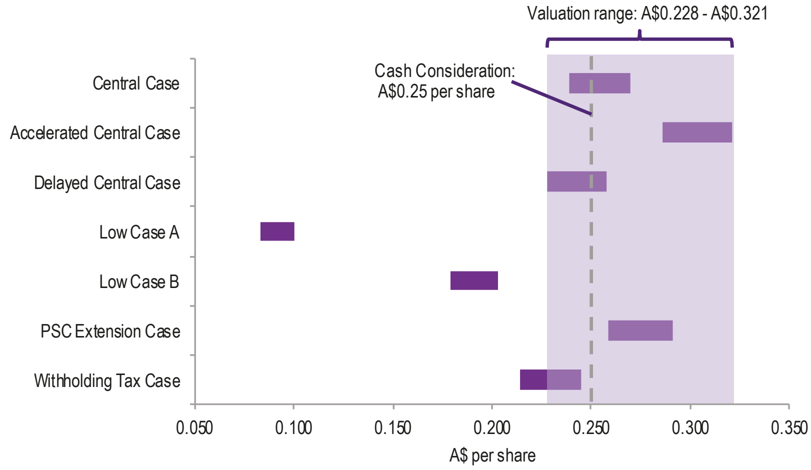
- Performance Rights – 27,238,984 SGEH Shares to be issued upon the vesting of the Performance Rights being accelerated in conjunction with the change of control transaction.

- Options – we have assumed that the Options will lapse as the exercise price is the same as the Consideration and they have a short time to maturity.
- Deferred share entitlements – 1,744,744 SGEH Shares to be issued upon the vesting of the Performance Rights being accelerated in conjunction with the change of control transaction.

6.1.9 Valuation summary

Based on the above assumptions, we have set out below a graphical representation of the fair market value of SGEH under the various scenarios considered.

Fairness assessment (A$ per share)



Source: GTCF analysis

In our assessment of the appropriate value range for SGEH, we have relied on the Central Case, Accelerated Central Case and Delayed Central Case which revolve around 2P+2C resources.

We have summarised below our detailed valuation assessment under the three Central Cases.

SGEH Valuation Summary of Central Cases	*Section Reference*	Delayed Central Case		Central Case		Accelerated Central Case	
		Low	High	Low	High	Low	High
SGEH interest in SGE (US$m)		379.1	422.3	394.6	439.5	462.6	513.6
Linxing Option (US$m)		29.9	35.0	31.6	36.9	39.2	45.3
Corporate Costs of SGEH (Net of synergies) (US$m)	*6.1.3*	(46.4)	(46.4)	(46.4)	(46.4)	(46.4)	(46.4)
Total Enterprise Value (US$m)		**362.6**	**410.9**	**379.9**	**430.0**	**455.5**	**512.5**
Less: Pro-forma net cash (US$m)	*6.1.7*	5.0	5.0	5.0	5.0	5.0	5.0
Equity value (control basis) (US$m)		**367.6**	**415.9**	**384.9**	**435.0**	**460.5**	**517.5**
Number of outstanding shares (millions) (fully diluted)	*6.1.8*	2,147.8	2,147.8	2,147.8	2,147.8	2,147.8	2,147.8
Fair market value per share (control basis) (US$/share)		**0.171**	**0.194**	**0.179**	**0.203**	**0.214**	**0.241**
A$:US$ exchange rate		0.75	0.75	0.75	0.75	0.75	0.75
Fair market value per share (control basis) (A$/share)		**0.228**	**0.258**	**0.239**	**0.270**	**0.286**	**0.321**
GT Concluded Fair market value per share (control basis) (A$/share)		**A$0.228 to A$0.321**					

Source: GTCF analysis

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As outlined in the table above, we have assessed the fair market value of SGEH on a control and 100% basis between A$0.228 to A$0.321 per share.

6.1.10 Sensitivity analysis

The assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their valuation of a similar business. We note that the assumptions are inherently subject to considerable uncertainty and there is significant scope for differences in opinion. It should be noted that the enterprise value of SGEH could vary materially based on changes in certain key assumptions in particular in relation to: gas prices; capital costs, production rates, time to plateau and extension of the PSC. Accordingly, we have conducted certain sensitivity analysis below to highlight the impact on the value of SGEH based on the DCF Method caused by movements in these key assumptions.

Sensitivities: Low-end of GT assessed value range

Gas price and capex (A$ per share)		Gas Price (US$/Mscf)						
		6.0	6.5	7.0	7.5	8.0	8.5	9.0
	(25.0)%	0.197	0.227	0.256	0.286	0.316	0.344	0.374
	(15.0)%	0.185	0.215	0.245	0.275	0.304	0.333	0.363
	0%	0.168	0.198	0.228	0.258	0.288	0.317	0.346
Capex (increase/decrease)	10%	0.157	0.187	0.217	0.247	0.276	0.306	0.335
	20%	0.146	0.176	0.206	0.236	0.265	0.294	0.324
	30%	0.135	0.164	0.195	0.225	0.254	0.283	0.312
	40%	0.123	0.153	0.183	0.213	0.243	0.272	0.302
	50%	0.112	0.142	0.171	0.202	0.232	0.261	0.291

Discount rate and exchange rate (A$ per share)		Discount rate (%)				
		11.0%	11.5%	12.0%	12.5%	13.0%
	0.79	0.237	0.227	0.217	0.207	0.198
	0.77	0.244	0.233	0.222	0.212	0.203
Exchange rate (A$:US$)	0.75	0.250	0.239	0.228	0.218	0.209
	0.73	0.257	0.245	0.234	0.224	0.214
	0.71	0.264	0.252	0.241	0.230	0.220

Sensitivities: High-end of GT assessed value range

Gas price and capex (A$ per share)		Gas Price (US$/Mscf)						
		6.0	6.5	7.0	7.5	8.0	8.5	9.0
	(25.0)%	0.247	0.283	0.318	0.353	0.388	0.424	0.459
	(15.0)%	0.235	0.270	0.305	0.341	0.375	0.410	0.446
	0%	0.215	0.251	0.286	0.321	0.356	0.392	0.426
Capex (increase/decrease)	10%	0.203	0.238	0.273	0.309	0.343	0.379	0.414
	20%	0.190	0.225	0.260	0.296	0.331	0.366	0.401
	30%	0.177	0.212	0.247	0.283	0.318	0.353	0.388
	40%	0.164	0.199	0.235	0.270	0.305	0.340	0.375
	50%	0.150	0.186	0.222	0.257	0.292	0.327	0.362

Discount rate and exchange rate (A$ per share)		Discount rate (%)				
		11.0%	11.5%	12.0%	12.5%	13.0%
	0.79	0.330	0.317	0.305	0.293	0.282
	0.77	0.339	0.326	0.313	0.301	0.289
Exchange rate (A$:US$)	0.75	0.348	0.334	0.321	0.309	0.297
	0.73	0.357	0.343	0.330	0.317	0.305
	0.71	0.367	0.353	0.339	0.326	0.314

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These sensitivities do not represent a range of potential equity values per SGEH Share, but they intend to show to SGEH Shareholders the sensitivity of our valuation assessment to changes in certain variables.

6.2 Valuation cross check – Resource Multiples

As discussed in Section 4.3.1, we have considered the reasonableness of our SGEH valuation with reference to the SOP having regard to the 2P and 2C resource multiples ("Resource Multiples") observed for listed comparable companies and comparable transactions

We have set out in the table below the 2P and 2C resource multiples implied in our SOP valuation.

SGEH - Implied Multiples	*Section Reference*	2P reserves	2P + 2C resources
RISC assessed net resources (Bcf)	*4.4*	284	406
Bcf to Mmboe		6.003	6.003
RISC assessed net resources (Mmboe)		**47.3**	**67.6**
EV (US$m) - Low	*6.1.9*	362.6	362.6
EV (US$m) - High	*6.1.9*	512.5	512.5
Exchange rate AUD to USD		**0.75**	**0.75**
EV (A$m) - Low		483.4	483.4
EV (A$m) - High		683.3	683.3
Multiple (A$/boe) (Control basis) - Low		**10.2**	**7.1**
Multiple (A$/boe) (Control basis) - High		**14.4**	**10.1**

Sources: RISC Report and GTCF analysis

As set out in the RISC Report, the confidence level of SGEH's 2C resources converting into 2P reserves is unusually high at 90%. Accordingly, the total 2P+2C resources of SGEH may be considered a proxy for 2P resources of other comparable companies.

We note that the implied 2P+2C multiple of the Consideration is c. A$7.9/boe[57].

6.2.1 Resource Multiples of listed peers and comparable transactions

Resource Multiples may vary significantly between the different listed comparable companies due to: size of the reservoir; the split between 2P and 2C resources; the split between developed and undeveloped reserves; availability of infrastructure; cost structure; and stage of development. Given that the only contributor to the equity value of SGEH are the Linxing and Sanjiaobei PSCs, which are an advanced onshore unconventional gas development projects, in our selection of comparable companies, we have sought to place greater reliance on companies with similar assets.

When considering the Enterprise Value ("EV") to Resource Multiples of the trading comparable companies, we note the following:

- The Resource Multiples listed below have been calculated based on the market price for minority or portfolio share holdings and do not include a premium for control, whereas our valuation assessment of SGEH is on a 100% control basis.

[57] Based on the Consideration (on a fully diluted basis), 2,147,838,013 fully diluted shares, net cash of US$ 5 million as at 30 June 2018 and 2P+2C resources of 67.6 Mmboe.

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- We have calculated the net resources of each company reflecting their ownership interest in the projects.

The Resources Multiples of listed peers are set out below. Refer to Appendix B for further descriptions of the comparable companies.

Trading resource multiple of listed companies	EV	Resources (Mmboe)			Resource Multiples (A$/boe)	
Company	A$ million	2P	2C	2P+2C	EV/2P	EV/(2P+2C)
AAG Energy Holdings Limited	474	102.9	na	na	4.6	na
G3E Exploration Limited	295	62.8	127.0	189.8	4.7	1.6
Sino Oil and Gas Holdings Limited	395	71.9	na	na	5.5	na
Senex Energy Limited	559	83.9	208.1	292	6.7	1.9
Cooper Energy Limited	405	54.1	34.9	89	7.5	4.5
Karoon Gas Australia Ltd	nmf	na	82	na	na	na
Tap Oil Limited	16	2.21	22.85	25.06	7.3	0.6
Horizon Oil Limited	302	11.3	140	151.3	nmf	2.0
Statistical analysis						
Minimum					**4.6**	**0.6**
Median					**6.1**	**1.9**
Average					**6.0**	**2.1**
Maximum					**7.5**	**4.5**

Sources: Companies financial statements and presentations, S&P Global and GTCF analysis
Note: 1. Share price as at 28 June 2018

AAG and Sino Oil and Gas (listed on the Hong Kong Stock Exchange) and G3E (listed on the London Stock Exchange) have unconventional gas assets located in China and accordingly, we have considered them more comparable to SGEH. A brief overview of these companies is outlined below:

- AAG is listed on the Hong Kong Stock Exchange and it is principally engaged in the exploration, development and production of unconventional gas (CBM) in China. AAG Energy's key operating assets, the Panzhuang and Mabi concessions, are located in the Southwestern part of the Qinshui Basin in the Shaanxi Province. The Panzhuang concession is in partnership with CUCBM (same partner of the Linxing PSC) and it entered the production phase in November 2016. It is considered one of the most commercially advanced Sino-foreign CBM asset in China. AAG is also developing the Mabi CBM Project in partnership with PetroChina. This project received preliminary ODP Phase I approval from NDRC in November 2013 and it is currently in pilot production, similarly to Linxing and Sanjiaobei PSCs. Differently from SGEH, AAG controls the two PSCs with an interest of 80% (Panzhuang PSC) and 70% (Mabi PSC), however the expiry date of the Panzhuang PSC is significantly shorter in March 2028.

- G3 Exploration has recently been repositioned from a CBM producing company to an advanced CBM exploration company as the producing assets are in the process of being spun-off in a separate listing vehicle on the Hong Kong Stock Exchange. These assets are currently categorised as held for sale. In addition, the company has six exploration and development PSCs around various basins in China. Its reserves base is large with 2P of 559 Bcf however trading in the shares of the company was recently suspended for 6 weeks pending publications of the financial results. Due to these reasons, we have placed limited reliance on G3 Exploration.

- Sino Oil and Gas owns a 70% interest in the Sanjiao CBM PSC with PetroChina located in the Ordos Basin in Shanxi and Shaanxi provinces. The PSC, which expires in 2036, covers a block across the

Ordos Basin in Shanxi and Shaanxi provinces, with a total area of 383 km2 and it has 2P of 71.9 MMboe. The Sanjiao CBM Project was listed as one of the National and Shanxi Province key development projects in 2014 and 2015 respectively and obtained ODP in November 2015. In July 2017, Sanjiao CBM Project was granted a mining permit. As at 31 December 2017, the Sanjiao CBM project had completed a total of 117 wells of which 85 wells had access to the gas gathering pipeline network.

The other peers listed on the ASX have a limited level of comparability as most of them have their main undertaking located in Australia which carries a significant lower jurisdiction risks but also the gas prices is subject to completely different dynamics. Notwithstanding the above, among the Australian listed entities, we consider Senex and Cooper Energy relatively more comparable due to the following:

- Senex has a large proportion of unconventional (CSG) 2P reserves and its main projects in ramp-up phase similarly to SGEH. Senex has recently brought online 30 appraisal wells at its Western Surat Gas Project in Queensland. This project is expected to support up to 425 wells over its life and Senex has executed a GSA with GLNG for the supply of up to 50 TJ per day of gas from the project area over 20 years. In addition, in September 2017, Senex was awarded Project Atlas from the Queensland Government for nil consideration with first gas expected to be delivered in 2019 with Senex expected to drill approximately 100 wells to sustain gas production of circa 30 TJ/d. Gas volumes from Project Atlas are expected to be sold to the domestic market. Senex expects to obtain regulatory approval in mid-2018 and it is currently exploring different opportunities in relation to the infrastructure required to deliver the gas into the domestic market. Project Atlas includes P50 recoverable gas volumes of 201 PJ[58], which are not currently captured in Senex's reported reserves and, accordingly, are not included in our 2P reserves multiple.

- Similarly to SGEH, most of Cooper's 2P reserves are in the Sole gas project (circa 75% of total 2P reserves) which is in an advanced stage of development with first gas expected in March 2019. Cooper Energy is also the operator and it owns 50% of the CGP. In relation to the Sole Gas Project, we note that it is more advanced than the PSCs given that it was sanctioned in mid-2017 and Cooper Energy has entered into GSAs for 20 PJ per annum with blue chip customers. In addition, it is located on the East Coast of Australia which is expected to provide gas producers with higher sales prices and accordingly stronger economics. However, the Sole Gas Project is an offshore gas development with capital expenditure of circa A$355 million (excluding the processing plant[59]).

We are of the opinion that the remaining listed peers are not particularly relevant for the valuation assessment of SGEH.

We have set out in the table below the 2P and 2C resource Multiples of comparable transactions.

[58] As reported by Senex in its announcement on 5 September 2017, these volumes are estimated by SRK Consulting Pty Ltd via the Queensland Government Australia-only gas pilot project tender.
[59] Cooper Energy entered into an agreement with APA for the processing of gas at the Orbost Gas Plant.

Date A$ millions	Target company	Bidder company	Stake	EV	Multiples (A$/boe) EV/2P	 EV/(2P+2C)
May 2018	AAG Energy Holdings Limited	Xinjiang Xintai Natural Gas Co., Ltd	50.5%	675	6.6	na
May 2018	Santos Limited	Harbour Energy Australia Pty. Ltd.	100.0%	18,132	21.4	na
Jan 2018	AWE Limited	Mitsui & Co., Ltd.	100.0%	634	7.8	3.1
Apr 2017	Premier Oil Pakistan Holdings B.V.	Al-Haj Energy Limited	100.0%	87	7.4	5.0
Mar 2017	Natuna Sea Block B	Medco Energi Internasional PT	35%	219	na	na
Dec 2016	KG Basin India	Oil and Natural Gas Corporation Ltd	80%	1,387	5.3	na
Dec 2016	Tangguh LNG Project	BP Berau Ltd.	3.1%	420	na	na
Sep 2016	ConocoPhillips Indonesia Inc. Ltd. and ConocoPhillips Singapore Operations Pte. Ltd.	Medco Natuna Pte. Ltd.	100.0%	316	na	na
Apr 2016	Sino Gas & Energy Ltd.	China New Energy Mining Limited	51.0%	290	3.0	1.3
May 2016	Sebana Ltd.	HyOil Pte Ltd	42.5%	15	na	1.6
Feb 2016	Petroceltic International plc	Worldview International Management Limited; Worldview Economic Recovery Fund	70.4%	255	1.0	na
Dec 2014	Memstar Technology Ltd.	Longmen Group Limited	100.0%	513	16.2	na
Median					**6.6**	**2.4**
Average					**6.8**	**2.8**

Sources: S&P Global and GTCF analysis

Among the comparable transactions, the most relevant is the proportional 50.5% takeover of AAG announced on 14 May 2018 by Xinjiang Xintai at an offer price of HK$1.75 implying an EV/(2P+2C) multiple of A$6.6/boe. The bidder is expected to realise significant synergies from the transaction arising from the vertical integration of the two businesses.

<u>Conclusion on the multiple</u>

As set out in the RISC Report, the confidence level of SGEH's 2C resources converting into 2P reserves is unusually high at 90%. Accordingly, the total 2P+2C resources of SGEH should be considered a proxy for 2P resources of other comparable companies for the purpose of this analysis.

Based on the analysis of listed comparable companies and comparable transactions, the average 2P multiples of the most comparable companies (AAG, Sino Oil and Gas, Senex and Cooper Energy) and the most comparable transaction (50.5% proportional takeover of AAG) is circa A$6.6/boe which is in line with the 2P+2C multiple implied in our valuation assessment when a premium for control is taken into account. We note that the implied 2P+2C multiple of the Consideration is c. A$7.9/boe[60].

6.3 Valuation cross check – Quoted Security Pricing Method

As a cross check we have also had regard to the trading prices of the listed securities on the ASX in the period prior to the announcement of the Proposed Transaction.

The adopted value of SGEH based on the trading prices is an exercise of professional judgement that takes into consideration the depth of the market for the listed securities, volatility of the market price, and whether or not the trading price are likely to represent the underlying value of SGEH.

6.3.1 Liquidity analysis

In accordance with the requirements of RG111, we have analysed the liquidity of SGEH shares by considering the trading volume from June 2017 and May 2018 as a percentage of the total shares outstanding as well as free float shares outstanding, as outlined in the table below:

[60] Based on the Consideration (on a fully diluted basis), 2,147,838,013 fully diluted shares, net cash of US$ 5 million and 2P+2C resources of 67.6 Mmboe.

Month end	Volume traded ('000)	Monthly VWAP ($)	Total value of shares traded ($'000)	Volume traded as % of free float shares	Cumulative volume traded as % of free float shares	Volume traded as % of total shares	Cumulative volume traded as % of total shares
Jun 17	27,212	0.0891	2,424	2.4%	2.4%	2.3%	2.3%
Jul 17	48,333	0.0825	3,989	1.0%	3.4%	0.9%	3.2%
Aug 17	19,598	0.0861	1,686	2.2%	5.5%	2.1%	5.3%
Sep 17	43,690	0.0808	3,532	1.9%	7.4%	1.8%	7.1%
Oct 17	38,253	0.0865	3,310	3.8%	11.2%	3.6%	10.7%
Nov 17	76,342	0.0985	7,522	5.1%	16.3%	4.9%	15.6%
Dec 17	103,025	0.1133	11,674	6.6%	22.9%	6.3%	21.8%
Jan 18	132,426	0.1433	18,979	6.6%	29.5%	6.3%	28.1%
Feb 18	132,158	0.1772	23,412	4.5%	34.0%	4.3%	32.4%
Mar 18	90,771	0.1700	15,433	4.2%	38.1%	4.0%	36.4%
Apr 18	84,567	0.1667	14,100	3.6%	41.8%	3.5%	39.8%
May 18	73,509	0.1610	11,835	9.7%	51.5%	9.3%	49.1%
Min				**1.0%**		**0.9%**	
Average				**4.3%**		**4.1%**	
Median				**4.0%**		**3.8%**	
Max				**9.7%**		**9.3%**	

Source: S&P Global and GTCF calculations

With regard to the above analysis, we note that:

- The level of free float for SGEH is high at circa 95.1%. From June 2017 to May 2018, circa 51.0% of the free float shares were traded with an average monthly volume of 4.3% of the total free float shares. This indicates that stock is liquid, and is well traded by large segments of the market.
- In the absence of a takeover or alternative transactions, the trading prices represent the value at which minority shareholders could realise their portfolio investment.
- SGEH complies with the full disclosure regime required by the ASX. As a result, the market is fully informed about the performance of SGEH.
- We note that the large trading volumes in December 2017, January 2018 and February 2018 were driven by various announcements on the progression of Linxing and Sanjiaobei PSCs towards ODP, and the finalisation of the Macquarie debt facility.
- SGEH is covered by several investment analysts who provide updates to the market on a regular basis. As a result, there is extensive analysis provided to the market not only about the Company's performance and market standing, but also regarding industry trends.
- As set out in the table below, the free float of SGEH shares is consistent with the industry peers.

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Liquidity analysis			Average volume traded as a % of	
Company name	Country	Free float[1]	total shares[2]	free float shares[2]
Sino Gas & Energy Holdings Limited	Australia	95.1%	4.1%	4.3%
AAG Energy Holdings Limited	Hong Kong	40.3%	0.9%	0.4%
G3 Exploration Limited	China	21.1%	0.4%	0.1%
Sino Oil and Gas Holdings Limited	Hong Kong	73.5%	11.7%	6.5%
Beach Energy Limited	Australia	74.6%	13.2%	9.7%
Senex Energy Limited	Australia	87.9%	5.1%	4.8%
Cooper Energy Limited	Australia	93.5%	4.5%	4.4%
Karoon Gas Australia Ltd	Australia	80.5%	4.4%	3.6%
Tap Oil Limited	Australia	46.1%	5.2%	2.2%
Horizon Oil Limited	Australia	58.0%	2.7%	1.6%
Average (excluding Sino Gas & Energy Holdings Limited)		**63.9%**	**5.3%**	**3.7%**
Median (excluding Sino Gas & Energy Holdings Limited)		**73.5%**	**4.5%**	**3.6%**

Sources: S&P Global, GTCF analysis
Note 1: Average free float percentage measured over the last 12 months
Note 2: For the 12 months preceding May 2018

- Where a company's stock is not heavily traded or is relatively illiquid, the market typically observes a difference between the 'bid' and 'ask' price for the stock as there may be a difference in opinion between the buyer and seller on the value of the stock. The historical difference between the bid and ask price has been consistently low over the last 12 months preceding the date of the announcement of the Proposed Transaction.

Based on the analysis above, we conclude that there is sufficient liquidity in SGEH's trading price for utilisation of the Quoted Security Price Method as required pursuant to RG111.

6.3.2 Valuation assessment of SGEH based on trading price

As part of our valuation procedures based on the trading prices, we have first analysed the performance of SGEH trading prices over the last 18 months.

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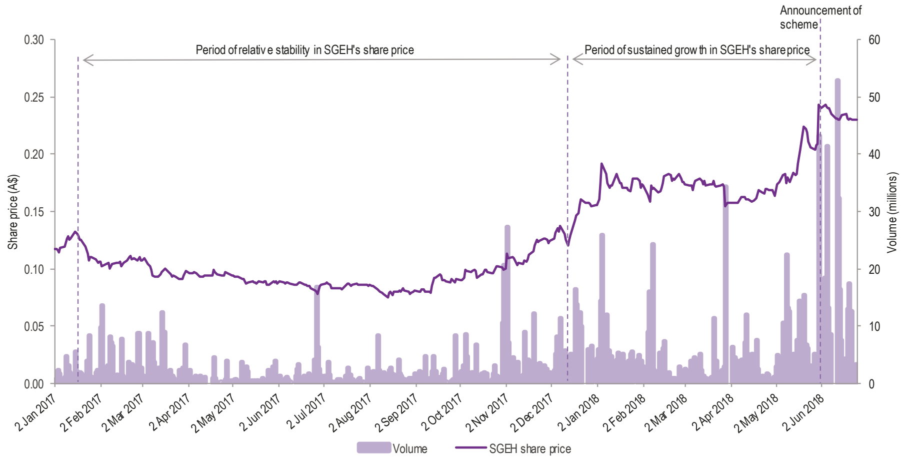
Historical share trading prices and volume for SGEH



Sources: S&P Global, GTCF analysis

As outlined in the graph above, SGEH's trading price has historically been relatively stable and ranged between 8c and 13c between June 2017 and December 2017. However, since December 2017 SGEH's trading prices have experienced significant volatility and gains on strong trading volume. The increase in the trading prices was mainly driven by announcements surrounding the progression of the Linxing and Sanjiaobei ODP. Specifically we note the following key recent events:

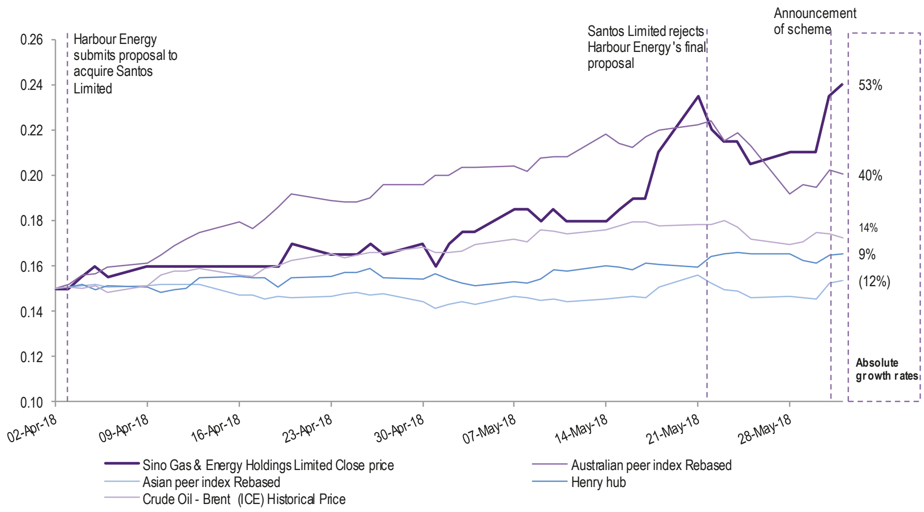
- 30 October 2017: First Linxing ODP submitted to PSC partner for approval, covering 20% of the current discovered area, and US$100 million five year debt facility secured with Macquarie Bank.
- 02 January 2018: Sanjiaobei ODP submitted for approval, covering 60% of the current discovered area.
- 29 March 2018: In-principle approval obtained for the first Linxing ODP approval.
- 09 May 2018: Cost allocation principles finalised with SOE Partner.
- 22 May 2018: Formal approval obtained for First Linxing ODP.

On 4 June 2018, SGEH received an ASX Aware Letter, where, among other things, the ASX was investigating the driver for the significant uplift in SGEH's share price from a closing price of A$0.19 on 17 May 2018 to a closing price of A$0.235 on 21 May 2018 on strong volumes and in the absence of announcements released by the Company. The ASX was seeking to ascertain whether trading occurred on insider information before the announcement on 22 May 2018 of the formal approval obtained for the first Linxing ODP.

SGEH responded to the ASX Aware Letter that it was initially alerted on Friday 18 May 2018 that approval for the first Linxing PSC ODP may potentially have been received by CUCBM. However the document was in Mandarin and SGEH had to ascertain the veracity of it. SGEH notified the market on 22 May 2018 of the formal approval obtained for the first Linxing ODP. However, SGEH indicated that it did not consider that the formal notification of the first Linxing ODP was information that a reasonable person would expect to have a material effect on the price or value of SGEH trading prices given that it had already disclosed that CUCBM granted the first Linxing ODP approval in-principle.

It appears that neither the Company nor the ASX were able to identify a plausible explanation for the share price increase in the second half of May.

As part of our analysis, we have also outlined in the graph below the relative performance of SGEH trading prices compared with its listed peers in Australia and China[61] and with the Henry Hub and Brent Indexes to analyse whether or not the sharp increase in the trading prices in the last quarter of FY18 was driven by general market conditions.



In our opinion, the energy listed entities in Australia have been positively affected over this period by the following:

- Attempt of Harbour Energy to takeover Santos Limited which was first announced to the market on 3 April 2018. After a period of due diligence and a number of revised offers, on 22 May 2018, Santos' Directors resolved to reject the final proposal from Harbour Energy. The announcement of this large transaction provided confidence to the sector and boosted the trading prices of several energy companies listed on the ASX. We note that over the same period, the Asian Peer Index reduced by circa 12%.

- Over the same period, Brent oil price, which represents a relevant reference point for the LNG and gas contracts in Asia-Pacific region, increased by circa 15%.

Based on the above analysis, we draw the following conclusions:

- The announcement of the in-principle ODP approval for Linxing PSC on 29 March 2018 was a significant milestone and price catalyst event for SGEH as the project was significantly de-risked. Accordingly, in our opinion, the trading prices before this date should not be considered as reference point for assessing the Scheme.

[61] The Australian listed peers are Beach Energy Limited, Senex Energy Limited, Cooper Energy Limited, Karoon Gas Australia Ltd, Tap Oil Limited, Horizon Oil Limited. The Chinese listed peers are AAG Energy Holdings, G3 Exploration Limited, Sino oil and Gas Holdings Limited.

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- The trading prices of SGEH since the beginning of April 2018 have been positively affected by the generally uplifted environment for energy companies listed on the ASX. However, we note that over the same period, the Asian Peer Index has decreased by circa 12%. In our opinion, given that SGEH's assets are based in China, the trading prices should be more aligned with the listed Asian companies rather than listed Australian companies.

- In our opinion, SGEH does not have the same exposure of other energy company listed in Australia to upwards movements in the oil price given that the domestic gas market in China is regulated and not necessarily linked to movements in the global markets.

- There does not seem to be any plausible explanations driven by market or company specific factors to justify the significant increase in SGEH trading prices from a closing price of A$0.19 on 17 May 2018 to a closing price of A$0.235 on 21 May 2018.

Set out below is a summary of the VWAP of SGEH's shares under various period before the announcement of the Scheme and before 17 May 2018 (undisturbed trading price).

VWAP	Low	High	VWAP
Prior to 30 May 2018			
5 day	0.200	0.225	0.211
10 day	0.180	0.235	0.209
1 month	0.160	0.235	0.192
2 month	0.150	0.235	0.182
3 month	0.135	0.235	0.178
Prior to 17 May 2018			
5 day	0.175	0.190	0.180
10 day	0.165	0.190	0.178
1 month	0.155	0.190	0.176
2 month	0.135	0.190	0.169
3 month	0.135	0.190	0.170

Source: CapitalIQ and GTCF calculations

Based on the analysis above, we have assessed the fair market value of SGEH Shares based on the trading prices between A$0.18 and A$0.19 cents per share on a minority basis. We have placed limited reliance on the trading prices immediately before the announcement of the Scheme as they appear to have been affected by anomalous trading and volume.

We have set out below the premium for control paid in recent relevant comparable transactions.

Control premium assessment - Recent transactions				Deal value	Premia to trading price	
Date	Target company	Bidder company	Stake	(A$'m)	1-day	1-month
14/05/2018	AAG Energy Holdings Limited	Xinjiang Xintai Natural Gas Co., Ltd	51%	506	28%	29%
30/11/2017	AWE Limited	Mitsui & Co., Ltd	100%	602	74%	74%
13/06/2017	Pan Pacific Petroleum	Zeta Resources Limited	49%	11	41%	40%
16/01/2017	Duet Group	Consortium led by Cheung Kong Property	100%	7,300	29%	32%
7/03/2016	Ethane Pipeline Income Fund	APA Group	94%	122	28%	35%
23/10/2015	Drillsearch	Beach Energy Limited	95%	384	24%	53%
22/12/2014	Memstar Technology Ltd.	Longmen Group Limited	100%	516	8%	15%
15/12/2014	Resources Equipment Limited	Pump Service LLC	87%	114	79%	55%
Average					**39%**	**42%**
Median					**28%**	**37%**

Sources: S&P Global, GTCF analysis

As outlined in the table above, the control premium paid is between circa 30% and circa 40%. Our selected valuation range based on the trading prices between A$0.18 and A$0.19 per share implies a premium for control between 32% and 39% based on the offer price of A$0.25 per share. Instead if we make reference to the 5 day VWAP before the announcement of the Scheme, the premium for control significantly reduces to circa 18%.

Definitive conclusion cannot be drawn given the anomalous trading of SGEH in the period before the announcement of the Scheme. However, under all circumstances, in our opinion the analysis above supports the fairness of the Consideration offered given that that the trading prices of SGEH before the announcement of the Scheme did not reflect the MA11 changes which were announced to the market on 6 June 2018 but whose details were provided to Lone Star before entering into the SIA. We note that as a result of the MA11 changes, lower assessed recovery per well, delayed production ramp-up and lower plateau production rates, RISC has reduced the 2P reserves by 56% and the 2C resources by 7%.

6.4 Other transactions in the share capital of SGE

We note that there have been a number of transactions into the share capital of SGE which provides a see through value of SGEH over the course of the last two years. Whilst some of them occurred at the time when the PSCs were materially less developed than they are now, we have nonetheless analysed them to provide some high level support to our valuation assessment.

- In June 2016, MIE Holdings Corporation ("MIE") announced approval by its shareholders to the sale of MIE's 51% interest in SGE to CNEML for US$220 million (plus working capital adjustment) which implied a valuation of SGEH's 49% interest of US$211 million before working capital adjustment. Our valuation assessment of SGEH's 49% interest is between US$365 million and US$510 million or at premium between 65% and 130% to the MIE's 51% interest sale in SGE.

- In April 2017, SGEH announced that it had purchased from CBM Energy Associates L.C. an option to acquire an additional 7.5% participating interest in the Linxing PSC (before PSC Partner elects to participate to a 51% participating interest) for a total consideration of circa US$3.9 million. To exercise the Linxing Option, SGEH is required to reimburse SGE 7.5% of all historical costs and expenses incurred under the Linxing PSC (circa US$18 million). However, considering that SGEH owns 49% of SGE, the net historical reimbursement costs is effectively circa US$8.9 million. Including the options purchase price and the net costs to be reimbursed, the implied see through value of SGEH's 49% interest in SGE is US$167 million. Our valuation assessment of SGEH's 49% interest is between US$365 million and US$510 million or at premium between 118% and 205% to the Linxing Option see through value of SGE.

Since the announcement of the above transactions, SGE has achieved significant price catalyst milestones such as obtaining the Certified Reserve Report ("CRR"), ODP approval for the Linxing PSC (20% of the area) and in-principle ODP approval for Sanjiaobei PSC (60% of the area) which have significantly de-risked the prospects of the PSC. Whilst it is difficult to directly refer to the above as comparable transactions for the purpose of our fairness assessment, they nonetheless provide directional support for the Consideration agreed under the Scheme.

7 Sources of information, disclaimer and consents

7.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Draft Scheme Booklet.
- Annual reports/ consolidated accounts of SGEH for FY14 to FY17.
- FY18 budget pack and minutes of Board meetings.
- Management Projections
- Press releases and announcements by SGEH on the ASX.
- Management accounts from FY15 to FY17 and for the half year FY18.
- SGE CEO and CFO reports for the last 6 months before the announcement of the Proposed Transaction.
- S&P Global.
- IBISWorld.
- Various industry and broker reports.
- Other publicly available information.

In preparing this report, Grant Thornton Corporate Finance has also held discussions with, and obtained information from, Management of SGEH and its advisers.

7.2 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by the Company, and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by the Company through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of the Company.

This report has been prepared to assist the Directors of SGEH in advising the SGEH Shareholders in relation to the Proposed Transaction. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Proposed Transaction is in the best interest of SGEH Shareholders.

SGEH has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by the Company, which the Company knew or should have known to be false and/or reliance on information, which was material information the Company had in its possession and which the Company knew or should have known to be material and which did not provide to Grant Thornton Corporate Finance. The Company will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

7.3 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Scheme Booklet to be sent to SGEH Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and context in which it appears.

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Appendix A – Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company. The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

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Appendix B – Comparable companies

Company	Description
AAG Energy Holdings Limited	AAG Energy Holdings Limited engages in the exploration, development, production, and sale of coalbed methane in the People's Republic of China. It holds interest in the Panzhuang concession covering an area of 141.8 square kilometres in the southern area of Qinshui Basin; and in the Mabi concession extending over an area of 898.2 square kilometres in the southern Qinshui Basin in Shanxi province under production sharing contracts. The company was founded in 1994 and is headquartered in Central, Hong Kong.
G3 Exploration Limited	G3 Exploration Limited, an investment holding company, explores for, develops, and produces coal bed methane in the People's Republic of China. It is also involved in the supply and distribution of natural gas; and distribution of pipeline natural gas, as well as compressed natural gas for retail and industrial use through its retail stations; and sale of power generation. The company was formerly known as Green Dragon Gas Limited and changed its name to G3 Exploration Limited in January 2018. G3 Exploration Limited was founded in 2006 and is headquartered in Zhengzhou, the People's Republic of China.
Sino Oil and Gas Holdings Limited	Sino Oil and Gas Holdings Limited, an investment holding company, engages in the washing and sale of raw and cleaned coal in the People's Republic of China. It also engages in the exploration, development, and production of coalbed methane; and exploitation and sale of crude oil and natural gas. The company provides financial services. It holds 70% interest in the Sanjiao CBM block covering an area of 383 square kilometres located in Erdos Basin, Shaanxi Province. The company was formerly known as Genesis Energy Holdings Limited and changed its name to Sino Oil and Gas Holdings Limited in 2010. Sino Oil and Gas Holdings Limited was incorporated in 1999 and is headquartered in Central, Hong Kong.
Senex Energy Limited	Senex Energy Limited explores, develops, and produces oil and gas resources in Australia. It holds a portfolio of oil and gas assets in Australia's Cooper-Eromanga Basin, as well as coal seam gas tenements in Queensland's Surat Basin. The company was formerly known as Victoria Petroleum NL and changed its name to Senex Energy Limited in 2010. Senex Energy Limited is headquartered in Brisbane, Australia.
Cooper Energy Limited	Cooper Energy Limited, a petroleum exploration and production company, finds, develops, and sells oil and gas properties. The company holds interests in petroleum exploration and production tenements in the Cooper, Otway, and Gippsland basins in Australia. As of June 30, 2017, it had proved and probable reserves of approximately 11.7 million barrels of oil equivalent. Cooper Energy Limited is headquartered in Adelaide, Australia.
Karoon Gas Australia Ltd	Karoon Gas Australia Ltd operates as an oil and gas exploration company in Australia, Brazil, and Peru. It has a working interest in two off-shore permits in the Browse and Carnarvon basins located to the north Western Australian coastline covering a combined area of 15,492 square kilometres. The company also holds working interest in five offshore blocks in the Santos Basin located in the State of Santa Catarina covering an area of 549 square kilometres. In addition, the company has a working interest in an off-shore block in the Tumbes Basin located approximately to the north-west coast of Peru covering an area of 4,750 square kilometres. The company was incorporated in 2003 and is headquartered in Mount Martha, Australia.
Tap Oil Limited	Tap Oil Limited operates as an independent oil and gas exploration and production company in South East Asia and Australia. It operates through Oil & Gas Production and Development; Oil & Gas Exploration; and Third Party Gas. The company owns a 30% interest in the G1/48 concession in Gulf of Thailand, which includes the Manora oil field. It also has interests in various exploration permits and retention leases in the Carnarvon Basin, North West Western Australia. In addition, the company purchases and sells gas. Tap Oil Limited was founded in 1995 and is based in Perth, Australia.
Horizon Oil Limited	Horizon Oil Limited engages in the exploration, development, and production of oil and gas properties in Southeast Asia. It holds interest in the Block 22/12 oil field in Beibu Gulf, China; Maari/Manaia fields in New Zealand; and Stanley condensate/gas development and six onshore permits in Papua New Guinea. Horizon Oil Limited is based in Woolloomooloo, Australia.

Source: S&P Global

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Appendix C – Comparable transaction target company descriptions

Target Company	Description
AAG Energy Holdings Limited	AAG Energy Holdings Limited engages in the exploration, development, production, and sale of coalbed methane in the People's Republic of China. It holds interest in the Panzhuang concession covering an area of 141.8 square kilometres in the southern area of Qinshui Basin; and in the Mabi concession extending over an area of 898.2 square kilometres in the southern Qinshui Basin in Shanxi province under production sharing contracts. The company was founded in 1994 and is headquartered in Central, Hong Kong.
AWE Limited	AWE Limited explores for, develops, and produces hydrocarbons primarily in Australia. The company offers gas, condensate, and LPG products. Its producing assets include the BassGas project situated in offshore Bass Strait, Tasmania; the Casino gas project located in the offshore Otway Basin, Victoria; the onshore Perth Basin project in Western Australia; and the Waitsia Gas Project Stage 1A situated in Perth Basin, Western Australia. The company also has interests in various exploration, appraisal, and development projects in the Waitsia Gas Project Stage 2 in Perth Basin, Western Australia; and the Ande Ande Lumut Oil Project in Northwest Natuna Sea, Indonesia. The company was formerly known as Australian Worldwide Exploration Limited and changed its name to AWE Limited in November 2009. AWE Limited was founded in 1997 and is based in North Sydney, Australia. As of May 2, 2018, AWE Limited operates as a subsidiary of Mitsui & Co., Ltd.
Premier Oil Pakistan Holdings B.V.	Premier Oil Pakistan Holdings B.V. is a holding company, which through its subsidiaries, produces oil and gas. The company is based in Islamabad, Pakistan. Premier Oil Pakistan Holdings B.V. operates as a subsidiary of Premier Oil plc.
Tangguh LNG Project	Tangguh LNG Project owns and operates liquefied natural gas reserves of 14.4 tcf. The asset is based in West Papua, Indonesia.
ConocoPhillips Indonesia Inc. Ltd. and ConocoPhillips Singapore Operations Pte. Ltd.	As of November 17, 2016, ConocoPhillips Indonesia Inc. Ltd. and ConocoPhillips Singapore Operations Pte. Ltd. were acquired by Medco Natuna Pte. Ltd. ConocoPhillips Indonesia Inc. Ltd. and ConocoPhillips Singapore Operations Pte. Ltd. represents the combined operations of ConocoPhillips Indonesia Inc. Ltd. and ConocoPhillips Singapore Operations Pte. Ltd. in their sale to PT Medco Energi Internasional Tbk. ConocoPhillips Indonesia Inc. Ltd. offers exploration, development, and production of oil and gas. ConocoPhillips Singapore Operations Pte. Ltd. operates an onshore receiving facility. ConocoPhillips Indonesia Inc. Ltd. is based in Indonesia. ConocoPhillips Singapore Operations Pte. Ltd. is based in Singapore.
Sino Gas & Energy Ltd.	Sino Gas & Energy Ltd. provides exploration and development of gas assets in China. The company was incorporated in 2005 and is based in Beijing, China. As of July 20, 2016, Sino Gas & Energy Ltd. operates as a subsidiary of China New Energy Mining Limited.
Sebana Ltd.	Sebana Ltd. provides petroleum exploration and extraction services. The company owns a 90 percent interest in the Bulu production sharing contract (PSC) offshore East Java. Sebana Ltd. is based in Jakarta, Indonesia. Sebana Ltd. is a former subsidiary of PT Petroland Energi.
Petroceltic International plc	Petroceltic International plc engages in the exploration, development, and production of oil and gas properties primarily in Algeria, Bulgaria, Egypt, Italy, and the Kurdistan Region of Iraq. The company also holds royalty interests in gas fields in Ireland. As of December 31, 2014, it had probable plus reserves of approximately 245 million barrels of oil equivalent. It sells oil, oil liquids, and gas. The company is headquartered in Dublin, Ireland.
Memstar Technology Ltd.	Memstar Technology Ltd. does not have significant operations. Previously, it was involved in the research and development, manufacture, and application of hollow fiber membranes and membrane products. The company was incorporated in 1979 and is based in Singapore.

Source: S&P Global

Appendix D – Discount rate

Introduction

The cash flow assumptions associated with SGEH have been prepared on a real, ungeared and post-tax basis. Accordingly, we have assessed a range of real post-tax discount rates for the purpose of calculating the net present values of SGEH.

The discount rate was determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgment.

Under a classical tax system, the nominal WACC is calculated as follows:

$$WACC = R_d \times \frac{D}{D+E} \times (1-t) + R_e \times \frac{E}{D+E}$$

Where:

- R_e = the required rate of return on equity capital;
- E = the market value of equity capital;
- D = the market value of debt capital;
- R_d = the required rate of return on debt capital; and
- t = the statutory corporate tax rate.

WACC Inputs

In our assessment of the required rate of return on equity capital, we have observed the global financial markets and adopted the US market as a proxy due to the following:

- Demand and supply for natural gas in China is impacted by the price of import fuels such as oil and LPG which are traded in US$.
- The functional and presentation currency of the Company, its subsidiaries and JV is US$.
- The Company debt facility is in US$.

Required rate of return on equity capital

We have used the Capital Asset Pricing Model ("CAPM"), which is commonly used by practitioners, to calculate the required return on equity capital.

The CAPM assumes that an investor holds a large portfolio comprising of risk-free and risky investments. The total risk of an investment comprises of systematic and unsystematic risk. Systematic risk is the variability in an investment's expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

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The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion. Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company's returns are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market - it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (Re) is estimated as follows:

$$R_e = R_f + \beta_e (R_m - R_f)$$

Where:

- R_f = risk free rate
- β_e = expected equity beta of the investment
- $(R_m – R_f)$ = market risk premium

Risk free rate

In the absence of an official risk free rate, the yield on government bonds (in an appropriate jurisdiction) is commonly used as a proxy. We have observed the yield on the 10-year United Stated Treasury Bond over several intervals from a period of 5 trading days to 10 trading years as set out in the table below:

United States Treasury Constant Maturity - 10 Year as at 31 March 2018	Range			Daily average
Previous 5 trading days	2.87%	-	2.93%	2.90%
Previous 10 trading days	2.87%	-	2.98%	2.91%
Previous 20 trading days	2.83%	-	2.98%	2.92%
Previous 30 trading days	2.77%	-	3.11%	2.95%
Previous 60 trading days	2.77%	-	3.11%	2.93%
Previous 1 year trading	2.05%	-	3.11%	2.51%
Previous 2 years trading	1.37%	-	3.11%	2.27%
Previous 3 years trading	1.37%	-	3.11%	2.22%
Previous 5 years trading	1.37%	-	3.11%	2.31%
Previous 10 years trading	1.37%	-	4.27%	2.58%

Source: S&P Global and GTCF calculations

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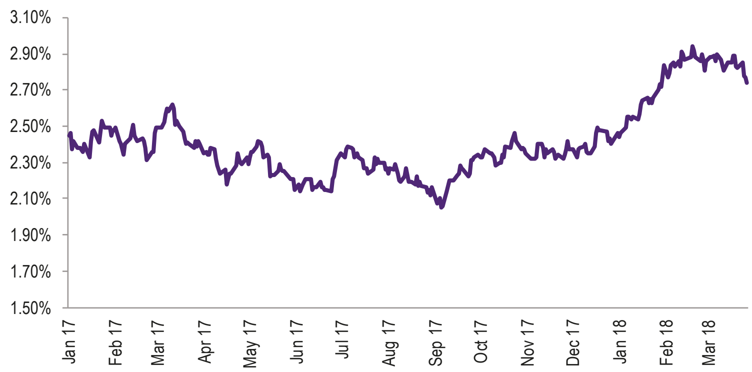
The graph below show the yield trend of the US Treasury bond since January 2017

10-year United States Treasury Bonds yield



Source: S&P Global and GTCF calculations

We note that the current spot yield is approximately 2.9%. However, given that the US Federal Reserve has raised the cash rates five times in the last 18 months, including on 14 June 2018 to between 1.75% to 2.00% and has signalled further increases over the next two years[62] we have assessed a long-term risk-free rate of c.3.5%. This is also consistent with forward rates and future yield curve.

Market risk premium

The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned. However, given the inherent high volatility of realised rates of return, especially for equities, the market risk premium can only be meaningfully estimated over long periods of time. In this regard, Grant Thornton studies of the historical risk premium over periods of 20 to 80 years suggest the premium is between 4.5% and 6.0% for the US.

For the purpose of the WACC assessment, Grant Thornton Corporate Finance has adopted a market risk premium of 5.5%.

Beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity.

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[62] A majority of Federal Open Market Committee ("FOMC") participants have assessed the appropriate level for the federal funds rate target to be between 2.0% and 2.5% by the end of 2018, increasing to between 2.75% and 3.25% by 2019 and c. 3.25 to 3.75% by 2020.

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For the purpose of this report, we have had regard to the observed betas (equity betas) of comparable companies in the oil and gas industry as outlined below.

Company Beta analysis	Country	Market Cap $'million	Equity Beta[1]	R squared	Gearing Ratio[1]	Ungeared Beta	Regeared Beta
Sino Gas & Energy Holdings Limited	China	445	3.10	0.23	0.0%	3.10	3.22
AAG Energy Holdings Limited	Hong Kong	5,261	1.14	0.15	0.0%	1.14	1.19
G3 Exploration Limited	China	87	0.03	0.00	65.4%	0.02	NM
Sino Oil and Gas Holdings Limited	Hong Kong	629	0.24	0.01	76.3%	0.14	NM
Beach Energy Limited	Australia	3,597	2.19	0.22	0.0%	2.19	2.28
Senex Energy Limited	Australia	572	2.29	0.20	0.0%	2.29	2.38
Cooper Energy Limited	Australia	576	1.28	0.10	0.0%	1.28	1.33
Karoon Gas Australia Ltd	Australia	270	0.90	0.04	0.0%	0.90	NM
Tap Oil Limited	Australia	31	1.62	0.11	14.3%	1.48	1.53
Horizon Oil Limited	Australia	176	1.29	0.08	96.6%	0.77	0.80
Average			**1.41**	**0.11**	**25%**	**1.33**	**1.586**
Median			**1.29**	**0.10**	**0%**	**1.21**	**1.433**

Source: S&P Global and GT calculations

Note 1: Equity betas are calculated using data provided by S&P Global. The betas are based on a five-year period with monthly observations and have been degeared based on the average gearing ratio over five years.

Note 2: NM – Not Meaningful, R squared below 0.05.

It should be noted that the above betas are drawn from the actual and observed historical relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess their commercial reasonableness. That is, to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks, the selection of an unsystematic equity beta requires a level of judgement.

The asset betas of the selected companies are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparable companies, a process commonly referred as de-gearing. We have then recalculated the equity beta based on an assumed 'optimal' capital structure deemed appropriate for the business (re-gearing). This is a subjective exercise, which carries a significant possibility of estimation error.

We used the following formula to undertake the de-gearing and regearing exercise:

$$\beta_e = \beta_a \left[1 + \frac{D}{E} \times (1 - t) \right]$$

Where:

- β_e = Equity beta
- β_a = Asset beta
- t = corporate tax rate

The betas are de-geared using the median gearing level over the period in which the betas were observed and then re-geared based on a gearing ratio of 10% debt to 90% equity (see the Capital Structure Section below for further discussions).

We note that the median and average 5-year betas for the comparable companies is 1.43 and 1.59 respectively. While we note that these companies have differences to SGEH, we believe that the beta for these companies provides a reasonable measure of the industry beta.

Based on the above, for the purposes of our valuation, we have selected a beta range of between 1.5 to 1.6 to calculate the required rate of return on equity capital.

Specific risk premium

The specific risk premium represents the additional return an investor expects to receive to compensate for specific risks not reflected in the beta of the observed comparable companies.

In the computation of the cost of equity for SGEH we have applied a specific risk premium of between 3% to 4%. Our specific risk premium consists of a country risk premium of c. 1%[63] and risk premium of between 2% to 3% to account for the pre-development stage of the assets and the jurisdictional risk associated with China (refer to executive summary for further details).

Cost of debt

For the purpose of estimating the cost of debt applicable to SGEH, Grant Thornton Corporate Finance has considered the following:

- The margin in corporate bond yields over the US and Australian Government bond yields.
- The weighted average interest rate on credit outstanding for large businesses over the last one to five years as published by the Reserve Bank of Australia.
- The historical and current cost of debt for SGEH and its comparable companies.
- Expectations of the yield curve.

Based on the above, Grant Thornton Corporate Finance has adopted a cost of debt of 8.0% (pre-tax).

Capital structure

Grant Thornton Corporate Finance has considered the gearing ratio which a hypothetical purchaser of the business would adopt in order to generate a balanced return given the inherent risks associated with debt financing. Factors which a hypothetical purchaser may consider include the shareholders' return after interest payments, and the business' ability to raise external debt.

The appropriate level of gearing that is utilised in determining the WACC for a particular company should be the "target" gearing ratio, rather than the actual level of gearing, which may fluctuate over the life of a company. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by an assessment of:

- the quality and life cycle of a company;
- the quality and variability of earnings and cash flows;
- working capital;
- level of capital expenditure; and

[63] We note our adopted country risk premium of 1% is broadly comparable to the country risk premium for China estimated by Professor Aswath Damodaran in January 2018.

- the risk profile of the assets.

In determining the appropriate capital structure, we have had regard to the current capital structure of the comparable companies as well as SGEH's net debt level. We have also had regard to the average gearing ratio of SGEH and comparable companies over the last five year period as set out in the beta section of this report.

For the purpose of the valuation, Grant Thornton Corporate Finance has adopted a debt-to-enterprise ratio of 10% debt and 90% equity.

Discount rate summary

Nominal WACC

The nominal discount rate for SGEH, determined using the WACC formula, is set out below.

WACC calculation	Low	High
Cost of equity		
Risk free rate	3.5%	3.5%
Beta	1.50	1.60
Market risk premium	5.5%	5.5%
Specific risk premium	3.0%	4.0%
Cost of equity	**14.8%**	**16.3%**
Cost of debt		
Cost of debt (pre tax)	8.0%	8.0%
Tax	25.0%	25.0%
Cost of debt (post tax)	**6.0%**	**6.0%**
Capital structure		
Proportion of debt	10.0%	10.0%
Proportion of equity	90.0%	90.0%
WACC (post tax) nominal	**13.9%**	**15.3%**

Source: Capital IQ and GTCF calculations

Real WACC

The forecast cash flows of SGEH have been prepared on real terms. We have determined the WACC on real terms by 'deflating' the nominal WACC determined above by the US long term blended inflation rate of 2.1% utilising the Fisher equation, as follows:

$$(1+r_{real}) = (1+r_{nominal}) \ / \ (1+i)$$

Where:

- r_{real} = real WACC
- i = long term forecast rate of inflation
- $r_{nominal}$ = nominal WACC

The real discount rate adopted for SGEH is summarised below:

WACC calculation in real terms	Low		High
WACC (post tax) (nominal)	13.9%		15.3%
US Long term inflation	2.1%		2.1%
WACC (post tax) (real)	11.5%		12.9%
GT Selected WACC (post tax) (real)[1]		**12.0%**	

Source: Capital IQ and GTCF Calculations
Note (1): GT selected WACC based on the average of the High and Low range, rounded to nearest 0.5%

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Appendix E – Glossary

$ or A$	Australian Dollar
2C	Contingent resources
2P	Proved plus probable reserves
ACCC	Australian Competition and Consumer Commission
AGE	Asia Gas & Energy Ltd
APES	Accounting Professional and Ethical Standards
APES110	Code of ethics for Professional Accounting
Asian Peer Index	The Asian Peer Index consists of AAG Energy Holdings Limited (“AAG”), G3 Exploration Limited (“G3”) and Sino Oil and Gas Holdings Limited (“SOGH”).
ASIC	Australian Securities Investment Commission
ASX	Australian Stock Exchange
Australian Peer Index	The Australian Peer Index consists of Beach Energy Limited, Senex Energy Limited, Cooper Energy Limited, Karoon Gas Australia Ltd, Tap Oil Limited, Horizon Oil Limited.
Boe	One barrel of oil equivalent. One million boe is equal to 6.003 billion cubic feet of natural gas
BP	British Petroleum
CAGR	Compounded Annual Growth Rate
CBM	Coalbed Methane Gas
Cf	One cubic foot of natural gas
CGS	Central gathering station
CHP	Gas-fired combined heat and power plants
Clean Air Action Plan	National Action Plan on Air Pollution
CNEML	China New Energy Mining Limited
CNOOC	China National Offshore Oil Company
Coal to gas switching policy	Number of Government policies promoting the use of gas and other sources of clean energy in key regions as a substitute for coal
Competing Proposal	Refer to glossary of Scheme Booklet
Consideration	$0.25 per SGEH Share
Corporations Act	Corporations Act 2001
CRR	Certified Reserve Report
CUCBM	China United Coalbed Methane
CY	Calendar year
DCF	Discounted Cash Flow
Deemed Interest	CUCBM is obliged to pay 9% interest to SGE on the Carried Development Costs by way of an increased share of revenue through the cost recovery mechanism
EBITDA	Earnings before interest, tax, depreciation and amortisation
EDAP	Energy Development Action Plan
Effective Date	The date when a copy of the Court order approving the Scheme is lodged with ASIC.
EV	Enterprise Value
Financial Model	Financial model prepared by SGEH reflecting the terms of the PSCs cash flow generated which are then consolidated at SGE level first and then again for SGEH
FIRB	Foreign Investment Review Board
FSG	Financial Services Guide
FY	Financial year ended 30 June
Government	The Chinese government
GSA	Gas supply agreements
GTCF, Grant Thornton, or Grant Thornton Corporate Finance	Grant Thornton Corporate Finance Pty Ltd (ACN 003 265 987)
Guohua	Shanxi Guohua Energy Company

IER or Report	Independent Expert Report
Import Dependency	Computed as percentage of natural gas imports to China over total Chinese natural gas supply over a single year
Linxing North CGS	A third CGS is currently being developed in Linxing
Linxing Option	SGEH has an option to acquire 7.5% of SGE's participating interest in the Linxing PSC by reimbursing SGE for 7.5% of historical costs and expenses
Lone Star	Lone Star Fund X Acquisitions LLC and its wholly owned subsidiary LSF10 Summertime Investments, Ltd.
Lone Star or the Buyer	Lone Star S.A.
MA11	11th Modification Agreement
Macquarie	Macquarie Bank Limited (ACN 008 583 542)
MIE	MIE Holdings Corporation
Mmboe	One million barrels of oil equivalent
NDRC	National Development and Research Commission
NEA	National Energy Administration
ODP	Overall Development
pa	Per annum
PCCBM	PetroChina CBM Company
PJ	One thousand trillion joules
PRC	People's Republic of China
PSC	Production sharing contract
Resource Multiples	2P and 2C resource multiple
RG	Regulatory Guide
RG111	ASIC Regulatory Guide 111 "Contents of expert reports"
RG112	ASIC Regulatory Guide 112 "Independence of Experts"
RG74	ASIC Regulatory Guide 74 "Acquisitions agreed to by shareholders"
RISC	RISC Advisory Pty Ltd (ACN 150 789 030)
RISC Report	Report prepared by RISC to review and express an opinion on the reasonableness of technical assumption included underlying the forecast cash flows of the Linxing PSC and Sanjiaboei PSC and the value of other prospective resource
ROFR	Right of first refusal
Scheme or Proposed Transaction	Scheme of Arrangement
Scheme Record Date	SGEH Shareholders will be entitled to receive the Consideration in respect of the SGEH Shares they hold as at the Scheme Record Date (the second business day after the Effective Date) which is expected to be Friday, 14 September 2018
SGE	Sino Gas & Energy Limited (ACN 115 316 599)
SGE Board	Board members of SGE
SGE Shareholders' Agreement	The terms of SGEH's shareholding in the SGE are governed by a shareholders' agreement between SGEH and CNEML
SGEH Management	Senior management and directors of SGEH
SGEH or the Company	Sino Gas & Energy Holdings Limited (ACN 124 242 422)
SGEH Share	1 outstanding ordinary share in SGEH
SGEH Shareholder	An individual/ entity beneficially holding SGEH Share(s)
SIA	Scheme Implementation Agreement
SOE	State Owned Enterprise
TJ	One trillion joules
VAT	Value added tax
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital

Appendix F – RISC Report

RISC

Independent Technical Specialists Report on the Petroleum Properties of SGEH Limited

July 2018

decisions with confidence

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1. Executive Summary

The Directors
Sino Gas & Energy Holdings Limited
311-313 Hay Street, Subiaco,
Western Australia

Mr Andrea De Cian
Grant Thornton Corporate Finance Ltd
Level 17, 303 Kent Street
Sydney NSW 2000

9 July 2018

Dear Directors and Independent Expert,

Independent Technical Specialist's Report on the Petroleum Assets of SGEH Limited

Grant Thornton Corporate Finance ("Grant Thornton") has been appointed by the Directors of Sino Gas and Energy Holdings Limited ("SGEH") as the Independent Expert in relation to the proposed Lone Star takeover (the "Proposed Transaction").

To assist Grant Thornton in preparing its Independent Expert Report in relation to the Proposed Transaction, Grant Thornton has provided instructions to RISC Advisory Pty Ltd ("RISC") to prepare this document, an Independent Technical Specialist's Report in relation to the petroleum assets of SGEH.

The Technical Report documents our review of the petroleum reserves, resources and associated Overall Development Plan (ODP), development schedules, production data, production and cost forecasts. We prepared scenarios for valuation of the properties by Grant Thornton.

The Linxing and Sanjiaobei PSCs in the Ordos Basin, onshore China are SGEH's only petroleum resource properties. Deep gas resources provide the key value. Pilot production commenced late 2014 and built up to 25 MMscf/d in 2018. Over 100 wells have been drilled to appraise and develop the low permeability gas resources. The initial phase of the ODP for Linxing has been approved and the ODP for Sanjiaobei is expecting approval in 2018. Production will then be ramped-up to an estimated plateau gas rate of 450 MMscf/d from 2024.

SGEH also have contingent resources in a shallow CBM discovery in the north east of Linxing PSC. However, these resources are significantly smaller and their development is estimated to be uneconomic.

In April 2017, SGEH acquired an option to purchase an additional 7.5% contractor interest in Linxing PSC by paying 7.5% of past costs. SGEH does not hold these additional resources as the post ODP approval option has not yet been exercised.

Reserves, contingent and prospective resources

The estimated reserves, contingent resources and prospective resources to SGEH as at 31 March 2018 are shown in Table 1-1, Table 1-2 and Table 1-3 respectively. Reserves and resources have been evaluated in accordance with PRMS Guidelines.

Table 1-1: Deep Gas Reserves net to SGEH as at 30/06/2018

Reserves (Bcf)	1P	2P	3P
Linxing	114	168	227
Sanjiaobei	62	88	119
Total	176	256	346

Table 1-2: Deep Gas Contingent Resources net to SGEH as at 30/06/2018 (unrisked)

Contingent Resources (Bcf)	1C	2C	3C
Produced during PSC period	72	108	150
Produced Post PSC Expiry	192	319	463
Infill or re-completion	210	328	460
Total	**474**	**755**	**1073**

Table 1-3: Deep Gas Prospective Resources net to SGEH as at 30/06/2018 (unrisked)

Prospective Resources (Bcf)	Low	Best	High
Linxing	10	15	22
Sanjiaobei	247	360	483
Total	**256**	**376**	**505**

Notes to tables:

1. A combination of probabilistic and deterministic methods have been used.
2. Reserve totals and contingent resource totals have been aggregated arithmetically.
3. The reference point for reserves determination is the custody transfer point for the products. Reserves are stated as sales quantities net of fuel and flare.
4. All of the above reserves and contingent resources are considered unconventional (tight gas).
5. The contingent resources have not been risked to reflect the chance of development.
6. The prospective resources have not been risked to reflect the chance of discovery or development.
7. Contingent and prospective resources estimates include production after PSC expiry.

RISC has prepared sales gas and development cost forecasts associated with the 1P, 2P reserves and 2C contingent resources as shown in Figure 1-1.

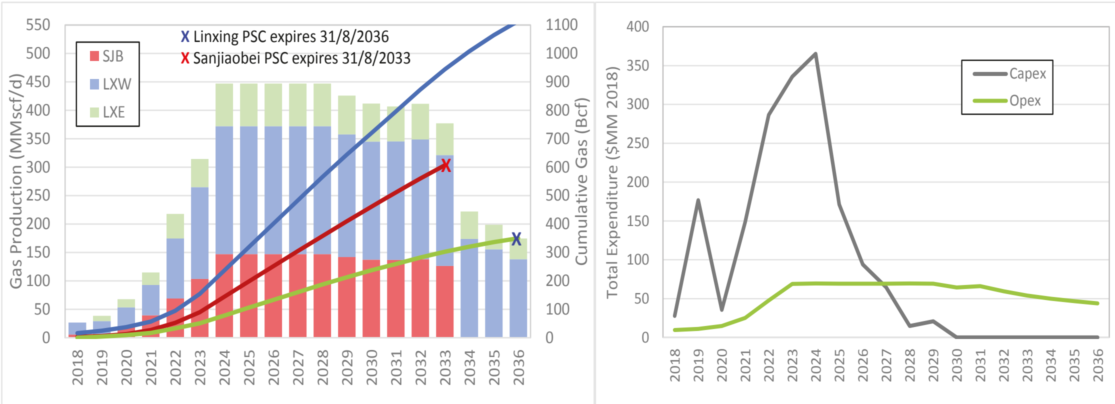

Figure 1-1: Gross 2P plus 2C gas sales and cost forecast

Reserves are limited to production prior to PSC expiry. Contingent resources include production post PSC expiry, although these resources are contingent upon PSC extension which carries uncertainty.

SGEH reserve estimates have reduced more than 50% since the previous assessment due to the 11th amendment to the Linxing PSC, new information regarding well performance, well completion intervals and the pace of development has become available:

- Development plans prepared based on available technical data and ODP submissions indicate that the completion interval of development wells will be less extensive than previously estimated, and new analogue data from Ordos basin gas fields is supporting a lower gas recovery per well. There is potential scope for future re-completion of wells or infill drilling to develop undeveloped gas but such plans are not firm and economics must be evaluated. Therefore this potential additional resource is classified as a contingent resource.
- The current ODP and development plans indicate the start of plateau production to be in 2023/2024, 3 years later than estimated in previous assessments. Gas rates prior to plateau are also reduced. This moves a larger proportion of production to post PSC expiry and contingent resources.

Table 1-4 shows SGEH contingent resources in the shallow CBM discovery in the north east of Linxing PSC. Development of these resource is estimated to be marginal economically so they are not included in valuation scenarios.

Table 1-4: Shallow CBM Contingent Resources net to SGEH as at 30/06/2018 (unrisked)

Shallow CBM (SGEH net)	1C	2C	3C
Contingent Resources (Bcf)	20	51	80

Resources associated with the option to acquire an additional 7.5% contractor share in Linxing PSC are shown in Table 1-5, and included in the valuation.

Table 1-5: Resources associated with additional 7% contractor share option in Linxing PSC as at 30/06/2018 (unrisked)

Net gas resources (Bcf)	Low (1P/1C)	Mid (2P/2C)	High (3P/3C)
Deep gas reserves (1P/2P/3P)	19	28	38
Deep gas contingent resources (1C/2C/3C)	51	81	115
Deep gas prospective resources	2	3	4
Shallow CBM contingent resources (1C/2C/3C)	2	6	9

2. Introduction

2.1. Terms of reference and basis of assessment

2.1.1. Terms of reference

This assignment has been conducted under the terms of our engagement with SGEH dated 8 June 2018 and under the direction of Independent Expert, Grant Thornton through RISC's engagement with Grant Thornton dated 7 June 2018. RISC's terms of reference are:

- A review of the technical assumptions underlying the future cash flows of the producing assets including resource and reserve estimation, production volumes, operating expenses, capital costs and other environmental and infrastructure considerations. RISC will advise Grant Thornton Corporate Finance on the reasonableness of these assumptions for valuation purpose and prepare various sensitivity/scenario cases;
- Assessment of prospective resources (exploration potential);
- Preparation of the Technical Report for inclusion in the Independent Expert's Report. The Technical Specialist's Report is to be addressed to Grant Thornton and the Board of Directors of SGEH.

2.1.2. Basis of assessment

The data and information used in the preparation of this report were provided by SGEH supplemented by public domain information. RISC has relied upon the information provided and has undertaken the evaluation on the basis of an update to previous Independent Reserve and Resource Assessments conducted by RISC for SGE.

Our assessment for the producing assets is based on production data up to 14 June 2018 and where necessary, has been truncated to 31 March 2018 for reserves reporting purposes.

RISC has reviewed the reserves/resources in accordance with the Society of Petroleum Engineers' internationally recognised Petroleum Resources Management System (PRMS)[1].

Unless otherwise stated, all resources presented in this report are gross (100%) quantities with an effective date of 31 March 2018. Unless otherwise stated, all costs are in US$ real terms with a reference date of 1 January 2018 (RT2018).

[1] SPE/WPC/AAPG/SPEE 2007 Petroleum Resources Management System

3. Geological overview and Data Summary

3.1. Regional Geology

The Linxing and Sanjiaobei PSCs lie on the eastern edge of the Ordos Basin. The basin is the second largest petroleum-bearing basin in China with a reported total discovered P50 oil initially in-place of 8 billion barrels and a discovered P50 GIIP of 50 Tcf.

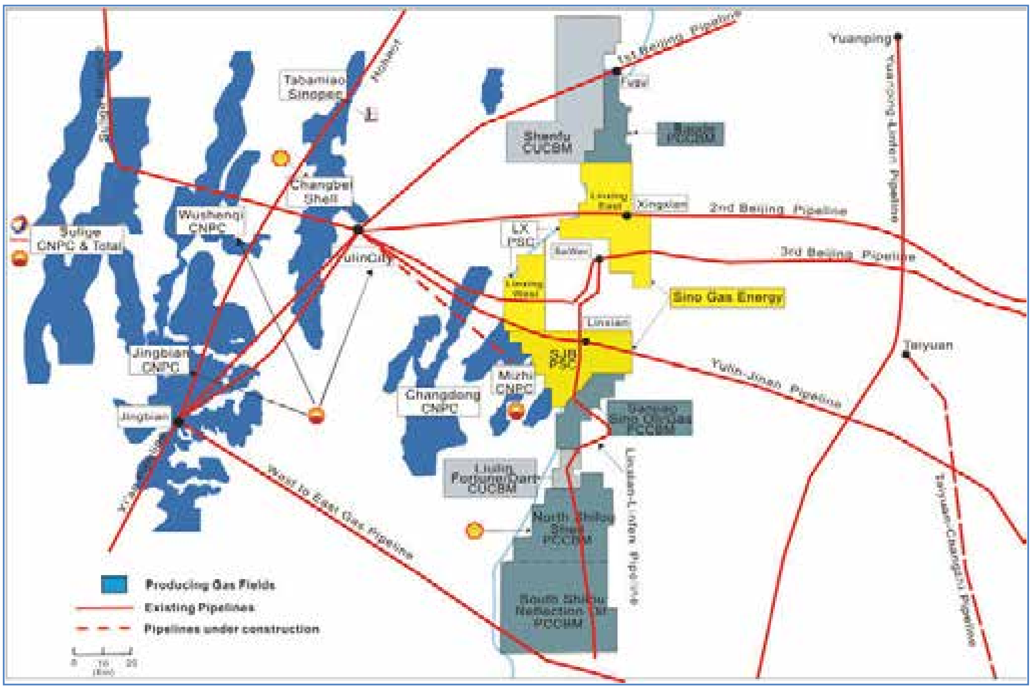

Figure 3-1: Ordos Basin Gas Fields and Pipelines (pre LXE relinquishment)

The Ordos Basin is a cratonic basin covering an area of 250,000 square km with up to 10,000 m of Palaeozoic and Mesozoic sediments. The Jingbian, Wushenqi, Changbei, Tabamiao, Sulige, Chandong and Mizhi gas fields to the west are producing and under further development. They are largely located in an area of a gentle monocline, which extends into the Linxing PSC. These fields are understood to be stratigraphically trapped, with gas present where reservoir quality sand bodies are present. As such the resource area is not limited to the traditional structural highs but extensive over the area.

Linxing and Sanjiaobei are geologically analogous to Sulige, Mizhi and other tight gas accumulations in the Ordos basin.

RISC

Stratigraphic Column

Era	System	Epoch	Formation	Para-formation	Code	Facies	Lithology	Wireline Logging
Palaeozoic	permian	Upper	SQF	Q1	P_3q_1	Flood Plain		
				Q2	P_3q_2			
				Q3	P_3q_3			
				Q4	P_3q_4			
				Q5	P_3q_5			
		Middle	Up Shihezi	He1	P_2sh_1	Lacustrine Deposit		
				He2	P_2sh_2			
				He3	P_2sh_3			
				He4	P_2sh_4			
		Lower	Lower Shihezi	He5	P_2x_5	Channel-Delta Deposit		
				He6	P_2x_6			
				He7	P_2x_7			
				He8	P_2x_8			
			Shanxi	Shan1	P_1s_1	Channel-Delta Deposit		
				Shan2	P_1s_2			
	Carboniferou	Upper	Taiyuan	Tai1	C_3t_1			
				Tai2	C_3t_2			
		Middle	Benxi		C_2b	Barrier Island Lagoon Deposit		
	Ordovician	Middle	Majiagou		O_1m			

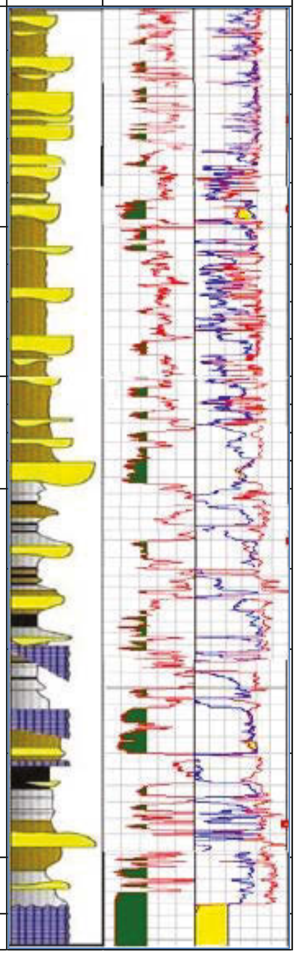

Figure 3-2: Stratigraphy of SGE Ordos Basin permits

The gas resources are contained in a number of stratigraphic, heterogeneous, interbedded sandstone layers between or overlying the coal seams extensively found in Carboniferous and Permian aged rocks at depths between 1,000 and 2,200 mbrt. Wells generally find gas in multiple formations over an 800 m vertical interval. At this depth the permeability of the coal may be too low to be productive and the gas is produced through the adjacent gas bearing sandstone intervals.

The Sulige and Mizhi gas fields produce from the same gas bearing formations as the SGEH fields. Sulige was discovered in 2000 and started production in 2006. Total proved reserves are over 50 Tcf with planned production of 1,300 MMscf/d. As of 2011 there were over 4,500 gas well producing 1,300 MMscf/d through 93 gathering stations and 5 processing plants. Multiple hydraulic fractures are used on deviated wells to complete 7 layers.

The Linxing and Sanjiaobei gas accumulations are updip extensions of the Mizhi gas reservoirs (formerly called Jia Xian). Mizhi was discovered in 1985. China National Petroleum Corporation (CNPC) started development of the Mizhi Gas Field in 2005 with first commercial gas production announced in 2007. Initial production through 61 gas wells and 13 gas gathering stations was 45 MMscf/d with facility capacity of 140 MMscf/d. Proved reserves were over 1.2 Tcf at end 2011. The Mizhi permit lies directly to the south west of Linxing.

3.2. Geological and Well Data

Figure 3-5 and Figure 3-3 shows the well and 2D-seismic and well coverage which is extensive across Linxing West, the northwest of Sanjiaobei and the southwest of Linxing East.

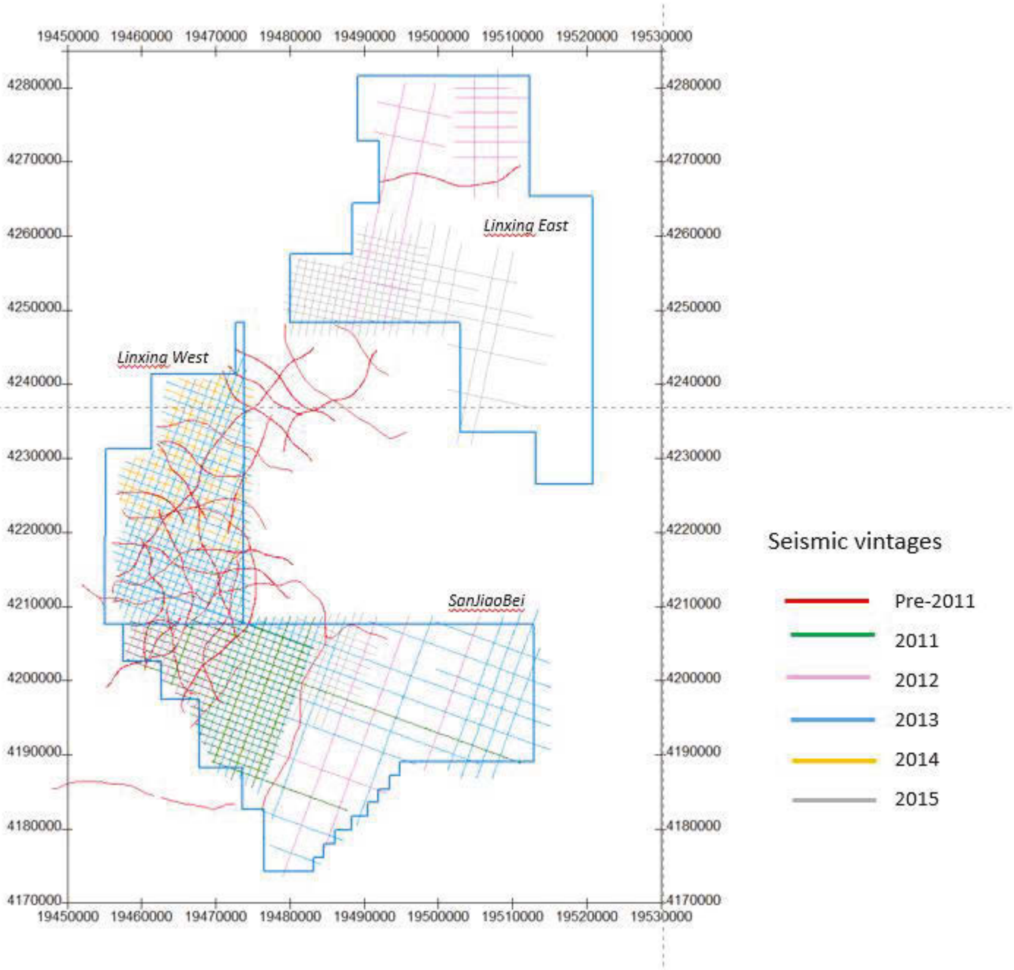

Figure 3-3: Seismic coverage

To date around 3,365 km of 2D seismic data have been acquired. Up until 2011, seismic acquisition over the Sanjiaobei and Linxing permits was constrained by the valleys resulting in sinuous lines. After 2011, seismic acquisition was no longer constrained by the topography and could be acquired in a regular fashion.

Seismic shows the coal seams and geology as continuous layers across the majority of the structure. However, it becomes quite complex in the east due to the impingement of the Lishi Thrust Belt (Figure 3-4). Note that this line is greatly compressed and the angle of the faults is shallow.

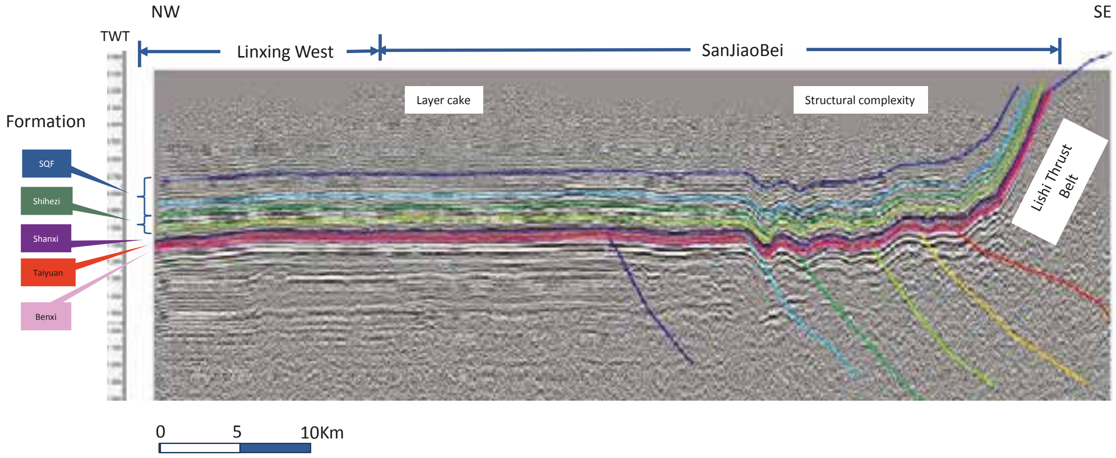

Figure 3-4: Line 219 showing thrusts

169 wells have been drilled to evaluate the deep gas across Sanjiaobei (SJB) and Linxing East (LXE) and West (LXW) areas, Table 3-1.

Table 3-1: Well count in Sanjiaobei and Linxing

	SJB	LXW	LXE	Total deep gas wells	LXE CBM
Total wells	59	97	13	169	15
Well tied-in	21	52	0	73	8
Wells planned for tie-in	11	23	10	44	0
Remaining lanned 2018 wells	7	7	12	26	3

73 wells have been tied-in for pilot production and 44 additional wells are planned for tie-in. An additional 26 wells are planned to be drilled in 2018.

To the east of the Lishi thrust belt the coals and sandstone formations are shallow and this area has been evaluated for potential CBM development. 15 CBM wells have been drilled with 8 pilot tested.

Figure 3-5 shows the available well coverage.

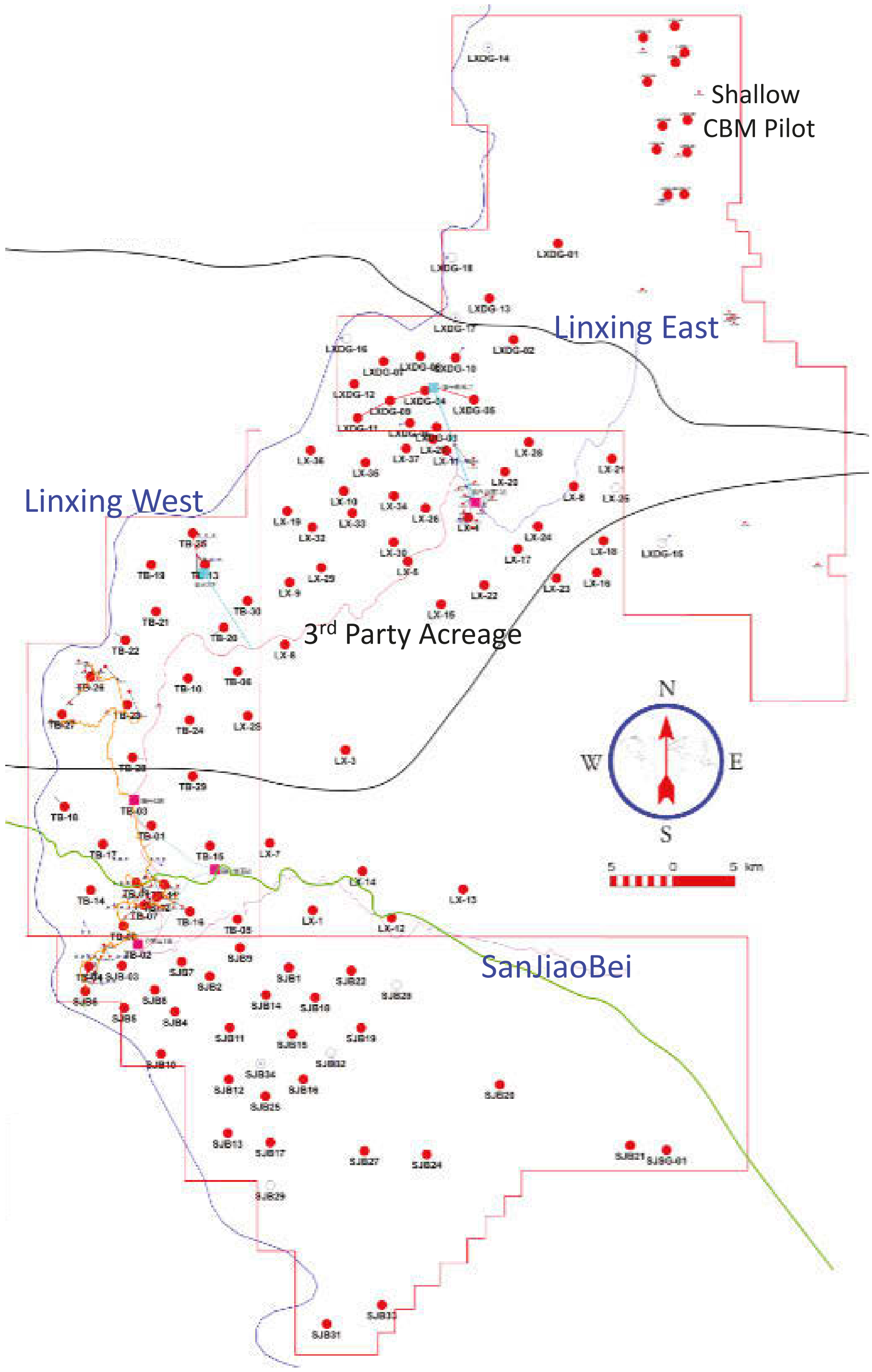

Figure 3-5: Well database for Linxing and Sanjiaobei permits

The 3rd party acreage between Linxing East and Linxing West was previously part of the Linxing PSC. However it was requested to be relinquished back to the authority CUCBM, as part of an extension to the exploration period. The wells shown on Figure 3-5 were subsequently drilled by CUCBM and the northern wells put onto production.

3.3. Well Test Results

Data from 146 well tests across various reservoir intervals in 101 wells in Sanjiaobei and Linxing were available for this review. The table below summarises the formations tested, flowrates, bottom hole and tubing head pressures (BHP and THP).

The well test flowrates vary from zero to 141,000 m^3/d (5.0 MMscf/d), including horizontal wells. Figure 3-6 shows the distribution of well test rates (pre-frac tests are excluded where superseded by post frac tests).

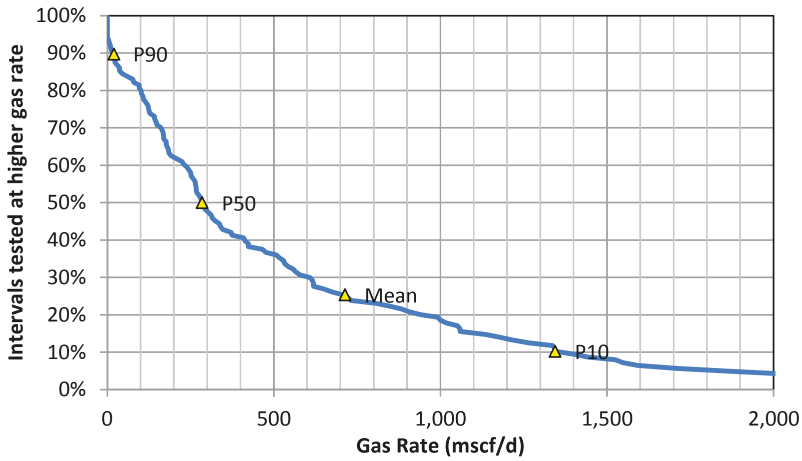

Figure 3-6: Distribution of Interval Well Test Rates

- 6% of tested intervals failed to flow, died or flowed water;
- 50% of tests flowed at more than 8,000 m3/d (285 Mscf/d);
- 18% of tests flowed at more than 28,300 m^3/d (1,000 Mscf/d).

Hydraulic fracturing has been conducted on 77% of well test intervals although:

- A well test with one of the highest gas rate was not fractured; 53,000 m^3/d (1.9 MMscf/d) from the SQF formation in TB-07-LX;
- The pre-frac rate in TB-11 increased 8 fold after hydraulic fracturing. A large proportion of reservoir intervals will not flow without hydraulic fracturing;

Water production has occurred in only 2 of over 100 well tests. Therefore, water is generally not an issue and water influx and production are not expected in these low permeability sands.

Four horizontal wells have been drilled and tested TB-1H, 2H, 3H and 4H in Linxing West. Three tested at high rates between 1.7 and 5.0 MMscf/d with the forth producing 0.28 MMscf/d. However, vertical or deviated wells are the primary development method in order to connect the heterogeneous multiple gas bearing sands over an 800m vertical interval.

Permeability and skin factors have been determined from pressure build-up analysis on 24% of the well tests. The average and range in permeability determined for each formation is shown below:

Table 3-2: Average Well Test Rate and Permeability

Formation	Average test rate		Well Test Permeability (mD)		
	m3/d	mscf/d	min	mean	max
SQF	21,096	745	0.445	6.74	42.10
Shihezi	10,979	388	0.012	0.11	0.49
Shanxi	13,759	486	0.002	0.04	0.10
Taiyuan	8,111	286	0.022	0.17	0.57
Total	14,431	510	0.002	1.60	42.10

- There is a good correlation between well test permeability and well test flow rate per meter of pay;
- The average SQF permeability is skewed by one value of 42 mD. However, the average rates of all SQF well tests (including those without permeability estimates) supports the 6.74 mD average;
- The SQF is the most productive formation having successfully flowed in all tests with an average rate of 710 Mscf/d. However, productivity is variable, and the interval required hydraulic fracturing in TB-08-LX to achieve sustainable flow.

The minimum economic well flow rate to support development is estimated at 110 Mscf/d at semi-steady state conditions, which equates to a transient flow rate after 2 weeks flow of 220 to 270 Mscf/d at 200 psia THP. The average well test flowrate of an individual interval is often greater than this and development wells will be completed on multiple intervals.

The well tests intervals have generally included sections of porosity greater than 8.5%. Therefore there is uncertainty if lower porosity intervals will flow and how much they contribute to production. RISC uses a 5%, 7% and 9% porosity cut off to estimate the high, mid and low percentage of the GIIP that is productive. A 4% porosity cut-off is used to estimate GIIP, which is the normal cut-off used by Operator's in these Ordos Basin formations.

RISC has used the mean permeability in Table 3-2 and the net pay with 7% porosity cut-off to model the P50 performance of an average well completed in the different formations.

3.4. Reservoir Pressure and Gas Properties

Well test data is the most accurate source of information and has been used to determine reservoir pressure and temperature data. Reservoir pressure estimates from fracture fall-off tests are also considered. Wireline pressure measurements have not been attempted as the reservoir permeability is generally too low to give successful measurements. The pressure data are from a limited number of well tests and therefore carry a higher degree of uncertainty than usual.

The deeper formations (Shanxi, Taiyuan) are normally pressured but the shallowest formation (SQF) is under pressured in Linxing West and Sanjiaobei with the Shihezi formation at intermediate pressure. In Linxing West the SQF formation is less under-pressured.

From well test data the reservoir temperature is estimated to be 53°C at 840 mtvdss with a gradient of 0.0147°C/m.

Table 3-3 shows the average depth, estimate pressure, temperature and gas expansion factor of formations.

Table 3-3: Reservoir Pressure, Temperature and Gas Expansion Factors

Reservoir	SanJiaoBei and Linxing West						Linxing East Deep Gas					
	Average Depth		Pressure		Temp	Eg	Average Depth		Pressure		Temp	Eg
	mtvdss	mbrt	Mpa.a	psia	C	v/v	mtvdss	mbrt	Mpa.a	psia	C	v/v
SQF1	314	1324	4.16	604	45	40	157	1167	10.33	1498	43	113
SQF2	371	1381	4.72	685	46	46	218	1228	10.92	1584	44	120
SQF3	429	1439	5.29	767	47	52	276	1286	11.50	1667	45	126
SQF4	475	1485	5.74	833	48	57	326	1336	11.98	1738	45	132
SQF5	512	1522	6.10	885	48	61	371	1381	12.43	1803	46	137
U+LShihezi	651	1661	13.15	1907	50	142	529	1539	11.96	1734	48	129
He8	810	1820	14.71	2134	53	157	692	1702	13.56	1966	51	146
Shanxi 1+2	898	1908	18.84	2732	54	199	773	1783	17.62	2555	52	189
Taiyuan	953	1963	19.38	2811	55	203	981	1991	19.66	2851	55	206

The gas comprises 96 mole% methane with less than 1 mole% carbon dioxide, less than 3 mole% nitrogen and no H_2S.

3.5. Permit History

The 35 year Sanjiaobei PSC was implemented 31/08/1998 and will expire 31/08/2033. The initial 5 year exploration phase has been extended a number of times, although these do not alter the PSC expiry date and leaves less time for the production phase. Sanjiaobei PSC is currently in the extended exploration phase which expires in 31/08/2018. The first ODP was submitted in 4Q-2017 and approval is expected in 2018, or an exploration extension sought. The PSCs are operated by the operating company SGE which is owned 49% by SGEH.

SGE is in discussion with the Sanjiaobei authority (PCCBM) regarding negotiations to conclude a supplemental agreement for Sanjiaobei. Such discussions are common in China to support ODP approval.

The 30 year Linxing PSC was also implemented 31/08/1998 and was due to expire 31/08/2028. In 2018, an 8 year extension was granted extending the PSC to 31/08/2036. However, conditions of the extension were:

- The contractor interest was reduced from 70% to 49% for the deep natural gas. Now both the Linxing and Sanjiaobei PSCs have 49% contractor share and 51% Authority share for deep natural gas. The contractor share remains at 70% for shallow CBM;
- The exploration phase of Linxing East was extended to 31/08/2019 with a relinquishment of 1,000 km^2 of Linxing East exploration area. RISC understands that this relinquishment was partly due to the agreed exploration programme not been completed.

Stage-1 of the Linxing deep gas ODP was approved in May 2018 after submission in October 2017. This covers an initial development of 20% of the discovered area. The Authority (CUCBM) has supported a staged approval process to facilitate a continued ramp-up in production. SGE and SGEH estimate the full development of Linxing and Sanjiaobei to have gross plateau production of between 350 and 550 MMscf/d; 350 MMscf/d from discovered resources and 550 MMscf/d including successful exploration of field extensions.

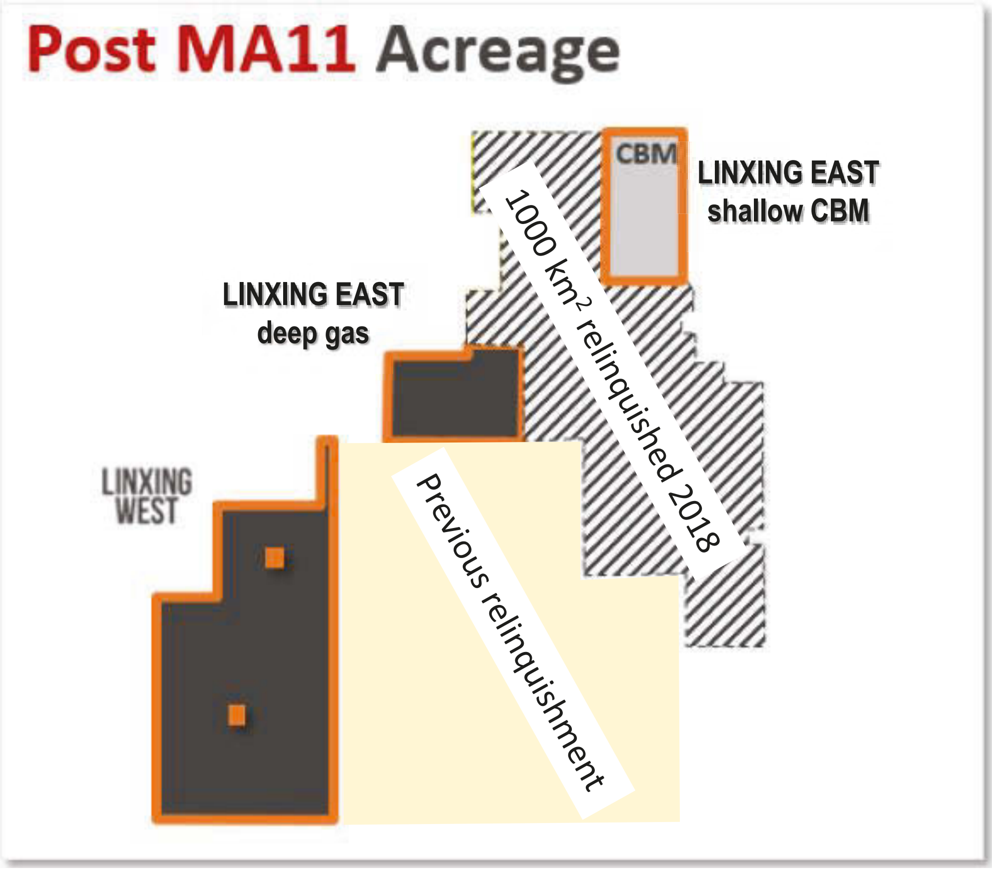

Figure 3-7: Changes to Linxing Acreage

The area of Linxing West remains at 573 km^2 but Linxing East is reduced from 1,304 to 304 km^2 as shown in Figure 3-7. Linxing East now consists of 149 km^2 of deep gas acreage near Linxing West and 155 km^2 of shallower CBM acreage in the northeast.

In an earlier extension to the Linxing exploration period the central area had to be released dividing Linxing into Linxing East and Linxing East. This released acreage has been drilled and put on production by the Authority CUCBM.

Gas was discovered in the Linxing PSC by well TB-01 drilled in 2006 which flowed gas at a rate of 0.15 to 0.18 MMscf/d. 97 deep gas wells have been drilled in Linxing West including 4 horizontal wells. In Linxing East 13 deep gas wells and 15 shallow CBM wells have been drilled. In the adjacent Sanjiaobei permit, 59 wells have been drilled by SGE. A discovered area has been defined around the successful exploration and appraisal wells.

Shallow CBM pilot production started in March 2013. However, production rates have been low and the gas flared despite multi-year gas sales agreement with CUCBM to provide up to 35 MMscf/d. Development of this shallow CBM is estimated to be marginally economic so it is not included in this evaluation.

Pilot testing and gas sales from the deep gas started in November 2014.

4. Linxing and Sanjiaobei Deep Gas Project

4.1. Introduction

The Linxing and Sanjiaobei PSC are operated by the contractors joint operating company SGE (Sino Gas and Energy) which is owned 49% by SGEH and 51% by CNEML (China New Energy and Minerals Ltd.).

Pilot gas production started in November 2014 with up to 10 wells on production.

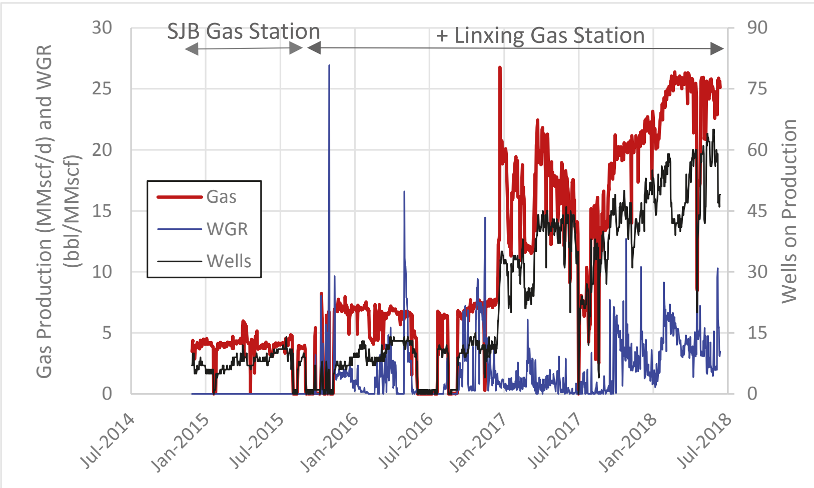

Figure 4-1: Linxing plus Sanjiaobei pilot production

Linxing West and Sanjiaobei wells initially produced to the Sanjiaobei Gas Station which had an initial capacity of 4 MMscf/d subsequently increasing to 8 MMscf/d with additional compression. Production was suspended in 3Q 2015 until payment for gas sales was resolved. A second gas station at Linxing started late 2015 with an initial capacity of 7 MMscf/d and subsequently increased to 17 MMscf/d. Gas production has built up to 25 MMscf/d in 2018 with 75 wells hook-up and up to 60 wells on production at one time. Water production at up to 5 bbl/MMscf has largely been water of condensation. Cumulative production to 14 June 2018 was 13.4 Bcf.

4.2. GIIP and Resource Evaluation

RISC has conducted independent reserve and resource assessment for SGEH and SGE in 2011 and year end 2012, 2013, 2014, 2015 and 2016. YE2017 were based on YE2016 estimates adjusted for 2017 production as there was little additional subsurface data acquired in 2017. The assessments were based on PRMS guidelines.

GIIP has been estimated from RISC's petrophysical evaluation of all wells. The gross reservoir thickness, NTG, porosity and gas saturation were determine for each formation in each well. Data varied from well to well but no regional trends were identified. Average properties and their uncertainty were estimated and combined probabilistically to determine the range of GIIP.

The PSC areas were divided into areas classified as reserves, contingent resources and prospective resources based on proximity to wells with identified gas pay and successful well test. Figure 4-2 shows the estimated discovered and prospective areas. The area within 2 well spacing of successful wells is classified as reserves and the remaining discovered area contingent resources.

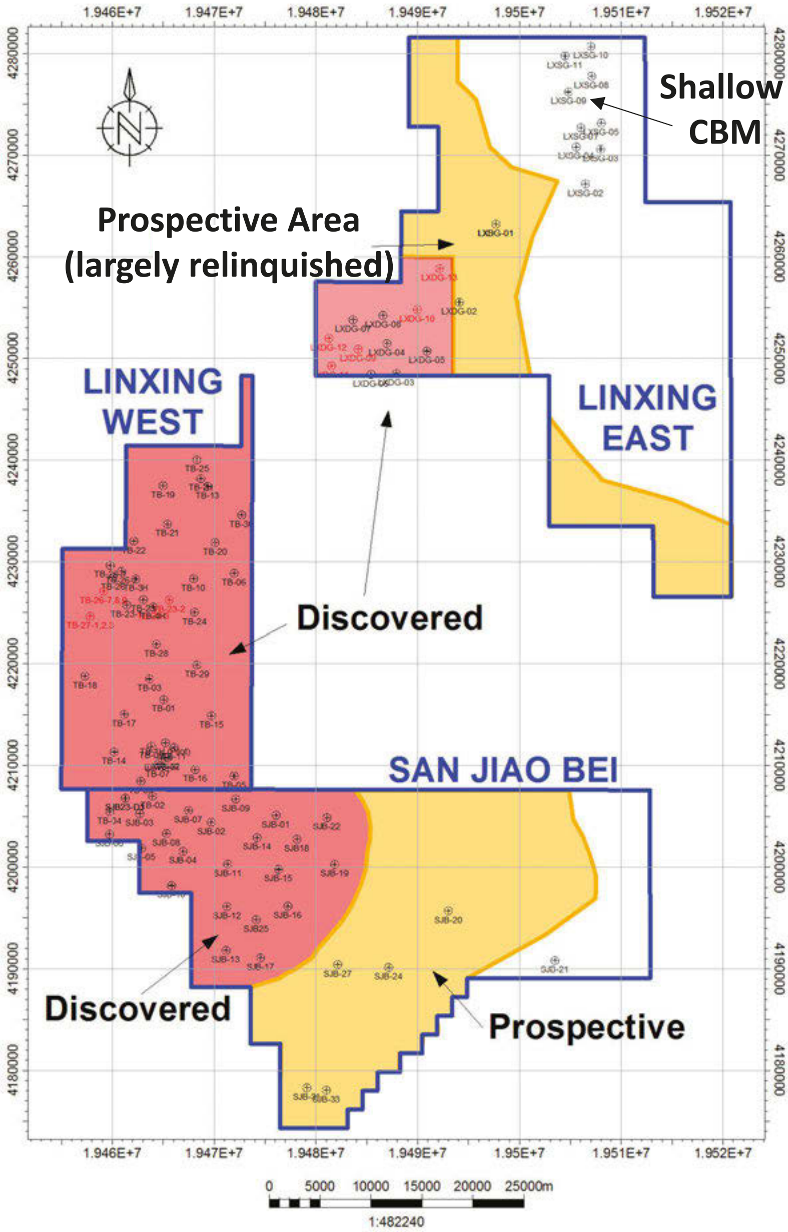

Figure 4-2: Discovered and Prospective Areas

Since RISC's evaluation 1,000 km^2 of Linxing East has been relinquished as part of the PSC extension. This removes most of the Linxing East prospective area, leaving 19 km^2 around the Linxing discovered area.

The estimated areas and GIIP range are shown in Table 4-1.

Table 4-1: Resource Areas and GIIP range

Region	Resource Classification	Area (km^2)	GIIP (Bcf)		
			P90	P50	P10
Sanjiaobei	Reserves	268	2195	2669	3251
	Contingent Resource	102	836	1016	1238
	Prospective	595	3468	4219	5111
Linxing West	Reserves	337	2770	3362	4068
	Contingent Resource	236	1940	2354	2849
	Prospective	0	0	0	0
Linxing East	Reserves	88.5	862	1021	1205
	Contingent Resource	41.5	404	479	565
	Prospective[#1]	19	125	158	197
Total	Reserves	693.5	5827	7052	8524
	Contingent Resource	379.5	3180	3849	4652
	Prospective	614	3593	4377	5308
#1: GIIP estimated adjusted based on remaining Linxing East exploration area relinquishment					

The prospective area requires additional wells and well tests to confirm mobile gas. The contingent resource areas required additional wells and well tests to confirm reservoir quality and commercial gas flowrates.

These gas fields consist of multiple thin intervals of generally low permeability, low porosity sands. Gas saturation is low and a key uncertainty. The GIIP estimates are sensitive to the petrophysical cut-offs used to define net pay. RISC has used the following cut-offs to define net pay: >4% effective porosity, <30% shale, <80% water saturation. The 4% porosity cut-off is typically used in the Ordos basin.

Most well tests have included an interval of good porosity (>8.5%). The contribution of flow from the lower porosity (4 to 8.5%) sand is uncertain. Wells have been completed across a limited interval of the total pay using cemented and perforated liners. The degree of communication between the completed interval and other uncompleted pay intervals is uncertain and estimated to be limited.

It is unlikely that the total GIIP will contribute to production due to low productivity and lack of connectivity with the intervals completed in wells. RISC has applied a range of porosity cut-offs to estimate the amount of productive or developable GIIP. We estimated the high, mid and low case developable GIIP by applying 5, 7 and 9% porosity cut-offs respectively. Table 4-2 shows the estimate GIIP density in Bcf per square kilometre for the total GIIP and developable GIIP in Linxing West discovered area.

Table 4-2: Total and Developable GIIP density: LXW discovered area (RISC)

GIIP Density (Bcf/km²)	P90	P50	P10
Total GIIP density	8.2	10.0	12.1
Developable GIIP density	5.4	8.2	11.7

The estimated GIIP densities in Sanjiaobei discovered area is the same as LXW. The GIIP density is 13 to 18% higher in LXE discovered area due to higher pressure in the shallow formations. The GIIP density in the prospective areas is lower due to uncertainty and lower estimated gas saturation and some potential water bearing intervals.

RISC generated P90, P50 and P10 type curves from single well simulation models using 130 acre (0.53 km^2) well spacing with the estimated developable GIIP density and corresponding net pay. Larger well spacing is estimated for the shallowest, higher productivity SQF formation. Therefore 1 in 3 wells is assumed to include an SQF completion. Average well type curves for the deeper reservoirs and including 1/3 SQF completion are shown in Figure 4-3.

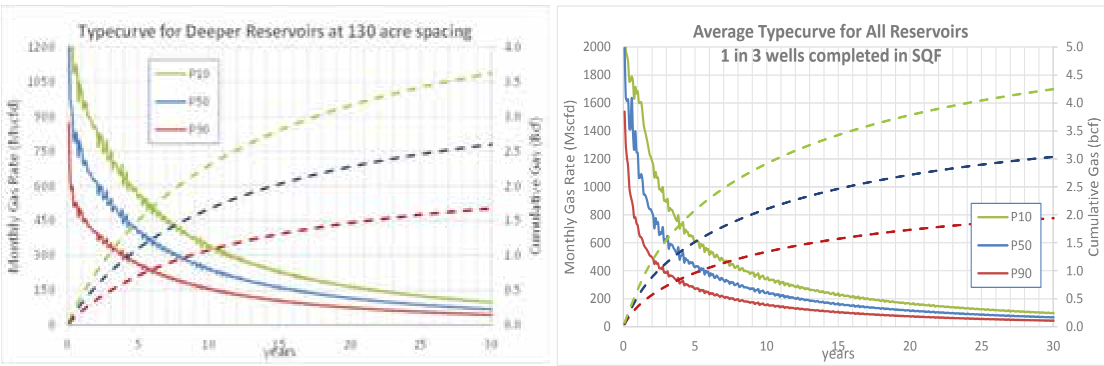

Figure 4-3: RISC Single well type curve for discovered area

It is assumed that:

- Wells will be completed across multiple intervals using multi-stage hydraulic fractures;
- Production from formations at various depths and pressure would be managed with a combination of multiple completion strings and commingled production.

SGEH have used a local Beijing consultant with experience in analogue Ordos Basin fields to help develop the Field Development Plan. They have applied similar porosity and shale volume cut-offs to estimate net pay but applied a resistivity cut-off instead of a gas saturation cut-off. The estimated GIIP density is 55 to 78% of the developable GIIP density estimated in Table 4-1.

The local consultant estimates similar development areas, vertical well spacing and development well numbers. However, they have generated more conservative type curves shown in Figure 4-4.

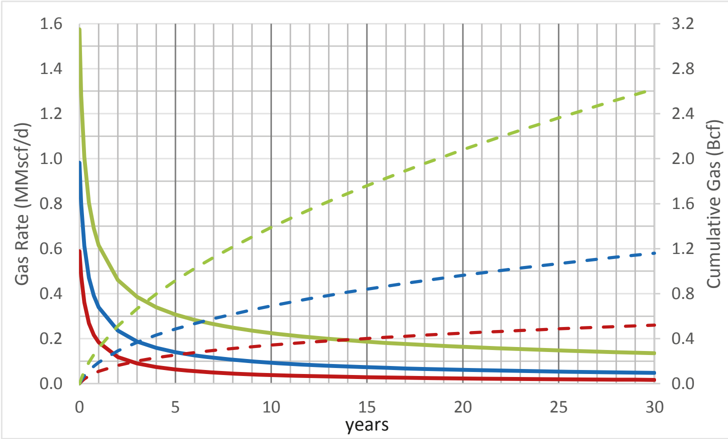

Figure 4-4: Conservative 1P, 2P, 3P type curves (local consultant)

The local consultant's type curves are from a review of SGE pilot well production and experience from analogue Ordos Basin fields Sulige and Mizhi. They show:

- P50 recovery of 1.2 Bcf over 30 years compared with 3.0 Bcf in RISC's type curve;
- Rapid (super-harmonic) decline in P50 well productivity from 1.0 MMscf/d to 0.4 MMscf/d after 1 year.

Analogue data from Sulige field indicates a lower rate of decline and recovery of 1 to 1.5 Bcf over 30 years. Anecdotal information from Mizhi suggests an average of 0.8 Bcf recovery per well.

Figure 4-5 plots the cumulative production of each pilot well against the number of days the well has produced. Horizontal well TB-1H is the best well having produced 1.36 Bcf to date.

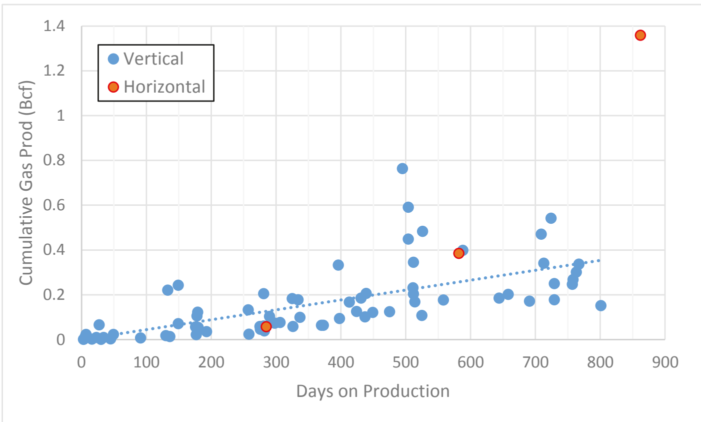

Figure 4-5: SGE pilot wells: cumulative gas vs days on production

On average pilot wells have produced 0.16 Bcf in the first year of production and a similar amount in the second year. This is less than RISC type curves and between the 2P and 3P local contractor type curves.

The earlier SGE exploration wells were completed across 1 or 2 intervals so were connected to only a limited proportion of the total pay and GIIP. RISC's analysis of select exploration and appraisal well production indicates:

- An average connected GIIP and ultimate recovery of 1.1 and 0.8 Bcf per completion interval. RISC estimates 3 to 6 completion intervals are required per well;
- Limited vertical connectivity between the completed interval and uncompleted pay in the well. Multiple completion intervals and multi-stage fracs will be required to maximize recovery.

SGE pilot wells have been completed across more intervals bringing the average number of completion intervals to 5 across 3 sub-formations. One vertical pilot well has been completed across 18 intervals and 8 sub-formations with 11 hydraulically fractured intervals and 7 perforated.

The differences in GIIP density and development well type curves estimated by RISC and a local consultant highlights the uncertainty in the performance of these and tight gas reservoir in general. RISC estimates that RISC's type curves represent an upside case and the local contractor type curves are in line with pilot production, current completion philosophy and local analogue data.

SGE's current well completion strategy and the planned development indicates that the completion intervals will be less extensive than RISC previously estimated. It is likely that wells will be re-completed and re-fractured possibly adding additional intervals at a later stage. Alternatively, infill wells could be used to develop pay not completed in the initial well and maximise field recovery. However, extensive re-completion and infill drilling are not in the development plan and the economics of such incremental activity has not been demonstrated. Therefore any associated resources are classified as contingent resources.

RISC has adjusted its type curves in line with pilot well results to date, analogous field data and the ODP assumptions (reduced completion intervals). The resulting Sanjiaobei and Linxing West type curves are show in Figure 4-6.

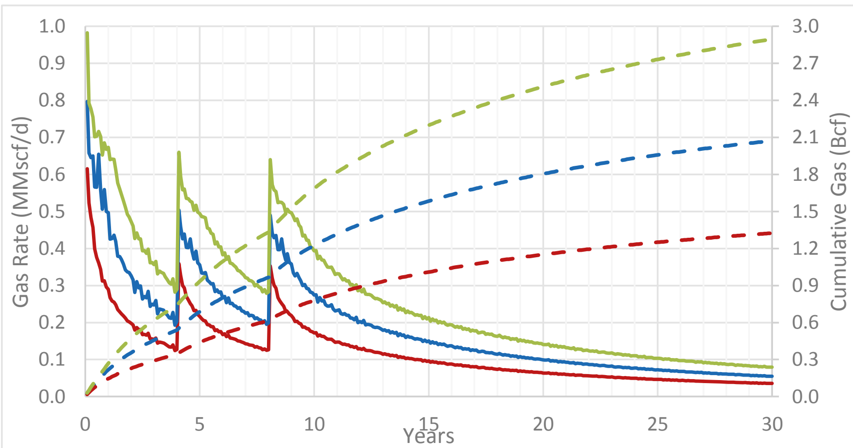

Figure 4-6: Adjusted Vertical Well type curves

RISC estimate that development wells are initially completed on 40% of the total pay and GIIP estimated by RISC. A workover after 4 years is estimated to connect an additional 15% of the pay/GIIP and a second workover after 8 years is estimated to connect an additional 15% of the pay/GIIP. The remaining 30% is a potential target for infill drilling or further recompletions. The type curve for LXE included higher pressure in the shallower intervals but is similar to Figure 4-6. The short term performance in RISC adjusted type curves are similar to that the seen in pilots wells; slightly better allowing for further optimisation of the completion philosophy.

Table 4-3: Adjusted Vertical Well type curve; short and long term gas recovery

Type curve	1st Year Recovery (Bcf)	2 Year Recovery (Bcf)	30 Year Recovery (Bcf)
1P	0.14	0.22	1.32
2P	0.22	0.35	2.07
3P	0.27	0.46	2.89

In the P50 type curve, the initial 40% completion recovers 1.2 Bcf over 30 years, the re-completions increase the 30 year recovery to 1.66 and 2.07 Bcf respectively.

4.3. Evaluation Scenarios

In consultation with the Independent Expert (Grant Thornton) RISC has developed production and cost forecasts for five scenarios for economic evaluation by Grant Thornton.

Table 4-4: Evaluation Scenarios

Scenario		Development Area km^2	Number of productive wells	Well Type curve
1	1P	693.5	1001	P90
2	2P	693.5	1001	P50
3	2P+2C	1073	1549	P50
4	2P+2C accelerated	1073	1549	P50
5	2P+2C delayed	1073	1549	P50

2P reserves are often used for the base valuation. However, contingent resources have a high probability of maturing to reserves as the development wells appraisal the contingent area and confirm commercially productive reservoir. RISC estimates a 90% probability for contingent resources maturing in time to reserves. Therefore, the base valuation is estimated to be between the 2P and the 2P+2C scenarios.

Continued production post PSC expiry has a lower probability of commercial development due to uncertainty if and under what terms PSC might be extended.

The 1P scenario represents a downside, where well performance is disappointing and contingent resources fail to be commercially productive.

Production forecasts have been generated for each scenario with the following assumptions:

- 130 acre (0.526 km^2) well spacing across 80% of the area. 20% of area assumed inaccessible due to surface constraints and not developed;
- 5% of wells fail to produce due to mechanical or geological failure (excluded from productive well numbers but included in costs);
- 10% well and facility downtime;
- 4% of produced gas used for infield fuel (compression, field operations);
- Plateau rate adjusted to give 5 year plateau.

Based on ODP information, the ramp-up in gas production has been adjusted with plateau rates from 2023. This ramp-up has been used in scenario 1, 2 and 3. However, RISC estimates and uses higher plateau production rates from 2024.

The pace of development and ramp-up in gas production rate carries uncertainty. An accelerated production ramp-up with plateau from 2022 is used in scenario 4. A delayed production ramp-up with plateau from 2025 is used in scenario 5.

RISC generated a full field forecast based on the type curves in Figure 4-6 and the estimate number of vertical or deviated wells that can be drilled in the reserve and contingent resource areas using 130 acre well spacing.

Figure 4-7 shows the forecast gas production from 2P + 2C resources.

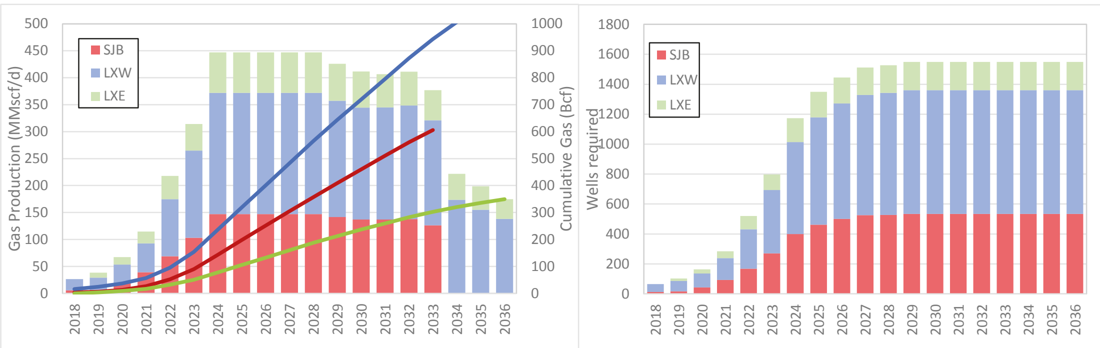

Figure 4-7: Gas production and well forecast; 2P + 2C

Table 4-5: Gross 2P+2C forecast parameters

PSC	Area (km^2)	Total productive wells	Plateau rate (MMscf/d)	Production prior to PSC expiry (Bcf)	
				Gas Produced	Gas Sales
SJB	370	534	147	590	566
LXW	573	827	225	1089	1045
LXE	130	188	75	345	331
Total	1073	1549	447	2024	1943

The reserve areas are a fraction of the discovered gas (reserves + contingent resources) area, with a corresponding reduced number of well locations.

Figure 4-8 shows the full field production forecast for the 2P reserves only.

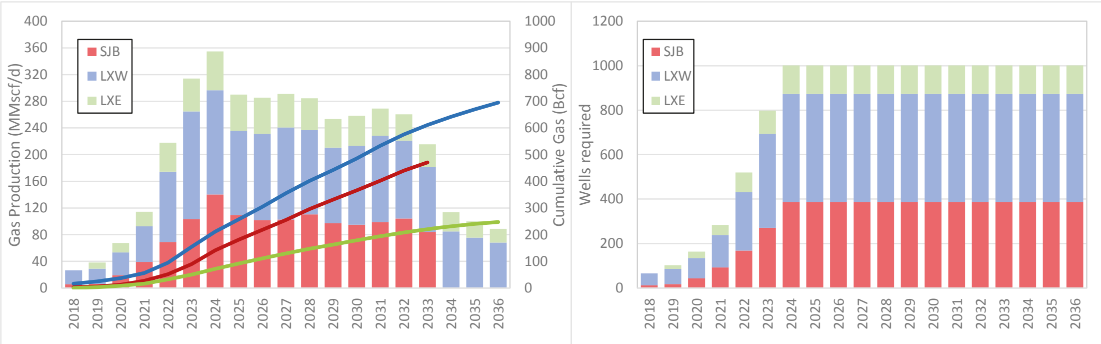

Figure 4-8: Gas production and well forecast; 2P

The 2P forecasts assume the same drilling sequence and ramp-up in gas production as the 2P+2C forecasts. However, all reserve locations are drilled by 2023 and plateau rates cannot be reached or maintained. The effect of the estimated well recompletions after 4 and 8 years is apparent in the production forecast.

The 1P forecasts use the same total number of wells as the 2P forecast with the P90 type curve. Drilling is accelerated to achieve the ramp-up in gas demand but the plateau rates lowered - Figure 4-9.

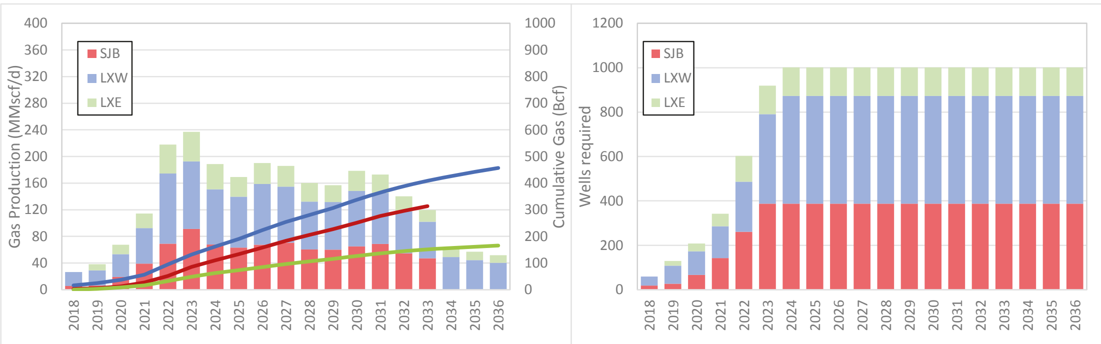

Figure 4-9: Gas production and well forecast; 1P

The 1P plateau rates is selected to give a 5 year plateau when developing the 1P + 1C resources. However, all reserve locations are drilled by 2024 so plateau rates cannot be maintained. Table 4-6 shows the 1P and 2P forecast parameters.

Table 4-6: Gross 1P and 2P forecast parameters

PSC	Area (km^2)	Productive wells	1P Production during PSC (Bcf)		2P Production during PSC (Bcf)	
			Gas Produced	Gas Sales	Gas Produced	Gas Sales
SJB	268	387	307	294	459	441
LXW	337	486	444	426	678	651

LXE	88.5	128	164	157	245	235
Total	693.5	1001	914	878	1383	1327

The base scenarios assume that the PSCs are not extended and following expiry are taken over by the Chinese Authorities. Production is estimated to remain economic for many years after PSC expiry. Extension to the PSC's is uncertain and likely to be with reduced PSC terms.

4.4. Existing Facilities

Table 4-7 shows the number of deep gas wells drilled, tied-in and planned to be tied-in as of May 2018.

Table 4-7: Deep gas wells available

Area	Wells drilled	Wells Tied-in	Wells to be tied-in
SJB	57	21	9
LXE	13	0	10
LXW	96	57	22
Total	166	78	41

- 166 deep gas wells have been drilled across the three areas. 78 are tied in for production and an additional 41 are planned for tie-in. These wells and tie-ins are sunk costs and excluded from future well requirements.
- In addition to the deep gas wells there are 13 shallow CBM wells in the northeast of Linxing East and one unsuccessful well in Sanjiaobei.

Two gas stations are currently operating and exporting gas into regional pipelines; Sanjiaobei gas station with a capacity of 8 MMscf/d and Linxing-1 gas station with a capacity of 17 MMscf/d. The gas stations dry and compress the gas to pipeline requirements. Wells are typically operated at a minimum WHP of about 200 psia.

4.5. Future Development

A second Linxing gas station in LXE with a capacity of 17 MMscf/d in under construction and planned to be commissioned in 2018. A third Linxing gas station is planned to be constructed and commissioned in 2019. RISC estimated that 17 MMscf/d gas stations will be developed across the PSCs as required to accommodate the forecast production with a 10% additional capacity for downtime.

4.6. Reserves

Gross field reserves equal the gas production prior to PSC expiry less an estimated 4% of gas used as fuel in the field. SGEH net reserves are based on their entitlement to cost and profit gas under the terms of the PSC through their 49% ownership of SGE, and assumes both SOE partners take their full entitlement. Net reserves are slightly sensitive to the Capital and Opex spend as this is recovered as cost gas. Economic modelling of the PSCs has been used to estimate the net resources shown in Table 4-8.

SGEH deep gas resources are based on their 49% ownership of SGE who hold 100% of the contractor interest in Sanjiaobei PSC and 92.5% of contractor interest in Linxing PSC. SGEH's option to the remaining 7.5% contractor interest in Linxing PSC has not yet been exercised so these potential resources are not included.

Table 4-8: 1P, 2P and 3P deep gas reserves as at 30/06/2018

Reserves (Bcf)	Linxing PSC			Sanjiaobei PSC			Total		
	1P	2P	3P	1P	2P	3P	1P	2P	3P
Gross Reserves	581	883	1195	293	440	593	874	1323	1788
Contractor share	252	371	502	126	180	242	378	551	744
SGEH share	114	168	227	62	88	119	176	256	346

The estimated gross reserves in Table 4-8 are significantly lower than those estimated by RISC at YE2017. The reconciliation of the current and previous resources is provided in report section 4.10.

Table 4-8 shows developed plus undeveloped reserves. Table 4-9 shows the estimated developed reserves from the wells that have been hooked-up (Table 3-1) with production prior to PSC expiry through the current facilities with 25 MMscf/d capacity.

Table 4-9: 1P, 2P and 3P developed deep gas reserves as at 30/06/2018

Reserves (Bcf)	Linxing PSC			Sanjiaobei PSC			Total		
	1P	2P	3P	1P	2P	3P	1P	2P	3P
Gross Reserves	44	72	102	18	28	36	62	100	138
Contractor share	19	30	43	8	11	15	27	41	58
SGEH share	9	14	19	4	6	7	12	19	27

4.7. Capital and Operating Costs

Development costs (excluding sunk costs up to 1 January 2018) for the deep gas development scenarios are summarised in Table 4-10.

Table 4-10: Development costs

Costs, US$ million 2018 RT	1P	2P	2P + 2C
Wells	627	627	1038
Gathering lines	204	205	327
Plant and Trunklines	245	300	377
Total Capex	1076	1132	1741

The majority of the development Capex is related to drilling, completion and fraccing of the development wells. The development wells drive not only the well costs but also the associated gathering costs. Gathering costs include flowlines connecting well pads to local gas processing stations. Trunk lines connect the gas station to each other and export pipelines.

SGE propose to drill multiple wells (nine) from each drilling pad. This reduces the cost of wellhead facilities, flowlines and site preparation, but is offset by higher well costs due to the requirements for deviated drilling.

SGEH has provided drilling, hydraulic fracturing and hook-up costs for the wells SGE drilled in 2017. RISC support these costs as reasonable. The estimated cost for drilling & completion, hydraulic fracturing, and hook-up are 0.45, 0.29 and 0.22 million USD per well. RISC has added US$0.10 million per well for pre-spud engineering. Costs have reduced with experience over the past 3 years and a further 15% reduction in drilling and hydraulic fracturing costs estimated over the next 2 years.

Gas processing will be conducted by a number of gas station spread across the field. RISC and SGEH estimate a cost of US$8.5 million per 17 MMscf/d gas station. The gas station will dry and compress the gas from 200 psia to 1450 psia for export. The costs of in-field trunk lines between gas stations are also added.

The region offers a number of sales opportunities into the provincial pipeline grid or to a customer via one of the national gas pipelines that either run through or nearby the PSC.

The Capex estimate for each of the cases is considered to have an accuracy of +50%, - 25%.

Opex has been estimated based on scaling from the number of development wells and the facilities configuration and phasing. RISC's Opex estimates carry uncertainty. However, the impact of changes in Opex on the NPV is small.

Total Capex, Opex, production from 1/1/2018 to PSC expiry and resulting unit costs for the cases are shown in Table 4-11.

Table 4-11: Total and unit development costs

Gross costs		1P	2P	2P + 2C
Productive wells		1001	1001	1549
Production	Bcf	915	1384	2025
Total Capex	$ million (2018 RT)	1076	1132	1741
Total Opex	$ million (2018 RT)	1256	1316	1913
Unit Capex	$/mscf	1.2	0.8	0.9
Unit Opex	$/mscf	1.4	1.0	0.9
Unit Cost	$/mscf	2.5	1.8	1.8

The 2P case has the same number of wells as the 1P but larger production and facility capacity requirements. Therefore, the 2P Capex is slightly greater than 1P. The 2P Opex is greater due to higher production rates. However the unit costs are reduced by the greater production. The 2P+2C case has additional wells and production increasing the Capex and Opex. However the unit costs are similar to the 2P case. The cost of the two workovers per well after 4 and 8 years has increased previous Opex estimates.

4.8. Contingent Resources

Table 4-12 shows SGEH net contingent resources. These resources are more distant from well control and further appraisal is required to confirm their commerciality.

Table 4-12: Deep Gas Contingent Resources at 30/06/2018 (unrisked)

Contingent Resources (Bcf)	Gross			SGEH net		
	1C	2C	3C	1C	2C	3C
Produced during PSC period	412	615	857	72	108	150
Produced post PSC expiry	897	1487	2158	192	319	463
Infill or re-completion	977	1527	2143	210	328	460
Total	**2286**	**3629**	**5158**	**474**	**755**	**1073**

The contingent resource production forecast uses the same gas recovery per well and type curves as the reserve area; namely assuming that 70% of the estimated productive GIIP is developed. The remaining 30% of estimated productive GIIP may be a target for infill drilling or further well recompletions. However it is unclear if this opportunity will be commercial or pursued so these potential resources are contingent resources.

Production after the PSC expiry both from reserve areas and contingent resource areas is classified as a contingent resource for SGEH; contingent upon PSC extensions being awarded. Contingent resources associated with infill or re-completion are also estimated to largely be produced post PSC expiry.

RISC estimate a 90% probability that the 2C resources will mature to reserves and be developed. For SGEH and other contractors' contingent resources produced during the PSC period should be assigned this commercial probability.

SGEH contingent resources estimated to be produced after PSC expiry carry the additional risk of obtaining a PSC extension with the current terms. PSC extensions are not assured and RISC estimate that potential extensions are likely to include a reduction of PSC terms. Therefore, the commercial probability of these contingent resources is reduced.

Contingent resources produced after PSC expiry should not be included in the evaluation scenarios or heavily discounted due to uncertainties regarding PSC extension.

SGEH have additional contingent resources associated with the shallow CBM discovery in the north east of Linxing PSC. Development of these resources are estimated to be uneconomic due to low gas well production rates. Therefore, the resources are contingent upon demonstrating improved performance and economics.

RISC evaluated these resources year end 2016 and estimate the valuation to remain valid. However, the resources have reduced due to part of the area being relinquished; the area has reduced 42% from 265 to 155 km^2.

Table 4-13 shows the shallow CBM contingent resources after adjustment for the reduced area.

Table 4-13: Shallow CBM Contingent Resources at 30/06/2018 (unrisked)

Contingent Resources (Bcf)	Gross			SGEH net		
	1C	2C	3C	1C	2C	3C
Shallow CBM	64	160	252	20	51	80

The shallow CBM resources are not included in the valuation as their development is uneconomic.

4.9. Exploration Prospective Resources

The PSCs have prospective resources in undrilled or untested areas of the PSCs. Exploration wells are required to demonstrate mobile and commercial gas. However, nearly all of the exploration area in Linxing have been relinquished. If exploration is successful prospective resources are likely to be developed after contingent resources with very limited production before PSC expiry. Therefore, the potential value of prospective resources is estimated to be small and not included in the valuation scenarios.

Prospective resources were estimated by RISC YE2016. Linxing prospective resources have been adjusted for the reduced PSC area and contractor interest, Table 4-14.

Table 4-14: Prospective Resources as at 30/06/2018 (unrisked)

Prospective Resources (Bcf)	Area (km^2)	Gross			SGEH net		
		Low	Best	High	Low	Best	High
Sanjiaobei	394	1221	1926	2719	247	360	483
Linxing	19	45	76	110	10	15	22
Total	**413**	**1266**	**2002**	**2829**	**256**	**376**	**505**

RISC estimates a 60% geological change of success exploring for the prospective resources. In addition we estimate a 90% chance of commercialising the resources, giving a 54% overall chance of commercial development.

If successful most of the prospective resources are likely to be produced after PSC expiry. Therefore, SGEH and other contractors share of the resources carries the additional risk of obtaining PSC extensions with the current terms.

4.10. Resource Reconciliation

Table 4-15 shows the changes to SGEH deep gas resource estimates since year end 2017 due to:

- Gas production and sales;
- Changes to Linxing PSC;
- Technical revisions.

Table 4-15: Deep Gas Resource Reconciliation

Resource	PSC	Resource YE2017 Bcf	Production Bcf	PSC changes Bcf	Revisions Bcf	Resource 30/6/2018 Bcf	Change	See footnote
Reserves								
1P	Linxing	258	-2.9	-19	-122	114	-56%	#1, #2
	Sanjiaobei	126	-1.5		-63	62	-51%	#2
	Total	**384**	**-4.4**	**-19**	**-185**	**176**	**-54%**	
2P	Linxing	389	-2.9	-27	-191	168	-57%	#1, #2
	Sanjiaobei	188	-1.5		-98	88	-53%	#2
	Total	**577**	**-4.4**	**-27**	**-289**	**256**	**-56%**	
3P	Linxing	525	-2.9	-35	-259	227	-57%	#1, #2
	Sanjiaobei	251	-1.5		-131	119	-53%	#2
	Total	**776**	**-4.4**	**-35**	**-390**	**346**	**-55%**	
Contingent Resources								
1C	Linxing	414		-124	17	307	-26%	#3, #4
	Sanjiaobei	114			54	168	47%	#3
	Total	**528**		**-124**	**71**	**475**	**-10%**	
2C	Linxing	639		-192	40	488	-24%	#3, #4
	Sanjiaobei	174			93	267	54%	#3
	Total	**813**		**-192**	**133**	**755**	**-7%**	
3C	Linxing	891		-267	70	694	-22%	#3, #4
	Sanjiaobei	240			140	380	58%	#3
	Total	**1131**		**-267**	**210**	**1073**	**-5%**	
Prospective Resources								
Low	Linxing	283		-273		10	-97%	#5
	Sanjiaobei	247				247	0%	
	Total	**530**		**-273**		**256**	**-52%**	
Best	Linxing	461		-446		15	-97%	#5
	Sanjiaobei	360				360	0%	
	Total	**821**		**-446**		**376**	**-54%**	
High	Linxing	663		-641		22	-97%	#5
	Sanjiaobei	482				483	0%	
	Total	**1145**		**-641**		**505**	**-56%**	

Notes:

#1 Reserves in Linxing are reduced by the contractor interest in Linxing PSC reducing from 70% to 49% but increased by an 8 year PSC extension.

#2 Reserves are reduced by lower recovery per well, delayed production ramp-up and lower plateau production rates. This results in less production before PSC expiry. The volumes have been transferred to contingent resources.

#3 Contingent resources are increased by the transfer of reserves to contingent resources

#4 Contingent and prospective resources in Linxing are reduced by the contractor interest in Linxing PSC reducing from 70% to 49%.

#5 Linxing prospective resources have reduced due to relinquishment of 375 km² of the 394 km² deep gas exploration area plus contractor interest reduced from 70 to 49%.

4.10.1. Reserves reconciliation

Changes to Linxing PSC have had a small effect on reserves as the reduced contractor interest (70 to 49%) is offset by the 8 year PSC extension. The reduced interest is offset by 8 years additional production.

Reserves in both Linxing and Sanjiaobei have been reduced by technical revisions to the estimated gas recovery:

- Lower estimated recovery per well: This is in light of additional pilot production data, information from analogue fields and ODP information regarding a reduction in the estimated completion intervals per well. The initial completion is estimated to develop 40% of the pay and productive GIIP. Subsequent re-completion and hydraulic fracturing is estimated to develop an additional 30% of the pay and productive GIIP. The remaining 30% of the pay and productive GIIP could be developed with infill drilling or further re-completions. However, the economics and plans to pursue this remaining 30% are uncertain. Therefore these volumes have been moved from reserves to contingent resources.
- Slower estimated ramp-up in gas production and the lower plateau gas rates based on ODP plans: This results in less gas production prior to PSC expiry. Production from wells in the reserves area post PSC expiry is classified as a contingent resource; contingent upon PSC extensions with the same PSC terms.
- Plateau production was estimated from 2021 in the year end 2017 reserve estimates. ODP submissions and development plan have now matured and indicate plateau production from 2023/2024. Sanjiaobei and Linxing PSCs expire on 31/8/2033 and 31/8/2036 respectively, so this 3 year deferment is significant.
- Slower gas recovery per well: The initial well rate and early well production is reduced by the initial completion interval being limited to an estimated 40% of the pay and productive GIIP. Subsequent recompletion, adding another 30% of pay, generates additional production later in the wells life. However, overall this results in less production before PSC expiry and more production post PSC expiry. Production post PSC expiry is classified as a contingent resource.
- The slower planned ramp-up in production, reduced and slower gas recovery per well has moved more than 50% of reserves to contingent resources.

4.10.2. Contingent Resource reconciliation

Contingent resources have increased due to the movement of reserves to contingent resources. In Sanjiaobei the reduction in reserves is largely matched by an increase in contingent resources. In Linxing the movement of reserves to contingent resources is offset by a reduction in contractor interest in the Linxing PSC.

- The reduced contractor interest in Linxing PSC (70 to 49%) directly reduces Linxing contingent resource estimates by 30%. Contingent resources estimates are not limited to production prior to PSC expiry so the Linxing PSC extension does not affect them.

The contingent resources can be divided into the following groups with different probability of commercialisation:

- Estimated gas production from contingent resources area prior to PSC expiry. RISC estimate these resources to have a 90% probability of being developed.
- Estimated gas production from reserve and contingent resource areas after PSC expiry. Extension to PSCs are uncertain and the recent extension to Linxing resulted in reduced contractor interest. Therefore, the probability of SGEH as the PSC contractor commercialising these contingent resources is limited.
- Potential gas production from infill wells or further re-completion. Potential production is estimated to be largely after PSC expiry. Therefore, the discounted value and probability of commercialization is limited.

SGEH also have contingent resources in the shallow CBM area in the north east of Linxing East. However pilot production has not demonstrated economic development, therefore no value is assigned to these contingent resources.

4.10.3. Prospective Resource reconciliation

Prospective resources have been reduced in Linxing by the relinquishment of most of the exploration acreage and reduced contractor interest in the PSC. If exploration is successful, production of prospective resources is estimated to be largely after PSC expiry. Therefore, the discounted value and probability of commercialisation is limited.

4.11. Development Risks

Commercial gas production has been demonstrated by pilot production and most well test producing gas at rates above economic rates. SGE has also demonstrated its ability to manage field operations including multiple drilling rig, hydraulic fracturing and infrastructure construction operations. However, the ramp-up in gas production to plateau levels is taking longer than initially expected and the following milestones are yet to be managed:

- Approval of Sanjiaobei ODP and any associated supplementary agreements;
- Approval of additional stages of Linxing ODP and any associated supplementary agreements;
- Management and relinquishment of exploration areas;
- Building up gas production to plateau rate;
- Achieving plateau gas rates that maximize contractor return prior to PSC expiry;
- Negotiating potential PSC extension to enhance contractor return.

Economic production of tight gas fields typically extends over 30 to 40 years. However, these PSC are not planned to reach peak production until 2023, leaving only 10 to 13 years before PSC expiry. Negotiation of an 8 year extension to Linxing PSC resulted in the contractor interest reducing from 70 to 49%. This indicates that further PSC extensions if possible may be with reduced terms. Therefore, the value of economic production post PSC expiry for the contractor is uncertain and likely to be limited.

The pace of development and hence contractor value will depend upon the contractor and Authorities commitment to progress development, staff resourcing and funding capability, all of which carry uncertainty.

5. Declarations

5.1. Qualifications

RISC is an independent oil and gas advisory firm. The RISC staff engaged in this assignment include qualified petroleum reserves and resources evaluators as specified in ASX listing rules, engineers, geoscientists and commercial analysts, each with many years of relevant experience and most have in excess of 20 years.

RISC was founded in 1994 to provide independent advice to companies associated with the oil and gas industry. Today the company has approximately 40 highly experienced professional staff at offices in Perth and Brisbane, Jakarta and London. Our services cover the entire range of the oil and gas business lifecycle and include:

- Oil and gas asset valuations, expert advice to banks for debt or equity finance;
- Exploration/Portfolio management;
- Field development studies and operations planning;
- Reserves assessment and certification, peer reviews;
- Gas market advice;
- Independent Expert/Expert Witness;
- Strategy and corporate planning.

The preparation of this report has been supervised by **Mr Peter Stephenson**, RISC Partner. Mr Stephenson has over 34 years' experience in the upstream hydrocarbon industry with BP, Shell and RISC. He has extensive experience with mature and greenfield oil, gas, gas-condensate and CSG developments in the North Sea, Africa, Middle East, China, Asia and Australasia. Mr Stephenson has global experience in project gate reviews, data room and investment evaluation. Mr Stephenson specialises in reservoir evaluation, field development planning, integrated project reviews, multidisciplinary team coordination and leadership preparation of Independent Technical Specialist reports. Mr Stephenson is Member of the Society of Petroleum Engineers (SPE), the Society of Petroleum Evaluation Engineers (SPEE), the Institution of Chemical Engineers, and holds a M.Eng Petroleum Engineering, Heriot Watt University, 1984 and a B.Sc Chemical Engineering (Ili Hons), University of Nottingham, 1982. Mr Stephenson and is a qualified petroleum reserves and resources evaluator (QPPRE) as defined by ASX listing rules.

A summary of the experience of other staff contributing to this report follows:

Stephen Newman, Principal Advisor, has over 30 years of experience as a Geoscientist in the oil industry including 17 years with BP and Woodside and 9 years as a consultant including 6 years with RISC. He has led and contributed to assignments for due diligence, independent reserve and resource assessments, expert witness, geoscience studies, portfolio and strategy analysis. Mr Newman has a BSc in Exploration Sciences from University of Nottingham 1980, an MSc in Petroleum Geology from Imperial Collage 1985, is a member Petroleum Exploration Society of Australia (PESA) and South East Asia Petroleum Exploration Society (SEAPEX).

Joe Collins, Principal Consultant, has 14 years' experience in Process and Facilities engineering. During his time at RISC he has participated in over 100 assignments including due diligence work, asset evaluations, reserves certifications and project reviews with clients located all over the world. He has in-depth skills in the areas of; upstream facility capital and operational cost estimating, conceptual facilities design, well design and cost estimation and project performance evaluation and forecasting. Joe has particular experience in reviewing and evaluating LNG projects and unconventional developments in Australia. Prior to joining RISC Mr Collins worked for Wesfarmers for six years at their Petrochemical facilities in Kwinana, Western Australia where he filled a number of engineering and management roles. Joe started his career in the exploration industry gaining experience in electric wireline logging throughout Australasia with Halliburton. Mr Collins is a chartered professional engineer with Engineers Australia and a member of SPE. Mr Collins holds a Bachelor of Oil & Gas Engineering (Petroleum and Process Engineering), UWA, 2004 and a Diploma of Project Management.

5.2. VALMIN Code and ASIC Regulatory Guides

This Report has been prepared by RISC. This Report has been prepared in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2015 Edition ("The VALMIN Code") as well as the Australian Securities and Investment Commission (ASIC) Regulatory Guides 111 and 112.

5.3. Petroleum Resources Management System

In the preparation of this Report, RISC has applied the guidelines and definitions of the Petroleum Resources Management System approved by the Board of the Society of Petroleum Engineers in 2007 (PRMS).

5.4. Report to be presented in its entirety

RISC has been advised by SGEH that this report will be presented in its entirety without summarisation.

5.5. Independence

This report does not give and must not be interpreted as giving, an opinion, recommendation or advice on a financial product within the meaning of section 766B of the Corporations Act 2001 or section 12BAB of the Australian Securities and Investments Commission Act 2001.

RISC is not operating under an Australian financial services licence in providing this report.

In accordance with regulation 7.6.01(1)(u) of the Corporations Regulation 2001. RISC makes the following disclosures:

- RISC is independent with respect to SGEH and confirms that there is no conflict of interest with any party involved in the assignment;
- Under the terms of engagement between RISC and SGEH for the provision of this report RISC will receive a time-based fee, with no part of the fee contingent on the conclusions reached, or the content or future use of this report. Except for these fees, RISC has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report;
- Neither RISC nor any of its personnel involved in the preparation of this report have any material interest in SGEH or in any of the properties described herein;
- RISC has provided the following professional services to SGEH in the past two years.

Table 5-1: Projects completed

Project Name	Assignment Manager	Project completion date
Linxing & Sanjiaobei Independent Reserves and resource update YE2016	Peter Stephenson	01/03/2017
Linxing & Sanjiaobei Pilot production analysis	Peter Stephenson	05/12/2017
Linxing & Sanjiaobei Independent Reserves letter YE2017	Peter Stephenson	02/03/2018
Linxing PSC extension; sensitivity runs	Peter Stephenson	03/05/2018

- RISC has not provided advice to SGEH specifically in relation to the Proposed Transaction.

5.6. Limitations

The assessment of petroleum assets is subject to uncertainty because it involves judgments on many variables that cannot be precisely assessed, including reserves, future oil and gas production rates, the costs associated with producing these volumes, access to product markets, product prices and the potential impact of fiscal/regulatory changes.

The statements and opinions attributable to RISC are given in good faith and in the belief that such statements are neither false nor misleading. In carrying out its tasks, RISC has considered and relied upon information obtained from SGEH as well as information in the public domain.

The information provided to RISC has included both hard copy and electronic information supplemented with discussions between RISC and senior SGEH staff.

Whilst every effort has been made to verify data and resolve apparent inconsistencies, we believe our review and conclusions are sound, but neither RISC nor its servants accept any liability, except any liability which cannot be excluded by law, for its accuracy, nor do we warrant that our enquiries have revealed all of the matters, which an extensive examination may disclose. We believe our review and conclusions are sound but no warranty of accuracy or reliability is given to our conclusions.

Our review was carried out only for the purpose referred to above and may not have relevance in other contexts.

This report was substantially completed by 30 June 2018. We are not aware of any changes since that date that would have a material impact on the values and opinions contained within this report.

5.7. Consent

RISC has consented to this report, in the form and context in which it appears, being included in the Prospectus. Neither the whole nor any part of this report nor any reference to it may be included in or attached to any other document, circular, resolution, letter or statement without the prior consent of RISC.

This Report is authorised for release by Mr. Peter Stephenson, RISC Partner dated 9 July 2018.

Peter Stephenson
RISC Partner

6. List of terms

6.1. Abbreviations

The following table lists abbreviations commonly used in the oil and gas industry and which may be used in this report.

Term	Definition
1P	Equivalent to Proved reserves or Proved in-place quantities, depending on the context.
1Q	1st Quarter
2P	The sum of Proved and Probable reserves or in-place quantities, depending on the context.
2Q	2nd Quarter
2D	Two dimensional
3D	Three dimensional
4D	Four dimensional
3P	The sum of Proved, Probable and Possible reserves or in-place quantities, depending on the context.
3Q	3rd Quarter
4Q	4th Quarter
AFE	Authority for expenditure
bbl	US barrel
bbl/d	US barrels per day
Bcf	Billion (10^9) cubic feet
Bcm	Billion (10^9) cubic meters
BFPD	Barrels of fluid per day
BOPD	Barrels of oil per day
BTU	British thermal units
BOEPD	US barrels of oil equivalent per day
BWPD	Barrels of water per day
°C	Degrees Celsius
Capex	Capital expenditure
CAPM	Capital asset pricing model
CGR	Condensate gas ratio
CO_2	Carbon dioxide
cP	Centipoise
CPI	Consumer price index
DEG	Degrees
DHI	Direct hydrocarbon indicator
DST	Drill stem test
E&P	Exploration and production
EMV	Expected monetary value
EOR	Enhanced oil recovery
ESMA	European Securities and Markets Authority
ESP	Electric submersible pump

Term	Definition
EUR	Estimated ultimate recovery
F	Degrees Fahrenheit
FDP	Field development plan
FEED	Front end engineering and design
FID	Final investment decision
FM	Formation
FPSO	Floating production, storage and offtake unit
FWL	Free water level
FVF	Formation volume factor
GIIP	Gas initially in place
GJ	Gigajoules (10^9 J)
GOC	Gas-oil contact
GOR	Gas oil ratio
GRV	Gross rock volume
GSA	Gas sales agreement
GTL	Gas to liquid(s)
GWC	Gas water contact
H_2S	Hydrogen sulphide
HHV	Higher heating value
ID	Internal diameter
IRR	Internal rate of return
JV(P)	Joint venture (parties)
Kh	Horizontal permeability
km^2	Square kilometres
Krw	Relative permeability to water
Kv	Vertical permeability
kPa	Kilopascals (thousand Pascal)
Mstb/d	Thousand stock tank barrels per day
LIBOR	London inter-bank offered rate
LNG	Liquefied natural gas
LTBR	Long-term bond rate
m	Metres
MDT	Modular dynamic (formation) tester
mD	Millidarcies
MJ	Megajoules (10^6 J)
MMbbl	Million US barrels
MMscf(/d)	Million standard cubic feet (per day)
MMstb	Million US stock tank barrels
MOD	Money of the day (nominal dollars)
MOU	Memorandum of understanding
Mscf	Thousand standard cubic feet
Mstb	Thousand US stock tank barrels

Term	Definition
MPa	Megapascal (10^6 Pa)
mss	Metres subsea
MSV	Mean success volume
mTVDss	Metres true vertical depth subsea
MW	Megawatt
NPV	Net present value
NTG	Net to gross
ODT	Oil down to
ODP	Overall Development Plan (Chinese equivalent to a Field Development Plan)
OGIP	Original gas in place
OOIP	Original oil in place
Opex	Operating expenditure
OWC	Oil-water contact
P & A	Plug and Abandon (abandonment of wells)
PBU	Pressure build-up
PJ	Petajoules (10^{15} J)
POS	Probability of success
PRMS	Petroleum Resources Management System
PSC	Production sharing contract
PSDM	Pre-stack depth migration
PSTM	Pre-stack time migration
psia	Pounds per square inch pressure absolute
p.u.	Porosity unit
PVT	Pressure, volume and temperature
QA/QC	Quality assurance/ control
rb/stb	Reservoir barrels per stock tank barrel (at standard conditions)
RFT	Repeat formation tester
RT	Rotary table or real terms, depending on context
SC	Service contract
scf	Standard cubic feet (measured at 60 degrees F and 14.7 psia)
Sg	Gas saturation
SGE	Sino Gas and Energy Operating Company owned 49% by SGEH, 51% by CNEML
SGEH	Sino Gas and Energy Holdings
Sgr	Residual gas saturation
SOE	State Owner Enterprise (China)
SRD	Seismic reference datum lake level
SPE	Society of Petroleum Engineers
s.u.	Fluid saturation unit
stb	Stock tank barrels
STOIIP	Stock tank oil initially In place
Sw	Water saturation
TCM	Technical committee meeting

Term	Definition
Tcf	Trillion (10^{12}) cubic feet
TJ	Terajoules (10^{12} J)
TLP	Tension leg platform
TRSSV	Tubing retrievable subsurface safety valve
TVD	True vertical depth
US$	United States dollar
US$ million	Million United States dollars
WACC	Weighted average cost of capital
WHFP	Well head flowing pressure
WPC	World Petroleum Council
WTI	West Texas Intermediate

6.2. Definitions

The following table lists some definitions for terms commonly used in the oil and gas industry and which may be used in this report.

Term	Definition
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources as defined in the SPE-PRMS.
Discount Rate	The interest rate used to discount future cash flows into a dollars of a reference date
EG	Gas expansion factor. Gas volume at standard (surface) conditions/gas volume at reservoir conditions (pressure and temperature)
Expectation	The mean of a probability distribution.
P90, P50, P10	90%, 50% & 10% probabilities respectively that the stated quantities will be equalled or exceeded. The P90, P50 and P10 quantities correspond to the Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively if probabilistic techniques are used.
Possible Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
Probable Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Probable Reserves are those additional Reserves that are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations as defined in the SPE-PRMS.

Term	Definition
Proved Reserves	As defined in the PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. Often referred to as 1P, also as "Proven".
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.
Working interest	A company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms.

B. ANNEXURE B – SCHEME

Scheme of Arrangement

Sino Gas & Energy Holdings Limited (ACN 124 242 422)(“**Target**”)

Scheme Participants

King & Wood Mallesons
Level 61
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia
T +61 2 9296 2000
F +61 2 9296 3999
DX 113 Sydney
www.kwm.com

Scheme of Arrangement
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Scheme of Arrangement

Details

Parties

Target	Name	**Sino Gas & Energy Holdings Limited**
	ABN/ACN/ARBN	124 242 422
	Formed in	Australia
	Address	311-313 Hay Street, Subiaco WA 6009
	Email	hspindler@sinogasenergy.com
	Attention	Harry Spindler, Company Secretary
Scheme Participants	Each person registered as a holder of fully paid ordinary shares in Target as at 5.00pm on the Record Date.	
Governing law	New South Wales	

General terms

1 Definitions and interpretation

1.1 Definitions

Unless the contrary intention appears, these meanings apply:

ACCC means the Australian Competition and Consumer Commission.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or the market operated by it, as the context requires.

Business Day means a business day as defined in the Listing Rules.

CHESS means the Clearing House Electronic Subregister System for the electronic transfer of securities, operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

Corporations Act means the Corporations Act 2001 (Cth).

Court means the Federal Court of Australia, or such other court of competent jurisdiction under the Corporations Act agreed in writing by Bidder and Target.

Deed Poll means the deed poll dated 21 July 2018 executed by Bidder substantially in the form of Annexure C of the Scheme Implementation Agreement or as otherwise agreed by Bidder and Target under which Bidder covenants in favour of each Scheme Participant to perform its obligations under this Scheme.

Details means the section of this agreement headed “Details”.

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

Effective Date means the date on which the Scheme becomes Effective.

Encumbrance means any security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement and any “security interest” as defined in sections 12(1) or (2) of the PPSA, or any agreement to create any of them or allow them to exist.

End Date means the date which is 5 months after the execution of the Scheme Implementation Agreement or such other date as is agreed by Bidder and Target.

Immediately Available Funds means a bank cheque or other form of cleared funds acceptable to Target.

Implementation Date means the third Business Day following the Record Date or such other date as is agreed by Bidder and Target.

Listing Rules means the Listing Rules of the ASX.

Record Date means 7:00pm on the second Business Day following the Effective Date or such other date as Target and Bidder may agree in writing.

Register means the register of members of Target maintained by or on behalf of Target in accordance with section 168(1) of the Corporations Act.

Registered Address means, in relation to a Target Shareholder, the address shown in the Register.

Scheme means this scheme of arrangement between Target and Scheme Participants under which all of the Scheme Shares will be transferred to Bidder under Part 5.1 of the Corporations Act as described in clause 6 of this Scheme, in consideration for the Scheme Consideration, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act to the extent they are approved in writing by Target and Bidder in accordance with clause 8 of this Scheme.

Scheme Consideration means $0.25 paid in respect of each Scheme Share to be provided by Bidder to Scheme Participants under the terms of this Scheme for the transfer to Bidder of their Scheme Shares.

Scheme Implementation Agreement means the scheme implementation agreement dated 30 May 2018 between Target and Bidder under which, amongst other things, Target has agreed to propose this Scheme to Target Shareholders, and each of Bidder and Target has agreed to take certain steps to give effect to this Scheme.

Scheme Meeting means the meeting of Target Shareholders, ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act at which Target Shareholders will vote on this Scheme.

Scheme Participant means each person who is a Target Shareholder as at 5.00pm on the Record Date.

Scheme Share means a Target Share held by a Scheme Participant as at the Record Date and, for the avoidance of doubt, includes any Target Shares issued on or before the Record Date.

Second Court Date means the day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

Share Scheme Transfer means, for each Scheme Participant, a duly completed and executed proper instrument of transfer of the Scheme Shares held by that Scheme Participant for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all Scheme Shares.

Subsidiary has the meaning given to it in the Corporations Act.

Target Share means a fully paid ordinary share in the capital of Target.

Target Shareholder means each person registered in the Register as a holder of Target Shares.

Trust Account means the trust account operated by or on behalf of Target to hold the Scheme Consideration on trust for the purpose of paying the Scheme Consideration to the Scheme Participants in accordance with clause 6.2 of this Scheme.

1.2 General interpretation

Headings and labels used for definitions are for convenience only and do not affect interpretation. Unless the contrary intention appears, in this document:

(a) the singular includes the plural and vice versa;

(b) a reference to a document includes any agreement or other legally enforceable arrangement created by it (whether the document is in the form of an agreement, deed or otherwise);

(c) a reference to a document also includes any variation, replacement or novation of it;

(d) the meaning of general words is not limited by specific examples introduced by “including”, “for example”, “such as” or similar expressions;

(e) a reference to “**person**” includes an individual, a body corporate, a partnership, a joint venture, an unincorporated association and an authority or any other entity or organisation;

(f) a reference to a particular person includes the person’s executors, administrators, successors, substitutes (including persons taking by novation) and assigns;

(g) a reference to a time of day is a reference to Sydney, New South Wales time;

(h) a reference to dollars, $ or A$ is a reference to the currency of Australia;

(i) a reference to any legislation includes regulations under it and any consolidations, amendments, re-enactments or replacements of any of them;

(j) a reference to a group of persons is a reference to any 2 or more of them jointly and to each of them individually;

(k) a reference to any thing (including an amount) is a reference to the whole and each part of it;

(l) a period of time starting from a given day or the day of an act or event, is to be calculated exclusive of that day;

(m) if a party must do something under this document on or by a given day and it is done after 5.00pm on that day, it is taken to be done on the next day;

(n) if the day on which a party must do something under this document is not a Business Day, the party must do it on the next Business Day;

2 Preliminary

2.1 Target

Target is:

(a) a public company limited by shares;

(b) incorporated in Australia and registered in Western Australia; and

(c) admitted to the official list of the ASX and Target Shares are officially quoted on the stock market conducted by ASX.

As at 30 May 2018, Target has 2,118,854,285 fully paid ordinary shares:

2.2 Bidder

Bidder is a company incorporated in Bermuda.

2.3 If Scheme becomes Effective

If this Scheme becomes Effective:

(a) in consideration of the transfer of each Scheme Share to Bidder, Target will procure Bidder to provide the Scheme Consideration to Target on behalf of each Scheme Participant in accordance with the terms of this Scheme and the Deed Poll;

(b) all Scheme Shares will be transferred to Bidder on the Implementation Date; and

(c) Target will enter the name of Bidder in the Register in respect of all Scheme Shares transferred to Bidder in accordance with the terms of this Scheme.

2.4 Scheme Implementation Agreement

Target and Bidder have agreed by executing the Scheme Implementation Agreement to implement the terms of this Scheme.

2.5 Deed Poll

Bidder has executed the Deed Poll for the purpose of covenanting in favour of the Scheme Participants to perform (or procure the performance of) its obligations as contemplated by this Scheme, including to provide the Scheme Consideration.

3 Conditions precedent

3.1 Conditions precedent to Scheme

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) as at 8.00am on the Second Court Date, each of the Scheme Implementation Agreement and the Deed Poll not having been terminated in accordance with their terms;

(b) as at 8.00am on the Second Court Date, all of the conditions precedent in clause 3.1 of the Scheme Implementation Agreement having been satisfied or waived (other than the condition precedent in item (c) of clause 3.1 of the Scheme Implementation Agreement) in accordance with the terms of the Scheme Implementation Agreement;

(c) the Court having approved this Scheme, with or without any modification or condition, pursuant to section 411(4)(b) of the Corporations Act, and if applicable, Target and Bidder having accepted in writing any modification or condition made or required by the Court under section 411(6) of the Corporations Act; and

(d) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

3.2 Conditions precedent and operation of clause 5

The satisfaction of each condition of clause 3.1 of this Scheme is a condition precedent to the operation of clause 5 of this Scheme.

4 Scheme

4.1 Effective Date

Subject to clause 4.2 this Scheme will come into effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

4.2 End Date

This Scheme will lapse and be of no further force or effect if:

(a) the Effective Date does not occur on or before the End Date; or

(b) the Scheme Implementation Agreement or the Deed Poll is terminated in accordance with its terms, unless Bidder and Target otherwise agree in writing.

5 Implementation of Scheme

5.1 Lodgement of Court orders with ASIC

If the conditions precedent set out in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(d) of this Scheme) are satisfied, Target must lodge with ASIC in accordance with section 411(10) of the Corporations Act an office copy of the Court order approving this Scheme as soon as possible, and in any event by no later than 5.00pm on the first Business Day after the day on which the Court approves this Scheme or such later time as Bidder and Target agree in writing.

5.2 Transfer and registration of Target Shares

On the Implementation Date, but subject to the provision of the Scheme Consideration for the Scheme Shares in accordance with clauses 6.1 to 6.3 of this Scheme and Bidder having provided Target with written confirmation of the provision of the Scheme Consideration:

(a) the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to Bidder without the need for any further act by any Scheme Participant (other than acts performed by Target as attorney and agent for Scheme Participants under clause 8 of this Scheme) by:

(i) Target delivering to Bidder a duly completed and executed Share Scheme Transfer executed on behalf of the Scheme Participants; and

(ii) Bidder duly executing the Share Scheme Transfer and delivering it to Target for registration; and

(b) as soon as practicable after receipt of the duly executed Share Scheme Transfer, Target must enter the name of Bidder in the Register in respect of all Scheme Shares transferred to Bidder in accordance with the terms of this Scheme.

5.3 Entitlement to Scheme Consideration

On the Implementation Date, in consideration for the transfer to Bidder of the Scheme Shares, each Scheme Participant will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares in accordance with clause 6 of this Scheme.

5.4 Title and rights in Target Shares

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clause 6 of this Scheme, on and from the Implementation Date, Bidder will be beneficially entitled to the Scheme Shares transferred to it under the Scheme, pending registration by Target of Bidder in the Register as the holder of the Scheme Shares.

5.5 Scheme Participants' agreements

Under this Scheme, each Scheme Participant agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, in accordance with the terms of this Scheme.

5.6 Warranty by Scheme Participants

Each Scheme Participant warrants to Bidder and, to the extent enforceable, is deemed to have authorised Target to warrant to Bidder as agent and attorney for the Scheme Participant by virtue of this clause 5.6, that:

(a) all their Scheme Shares (including any rights and entitlements attaching to those shares) transferred to Bidder under the Scheme will, as at the date of the transfer, be fully paid and free from all Encumbrances; and

(b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those shares) to Bidder under the Scheme.

5.7 Transfer free of encumbrances

To the extent permitted by law, all Target Shares (including any rights and entitlements attaching to those shares) which are transferred to Bidder under this Scheme will, at the date of the transfer of them to Bidder, vest in Bidder free from all Encumbrances and interests of third parties of any kind, whether legal or otherwise, and free from any restrictions on transfer of any kind not referred to in this Scheme.

5.8 Appointment of Bidder as sole proxy

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clauses 5.2 and 6.3 of this Scheme, on and from the Implementation Date until Target registers Bidder as the holder of all of the Target Shares in the Register, each Scheme Participant:

(a) irrevocably appoints Target as attorney and agent (and directs Target in such capacity) to appoint Bidder and each of its directors from time to time (jointly and each of them individually) as its sole proxy, and where applicable corporate representative, to attend shareholders' meetings, exercise the votes attaching to Target Shares registered in its name and sign any shareholders resolution, and no Scheme Participant may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause 5.8(a); and

(b) must take all other actions in the capacity of the registered holder of Target Shares as Bidder directs.

Target undertakes in favour of each Scheme Participant that it will appoint Bidder and each of its directors from time to time (jointly and each of them individually) as that Scheme Participant's proxy or, where applicable, corporate representative in accordance with clause 5.8(a) of this Scheme.

6 Scheme Consideration

6.1 Consideration under the Scheme

The Bidder must pay (or procure the payment of) the Scheme Consideration to the Scheme Participants in accordance with clauses 6.2, 6.3 and 6.4 of this Scheme.

6.2 Satisfaction of obligations

The obligation of Bidder to pay, or procure the payment of the Scheme Consideration pursuant to clause 6.1 of this Scheme will be satisfied by Bidder no later than 2 Business Days before the Implementation Date to deposit (or procure the deposit) in Immediately Available Funds the aggregate amount of the Scheme Consideration payable to all Scheme Participants into the Trust Account (except that the amount of any interest on the amount deposited will be to Bidder's account).

6.3 Payment of Scheme Consideration

On the Implementation Date, subject to receipt of the Scheme Consideration from Bidder in accordance with clause 6.2 of this Scheme, Target must pay to each Scheme Participant an amount equal to the Scheme Consideration for each Scheme Share transferred to Bidder on the Implementation Date by that Scheme Participant.

Unless otherwise directed by the Scheme Participants before the Record Date, the amounts referred to in this clause 6.3 of this Scheme must be paid by direct credit or sending a cheque drawn on an Australian bank in Australian currency on the Implementation Date to each Scheme Participant by pre-paid ordinary post (or, if the address of the Scheme Participant in the Register is outside Australia, by pre-paid airmail post) to their address recorded in the Register at 5.00pm on the Record Date.

6.4 Unclaimed monies

Target may cancel a cheque issued under clause 6.3 of this Scheme if the cheque:

(a) is returned to Target; or

(b) has not been presented for payment within 6 months after the date on which the cheque was sent.

During the period of 1 year commencing on the Implementation Date, on request from a Scheme Participant, Target must reissue a cheque that was previously cancelled under this clause 6.4.

6.5 Orders of a court

Without limiting the Bidder's obligations under clause 17.3 of the Scheme Implementation Agreement, in the case of notice having been given to Target (or the Registry) of an order made by a court of competent jurisdiction:

(a) which requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Participant, which would otherwise be payable to that Scheme Participant in accordance with clause 6.3 of this Scheme, then Target shall be entitled to make that payment (or procure that it is made) in accordance with that order; or

(b) which would prevent Target from dispatching payment to any particular Scheme Participant in accordance with clause 6.3 of this Scheme, Target will retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Participant multiplied by the Scheme Consideration until such time as payment in accordance with clause 6.3 of this Scheme is permitted by law.

6.6 Joint holders

In the case of Scheme Shares held in joint names any bank cheque required to be paid to Scheme Participants by Bidder must be payable to the joint holders and be forwarded to the holder whose name appears first in the Register as at 5.00pm on the Record Date.

7 Dealings in Scheme Shares

7.1 Determination of Scheme Participants

To establish the identity of the Scheme Participants, dealings in Scheme Shares will only be recognised by Target if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant Scheme Shares on or before 5.00pm on the Record Date; and

(b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00pm on the Record Date at the place where the Register is kept.

7.2 Register

Target must register any registrable transmission applications or transfers of the Scheme Shares received in accordance with clause 7.1(b) of this Scheme on or before 5.00pm on the Record Date.

7.3 No disposals after Effective Date

If this Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Effective Date in any way except as set out in this Scheme and any such disposal will be void and of no legal effect whatsoever.

Target will not accept for registration or recognise for any purpose any transmission, application or transfer in respect of Scheme Shares received after 5.00pm on the Record Date (except a transfer to Bidder pursuant to this Scheme and any subsequent transfer by Bidder or its successors in title).

7.4 Maintenance of Target Register

For the purpose of determining entitlements to the Scheme Consideration, Target will maintain the Register in accordance with the provisions of this clause 7.4 until the Scheme Consideration has been paid to the Scheme Participants and Bidder has been entered in the Register as the holder of all the Scheme Shares. The Register in this form will solely determine entitlements to the Scheme Consideration.

7.5 Effect of certificates and holding statements

Subject to provision of the Scheme Consideration and registration of the transfer to Bidder contemplated in clauses 5.2 and 7.4 of this Scheme, any statements of holding in respect of Scheme Shares will cease to have effect after 5.00pm on the Record Date as documents of title in respect of those shares (other than statements of holding in favour of Bidder and its successors in title). After 5.00pm on the Record Date, each entry current on the Register as at 5.00pm on the Record Date (other than entries in respect of Bidder or its successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration.

7.6 Details of Scheme Participants

Within 3 Business Days after the Record Date Target will ensure that details of the names, Registered Addresses and holdings of Scheme Shares for each Scheme Participant, as shown in the Register at 5.00pm on the Record Date are available to Bidder in such form as Bidder reasonably requires.

7.7 Quotation of Target Shares

Suspension of trading on ASX in Target Shares will occur from the close of trading on ASX on the Effective Date.

7.8 Termination of quotation of Target Shares

After the Scheme has been fully implemented, Target will apply:

(a) for termination of the official quotation of Target Shares on ASX; and

(b) to have itself removed from the official list of the ASX.

8 Power of attorney

Each Scheme Participant, without the need for any further act by any Scheme Participant, irrevocably appoints Target and each of its directors and secretaries (jointly and each of them individually) as its attorney and agent for the purpose of:

(a) executing any document necessary or expedient to give effect to this Scheme including the Share Scheme Transfer;

(b) enforcing the Deed Poll against Bidder,

and Target accepts such appointment. Target, as agent and attorney of each Scheme Shareholder, may sub delegate its functions, authorities or powers under this clause 8 to all or any of its directors and officers (jointly, severally, or jointly and severally).

9 Notices

9.1 No deemed receipt

If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Target, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Target's registered office or at the office of the registrar of Target Shares.

9.2 Accidental omission

The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

10 General

10.1 Variations, alterations and conditions

Target may, with the consent of Bidder (which cannot be unreasonably withheld), by its counsel or solicitor consent on behalf of all persons concerned to any variations, alterations or conditions to this Scheme which the Court thinks fit to impose.

10.2 Further action by Target

Target will execute all documents and do all things (on its own behalf and on behalf of each Scheme Participant) necessary or expedient to implement, and perform its obligations under, this Scheme.

10.3 Authority and acknowledgement

Each of the Scheme Participants:

(a) irrevocably consents to Target and Bidder doing all things necessary or expedient for or incidental to the implementation of this Scheme; and

(b) acknowledges that this Scheme binds Target and all Scheme Participants (including those who do not attend the Scheme Meeting or do not vote at that meeting or vote against the Scheme at that Meeting) and, to the extent of any inconsistency and to the extent permitted by law, overrides the constitution of Target.

10.4 No liability when acting in good faith

Neither Target nor Bidder, nor any of their respective officers, will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

10.5 Enforcement of Deed Poll

Target undertakes in favour of each Scheme Participant to enforce the Deed Poll against Bidder on behalf of and as agent and attorney for the Scheme Participants.

10.6 Stamp duty

(a) Bidder will: pay all stamp duty (including any fines, penalties and interest) payable in connection with this Scheme;

(b) and indemnify each Scheme Participant against any liability arising from failure to comply with paragraph (a).

11 Governing law

11.1 Governing law and jurisdiction

The law in force in the place specified in the Details governs this document. The parties submit to the non-exclusive jurisdiction of the courts of that place.

11.2 Serving documents

Without preventing any other method of service, any document in an action in connection with this document may be served on a party by being delivered or left at that party's address set out in the Details.

C. ANNEXURE C – DEED POLL

KING&WOOD MALLESONS
金杜律师事务所

Deed Poll

Dated 21 July 2018

Given by LSF10 Summertime Investments, Ltd ("**Bidder**")

In favour of each registered holder of fully paid ordinary shares in Sino Gas & Energy Limited (ACN 124 242 422) ("**Target**") as at 5.00 pm on the Record Date ("**Scheme Participants**")

King & Wood Mallesons
Level 61
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia
T +61 2 9296 2000
F +61 2 9296 3999
DX 113 Sydney
www.kwm.com
Ref : PS/CS/DJ

Deed Poll
Contents

Deed Poll

Details

Parties

Bidder	Name	LSF10 Summertime Investments, Ltd
	Registration number	53633
	Formed in	Bermuda
	Address	Washington Mall, Suite 304, 7 Reid, Hamilton HM 11 Bermuda
	Email	pswanger@lonestarfunds.com
	Attention	Sandra Collins and Peter Swanger
	With a copy to:	
	Address:	King & Wood Mallesons Governor Phillip Tower 1 Farrer Place Sydney NSW 2000
	Fax	(02) 9296 3999
	Email	paul.schroder@au.kwm.com
	Attention	Paul Schroder
In favour of	Each registered holder of fully paid ordinary shares in Target as at 5.00 pm on the Record Date.	
Governing law	New South Wales	

Recitals

A The directors of Target have resolved that Target should propose the Scheme.

B The effect of the Scheme will be that all Scheme Shares will be transferred to Bidder.

C Target and Bidder have entered into the Scheme Implementation Agreement.

D In the Scheme Implementation Agreement, Bidder agreed (amongst other things) to provide the Scheme Consideration to Target on behalf of the Scheme Participants, subject to the satisfaction of certain conditions.

E Bidder is entering into this deed poll for the purpose of covenanting in favour of Scheme Participants to perform its obligations in relation to the Scheme.

Deed Poll

General terms

1 Definitions and interpretation

1.1 Definitions

Unless the contrary intention appears, these meanings apply:

Authorised Officer means a director or secretary of a party or any other person nominated by a party to act as an Authorised Officer for the purposes of this document.

Scheme means the proposed scheme of arrangement between Target and Scheme Participants under which all the Scheme Shares will be transferred to Bidder under Part 5.1 of the Corporations Act, substantially in the form of Annexure A to this deed poll, or as otherwise agreed by Bidder and Target, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act, to the extent they are approved in writing by Target and Bidder in accordance with clause 8 of the Scheme.

Scheme Implementation Agreement means the scheme implementation agreement dated 30 May 2018 between Target and Bidder under which, amongst other things, Target has agreed to propose the Scheme to Target Shareholders, and each of Bidder and Target has agreed to take certain steps to give effect to the Scheme.

All other words and phrases used in this document have the same meaning as given to them in the Scheme.

1.2 General interpretation

Clause 1.2 of the Scheme applies to this document.

1.3 Nature of deed poll

Bidder acknowledges that this document may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not a party to it.

2 Conditions precedent and termination

2.1 Conditions precedent

Bidder's obligations under clause 4 are subject to the Scheme becoming Effective.

2.2 Termination

Bidder's obligations under this document will automatically terminate and the terms of this document will be of no further force or effect if:

(a) the Scheme has not become Effective on or before the End Date; or

(b) the Scheme Implementation Agreement is terminated in accordance with its terms.

2.3 Consequences of termination

If this document is terminated under clause 2.2, then, in addition and without prejudice to any other rights, powers or remedies available to Scheme Participants:

(a) Bidder is released from its obligations to further perform this document except those obligations contained in clause 7.2 and any other obligations which by their nature survive termination; and

(b) each Scheme Participant retains the rights, powers or remedies they have against Bidder in respect of any breach of this document which occurs before it is terminated.

3 Performance of obligations generally

Bidder must comply with its obligations under the Scheme Implementation Agreement and do all acts and things necessary or desirable on its part to give full effect to the Scheme.

4 Scheme Consideration

4.1 Scheme Consideration

Subject to clause 2, Bidder undertakes in favour of each Scheme Participant to pay the Scheme Consideration to the Trust Account on behalf of each Scheme Participant in accordance with the Scheme.

4.2 Manner of payment

Bidder's obligation to provide the Scheme Consideration to Target on behalf of each Scheme Participant is satisfied by Bidder, no later than 2 Business Days before the Implementation Date, depositing in Immediately Available Funds the aggregate amount of the Scheme Consideration payable to all Scheme Participants into the Trust Account (except that the amount of any interest on the amount deposited will be to Bidder's account).

4.3 Joint holders

In the case of Scheme Shares held in joint names any bank cheque required to be paid to Scheme Participants by Bidder must be payable to the joint holders and be forwarded to the holder whose name appears first in the Register as at 5.00pm on the Record Date.

5 Representations and warranties

Bidder represents and warrants that:

(a) **(status)** it has been incorporated or formed in accordance with the laws of its place of incorporation or formation, is validly existing under those laws and has power and authority to own its assets and carry on its business as it is now being conducted;

(b) **(power)** it has power to enter into this document, to comply with its obligations under it and exercise its rights under it;

(c) **(no contravention)** the entry by it into, its compliance with its obligations and the exercise of its rights under, this document do not and will not conflict with:

(i) its constituent documents or cause a limitation on its powers or the powers of its directors to be exceeded;

(ii) any law binding on or applicable to it or its assets; or

(iii) any Encumbrance or document binding on or applicable to it;

(d) **(authorisations)** it has in full force and effect each authorisation necessary for it to enter into this document, to comply with its obligations and exercise its rights under it, and to allow them to be enforced;

(e) **(validity of obligations)** its obligations under this document are valid and binding and are enforceable against it in accordance with its terms; and

(f) **(solvency)** is not Insolvent.

6 Continuing obligations

This document is irrevocable and, subject to clause 2, remains in full force and effect until:

(a) Bidder has fully performed its obligations under this document; or

(b) the earlier termination of this document under clause 2.2.

7 Costs

7.1 Costs

Bidder agrees to pay all costs in respect of the Scheme (including, in connection with the transfer of Target Shares to Bidder in accordance with the terms of the Scheme) except for amounts covered by clause 7.2.

7.2 Stamp duty and registration fees

Bidder:

(a) agrees to pay or reimburse all stamp duty, registration fees and similar taxes payable or assessed as being payable in connection with this document or any other transaction contemplated by this document (including any fees, fines, penalties and interest in connection with any of these amounts); and

(b) indemnifies each Scheme Participant against for any liability in respect of stamp duty under clause 7.2(a).

8 Notices

Notices and other communications in connection with this document must be in writing. They must be sent to the address or email address referred to in the Details and (except in the case of email) marked for the attention of the person referred to in the Details. If the intended recipient has notified changed contact details, then communications must be sent to the changed contact details.

9 General

9.1 Variation

A provision of this document or any right created under it may not be varied, altered or otherwise amended unless:

(a) the variation is agreed to by Target and Bidder in writing; and

(b) if necessary, the Court indicates that the variation, alteration or amendment would not itself preclude approval of the Scheme,

in which event Bidder must enter into a further deed poll in favour of the Scheme Participants giving effect to the variation, alteration or amendment.

9.2 Partial exercising of rights

Unless this document expressly states otherwise, if Bidder or a Scheme Participant does not exercise a right, power or remedy in connection with this document fully or at a given time, it may still exercise it later.

9.3 Remedies cumulative

The rights, powers and remedies in connection with this document are in addition to other rights, powers and remedies given by law independently of this document.

9.4 Assignment or other dealings

The Bidder and each Scheme Participant may not assign or otherwise deal with its rights under this document or allow any interest in them to arise or be varied without the consent of Bidder and Target.

9.5 Further steps

Bidder agrees to do anything including executing all documents and do all things (on its own behalf or on behalf of each Scheme Participant) necessary or expedient to give full effect to this document and the transactions contemplated by it.

10 Governing law and jurisdiction

10.1 Governing law and jurisdiction

(a) The law in New South Wales governs this document.

(b) The parties submit to the exclusive jurisdiction of the courts exercising jurisdiction in New South Wales and courts competent to determine appeals from those courts in respect of any proceedings arising out of or in connection with this document.

(c) The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

10.2 Serving documents

Without preventing any other method of service, any document in an action in connection with this document may be served on Bidder by being delivered or left at Bidder's address set out in the Details.

EXECUTED as a deed poll

Deed Poll

Signing page

DATED: July 18, 2018

EXECUTED by LSF10 Summertime Investments, Ltd:

Marc L. Lipshy
Signature of director

MARC L. LIPSHY
Name of director (block letters)

Signature of director

DAWN C. GRIFFITHS
Name of director (block letters)

Deed Poll

Signing page

DATED: July 18, 2018

EXECUTED by LSF10 Summertime Investments, Ltd:	
....	....
Signature of director	Signature of director
MARC L. LIPSHY	DAWN C. GRIFFITHS
Name of director (block letters)	Name of director (block letters)

Deed Poll

Annexure A - Scheme

Scheme of Arrangement

Sino Gas & Energy Holdings Limited (ACN 124 242 422)("**Target**")

Scheme Participants

King & Wood Mallesons
Level 61
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia
T +61 2 9296 2000
F +61 2 9296 3999
DX 113 Sydney
www.kwm.com

Scheme of Arrangement
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Scheme of Arrangement

Details

Parties		
Target	Name	**Sino Gas & Energy Holdings Limited**
	ABN/ACN/ARBN	124 242 422
	Formed in	Australia
	Address	311-313 Hay Street, Subiaco WA 6009
	Email	hspindler@sinogasenergy.com
	Attention	Harry Spindler, Company Secretary
Scheme Participants	Each person registered as a holder of fully paid ordinary shares in Target as at 5.00pm on the Record Date.	
Governing law	New South Wales	

General terms

1 Definitions and interpretation

1.1 Definitions

Unless the contrary intention appears, these meanings apply:

ACCC means the Australian Competition and Consumer Commission.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or the market operated by it, as the context requires.

Business Day means a business day as defined in the Listing Rules.

CHESS means the Clearing House Electronic Subregister System for the electronic transfer of securities, operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

Corporations Act means the Corporations Act 2001 (Cth).

Court means the Federal Court of Australia, or such other court of competent jurisdiction under the Corporations Act agreed in writing by Bidder and Target.

Deed Poll means the deed poll dated 21 July 2018 executed by Bidder substantially in the form of Annexure C of the Scheme Implementation Agreement or as otherwise agreed by Bidder and Target under which Bidder covenants in favour of each Scheme Participant to perform its obligations under this Scheme.

Details means the section of this agreement headed "Details".

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

Effective Date means the date on which the Scheme becomes Effective.

Encumbrance means any security for the payment of money or performance of obligations, including a mortgage, charge, lien, pledge, trust, power or title retention or flawed deposit arrangement and any "security interest" as defined in sections 12(1) or (2) of the PPSA, or any agreement to create any of them or allow them to exist.

End Date means the date which is 5 months after the execution of the Scheme Implementation Agreement or such other date as is agreed by Bidder and Target.

Immediately Available Funds means a bank cheque or other form of cleared funds acceptable to Target.

Implementation Date means the third Business Day following the Record Date or such other date as is agreed by Bidder and Target.

Listing Rules means the Listing Rules of the ASX.

Record Date means 7:00pm on the second Business Day following the Effective Date or such other date as Target and Bidder may agree in writing.

Register means the register of members of Target maintained by or on behalf of Target in accordance with section 168(1) of the Corporations Act.

Registered Address means, in relation to a Target Shareholder, the address shown in the Register.

Scheme means this scheme of arrangement between Target and Scheme Participants under which all of the Scheme Shares will be transferred to Bidder under Part 5.1 of the Corporations Act as described in clause 6 of this Scheme, in consideration for the Scheme Consideration, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act to the extent they are approved in writing by Target and Bidder in accordance with clause 8 of this Scheme.

Scheme Consideration means $0.25 paid in respect of each Scheme Share to be provided by Bidder to Scheme Participants under the terms of this Scheme for the transfer to Bidder of their Scheme Shares.

Scheme Implementation Agreement means the scheme implementation agreement dated 30 May 2018 between Target and Bidder under which, amongst other things, Target has agreed to propose this Scheme to Target Shareholders, and each of Bidder and Target has agreed to take certain steps to give effect to this Scheme.

Scheme Meeting means the meeting of Target Shareholders, ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act at which Target Shareholders will vote on this Scheme.

Scheme Participant means each person who is a Target Shareholder as at 5.00pm on the Record Date.

Scheme Share means a Target Share held by a Scheme Participant as at the Record Date and, for the avoidance of doubt, includes any Target Shares issued on or before the Record Date.

Second Court Date means the day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

Share Scheme Transfer means, for each Scheme Participant, a duly completed and executed proper instrument of transfer of the Scheme Shares held by that Scheme Participant for the purposes of section 1071B of the Corporations Act, which may be a master transfer of all Scheme Shares.

Subsidiary has the meaning given to it in the Corporations Act.

Target Share means a fully paid ordinary share in the capital of Target.

Target Shareholder means each person registered in the Register as a holder of Target Shares.

Trust Account means the trust account operated by or on behalf of Target to hold the Scheme Consideration on trust for the purpose of paying the Scheme Consideration to the Scheme Participants in accordance with clause 6.2 of this Scheme.

1.2 General interpretation

Headings and labels used for definitions are for convenience only and do not affect interpretation. Unless the contrary intention appears, in this document:

(a) the singular includes the plural and vice versa;

(b) a reference to a document includes any agreement or other legally enforceable arrangement created by it (whether the document is in the form of an agreement, deed or otherwise);

(c) a reference to a document also includes any variation, replacement or novation of it;

(d) the meaning of general words is not limited by specific examples introduced by "including", "for example", "such as" or similar expressions;

(e) a reference to "**person**" includes an individual, a body corporate, a partnership, a joint venture, an unincorporated association and an authority or any other entity or organisation;

(f) a reference to a particular person includes the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;

(g) a reference to a time of day is a reference to Sydney, New South Wales time;

(h) a reference to dollars, $ or A$ is a reference to the currency of Australia;

(i) a reference to any legislation includes regulations under it and any consolidations, amendments, re-enactments or replacements of any of them;

(j) a reference to a group of persons is a reference to any 2 or more of them jointly and to each of them individually;

(k) a reference to any thing (including an amount) is a reference to the whole and each part of it;

(l) a period of time starting from a given day or the day of an act or event, is to be calculated exclusive of that day;

(m) if a party must do something under this document on or by a given day and it is done after 5.00pm on that day, it is taken to be done on the next day;

(n) if the day on which a party must do something under this document is not a Business Day, the party must do it on the next Business Day;

2 Preliminary

2.1 Target

Target is:

(a) a public company limited by shares;

(b) incorporated in Australia and registered in Western Australia; and

(c) admitted to the official list of the ASX and Target Shares are officially quoted on the stock market conducted by ASX.

As at 30 May 2018, Target has 2,118,854,285 fully paid ordinary shares:

2.2 Bidder

Bidder is a company incorporated in Bermuda.

2.3 If Scheme becomes Effective

If this Scheme becomes Effective:

(a) in consideration of the transfer of each Scheme Share to Bidder, Target will procure Bidder to provide the Scheme Consideration to Target on behalf of each Scheme Participant in accordance with the terms of this Scheme and the Deed Poll;

(b) all Scheme Shares will be transferred to Bidder on the Implementation Date; and

(c) Target will enter the name of Bidder in the Register in respect of all Scheme Shares transferred to Bidder in accordance with the terms of this Scheme.

2.4 Scheme Implementation Agreement

Target and Bidder have agreed by executing the Scheme Implementation Agreement to implement the terms of this Scheme.

2.5 Deed Poll

Bidder has executed the Deed Poll for the purpose of covenanting in favour of the Scheme Participants to perform (or procure the performance of) its obligations as contemplated by this Scheme, including to provide the Scheme Consideration.

3 Conditions precedent

3.1 Conditions precedent to Scheme

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) as at 8.00am on the Second Court Date, each of the Scheme Implementation Agreement and the Deed Poll not having been terminated in accordance with their terms;

(b) as at 8.00am on the Second Court Date, all of the conditions precedent in clause 3.1 of the Scheme Implementation Agreement having been satisfied or waived (other than the condition precedent in item (c) of clause 3.1 of the Scheme Implementation Agreement) in accordance with the terms of the Scheme Implementation Agreement;

(c) the Court having approved this Scheme, with or without any modification or condition, pursuant to section 411(4)(b) of the Corporations Act, and if applicable, Target and Bidder having accepted in writing any modification or condition made or required by the Court under section 411(6) of the Corporations Act; and

(d) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

3.2 Conditions precedent and operation of clause 5

The satisfaction of each condition of clause 3.1 of this Scheme is a condition precedent to the operation of clause 5 of this Scheme.

4 Scheme

4.1 Effective Date

Subject to clause 4.2 this Scheme will come into effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

4.2 End Date

This Scheme will lapse and be of no further force or effect if:

(a) the Effective Date does not occur on or before the End Date; or

(b) the Scheme Implementation Agreement or the Deed Poll is terminated in accordance with its terms, unless Bidder and Target otherwise agree in writing.

5 Implementation of Scheme

5.1 Lodgement of Court orders with ASIC

If the conditions precedent set out in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(d) of this Scheme) are satisfied, Target must lodge with ASIC in accordance with section 411(10) of the Corporations Act an office copy of the Court order approving this Scheme as soon as possible, and in any event by no later than 5.00pm on the first Business Day after the day on which the Court approves this Scheme or such later time as Bidder and Target agree in writing.

5.2 Transfer and registration of Target Shares

On the Implementation Date, but subject to the provision of the Scheme Consideration for the Scheme Shares in accordance with clauses 6.1 to 6.3 of this Scheme and Bidder having provided Target with written confirmation of the provision of the Scheme Consideration:

(a) the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to Bidder without the need for any further act by any Scheme Participant (other than acts performed by Target as attorney and agent for Scheme Participants under clause 8 of this Scheme) by:

(i) Target delivering to Bidder a duly completed and executed Share Scheme Transfer executed on behalf of the Scheme Participants; and

(ii) Bidder duly executing the Share Scheme Transfer and delivering it to Target for registration; and

(b) as soon as practicable after receipt of the duly executed Share Scheme Transfer, Target must enter the name of Bidder in the Register in respect of all Scheme Shares transferred to Bidder in accordance with the terms of this Scheme.

5.3 Entitlement to Scheme Consideration

On the Implementation Date, in consideration for the transfer to Bidder of the Scheme Shares, each Scheme Participant will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares in accordance with clause 6 of this Scheme.

5.4 Title and rights in Target Shares

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clause 6 of this Scheme, on and from the Implementation Date, Bidder will be beneficially entitled to the Scheme Shares transferred to it under the Scheme, pending registration by Target of Bidder in the Register as the holder of the Scheme Shares.

5.5 Scheme Participants' agreements

Under this Scheme, each Scheme Participant agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, in accordance with the terms of this Scheme.

5.6 Warranty by Scheme Participants

Each Scheme Participant warrants to Bidder and, to the extent enforceable, is deemed to have authorised Target to warrant to Bidder as agent and attorney for the Scheme Participant by virtue of this clause 5.6, that:

(a) all their Scheme Shares (including any rights and entitlements attaching to those shares) transferred to Bidder under the Scheme will, as at the date of the transfer, be fully paid and free from all Encumbrances; and

(b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those shares) to Bidder under the Scheme.

5.7 Transfer free of encumbrances

To the extent permitted by law, all Target Shares (including any rights and entitlements attaching to those shares) which are transferred to Bidder under this Scheme will, at the date of the transfer of them to Bidder, vest in Bidder free from all Encumbrances and interests of third parties of any kind, whether legal or otherwise, and free from any restrictions on transfer of any kind not referred to in this Scheme.

5.8 Appointment of Bidder as sole proxy

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clauses 5.2 and 6.3 of this Scheme, on and from the Implementation Date until Target registers Bidder as the holder of all of the Target Shares in the Register, each Scheme Participant:

(a) irrevocably appoints Target as attorney and agent (and directs Target in such capacity) to appoint Bidder and each of its directors from time to time (jointly and each of them individually) as its sole proxy, and where applicable corporate representative, to attend shareholders' meetings, exercise the votes attaching to Target Shares registered in its name and sign any shareholders resolution, and no Scheme Participant may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause 5.8(a); and

(b) must take all other actions in the capacity of the registered holder of Target Shares as Bidder directs.

Target undertakes in favour of each Scheme Participant that it will appoint Bidder and each of its directors from time to time (jointly and each of them individually) as that Scheme Participant's proxy or, where applicable, corporate representative in accordance with clause 5.8(a) of this Scheme.

6 Scheme Consideration

6.1 Consideration under the Scheme

The Bidder must pay (or procure the payment of) the Scheme Consideration to the Scheme Participants in accordance with clauses 6.2, 6.3 and 6.4 of this Scheme.

6.2 Satisfaction of obligations

The obligation of Bidder to pay, or procure the payment of the Scheme Consideration pursuant to clause 6.1 of this Scheme will be satisfied by Bidder no later than 2 Business Days before the Implementation Date to deposit (or procure the deposit) in Immediately Available Funds the aggregate amount of the Scheme Consideration payable to all Scheme Participants into the Trust Account (except that the amount of any interest on the amount deposited will be to Bidder's account).

6.3 Payment of Scheme Consideration

On the Implementation Date, subject to receipt of the Scheme Consideration from Bidder in accordance with clause 6.2 of this Scheme, Target must pay to each Scheme Participant an amount equal to the Scheme Consideration for each Scheme Share transferred to Bidder on the Implementation Date by that Scheme Participant.

Unless otherwise directed by the Scheme Participants before the Record Date, the amounts referred to in this clause 6.3 of this Scheme must be paid by direct credit or sending a cheque drawn on an Australian bank in Australian currency on the Implementation Date to each Scheme Participant by pre-paid ordinary post (or, if the address of the Scheme Participant in the Register is outside Australia, by pre-paid airmail post) to their address recorded in the Register at 5.00pm on the Record Date.

6.4 Unclaimed monies

Target may cancel a cheque issued under clause 6.3 of this Scheme if the cheque:

(a) is returned to Target; or

(b) has not been presented for payment within 6 months after the date on which the cheque was sent.

During the period of 1 year commencing on the Implementation Date, on request from a Scheme Participant, Target must reissue a cheque that was previously cancelled under this clause 6.4.

6.5 Orders of a court

Without limiting the Bidder's obligations under clause 17.3 of the Scheme Implementation Agreement, in the case of notice having been given to Target (or the Registry) of an order made by a court of competent jurisdiction:

(a) which requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Participant, which would otherwise be payable to that Scheme Participant in accordance with clause 6.3 of this Scheme, then Target shall be entitled to make that payment (or procure that it is made) in accordance with that order; or

(b) which would prevent Target from dispatching payment to any particular Scheme Participant in accordance with clause 6.3 of this Scheme, Target will retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Participant multiplied by the Scheme Consideration until such time as payment in accordance with clause 6.3 of this Scheme is permitted by law.

6.6 Joint holders

In the case of Scheme Shares held in joint names any bank cheque required to be paid to Scheme Participants by Bidder must be payable to the joint holders and be forwarded to the holder whose name appears first in the Register as at 5.00pm on the Record Date.

7 Dealings in Scheme Shares

7.1 Determination of Scheme Participants

To establish the identity of the Scheme Participants, dealings in Scheme Shares will only be recognised by Target if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Register as the holder of the relevant Scheme Shares on or before 5.00pm on the Record Date; and

(b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00pm on the Record Date at the place where the Register is kept.

7.2 Register

Target must register any registrable transmission applications or transfers of the Scheme Shares received in accordance with clause 7.1(b) of this Scheme on or before 5.00pm on the Record Date.

7.3 No disposals after Effective Date

If this Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Effective Date in any way except as set out in this Scheme and any such disposal will be void and of no legal effect whatsoever.

Target will not accept for registration or recognise for any purpose any transmission, application or transfer in respect of Scheme Shares received after 5.00pm on the Record Date (except a transfer to Bidder pursuant to this Scheme and any subsequent transfer by Bidder or its successors in title).

7.4 Maintenance of Target Register

For the purpose of determining entitlements to the Scheme Consideration, Target will maintain the Register in accordance with the provisions of this clause 7.4 until the Scheme Consideration has been paid to the Scheme Participants and Bidder has been entered in the Register as the holder of all the Scheme Shares. The Register in this form will solely determine entitlements to the Scheme Consideration.

7.5 Effect of certificates and holding statements

Subject to provision of the Scheme Consideration and registration of the transfer to Bidder contemplated in clauses 5.2 and 7.4 of this Scheme, any statements of holding in respect of Scheme Shares will cease to have effect after 5.00pm on the Record Date as documents of title in respect of those shares (other than statements of holding in favour of Bidder and its successors in title). After 5.00pm on the Record Date, each entry current on the Register as at 5.00pm on the Record Date (other than entries in respect of Bidder or its successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration.

7.6 Details of Scheme Participants

Within 3 Business Days after the Record Date Target will ensure that details of the names, Registered Addresses and holdings of Scheme Shares for each Scheme Participant, as shown in the Register at 5.00pm on the Record Date are available to Bidder in such form as Bidder reasonably requires.

7.7 Quotation of Target Shares

Suspension of trading on ASX in Target Shares will occur from the close of trading on ASX on the Effective Date.

7.8 Termination of quotation of Target Shares

After the Scheme has been fully implemented, Target will apply:

(a) for termination of the official quotation of Target Shares on ASX; and

(b) to have itself removed from the official list of the ASX.

8 Power of attorney

Each Scheme Participant, without the need for any further act by any Scheme Participant, irrevocably appoints Target and each of its directors and secretaries (jointly and each of them individually) as its attorney and agent for the purpose of:

(a) executing any document necessary or expedient to give effect to this Scheme including the Share Scheme Transfer;

(b) enforcing the Deed Poll against Bidder,

and Target accepts such appointment. Target, as agent and attorney of each Scheme Shareholder, may sub delegate its functions, authorities or powers under this clause 8 to all or any of its directors and officers (jointly, severally, or jointly and severally).

9 Notices

9.1 No deemed receipt

If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Target, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Target's registered office or at the office of the registrar of Target Shares.

9.2 Accidental omission

The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

10 General

10.1 Variations, alterations and conditions

Target may, with the consent of Bidder (which cannot be unreasonably withheld), by its counsel or solicitor consent on behalf of all persons concerned to any variations, alterations or conditions to this Scheme which the Court thinks fit to impose.

10.2 Further action by Target

Target will execute all documents and do all things (on its own behalf and on behalf of each Scheme Participant) necessary or expedient to implement, and perform its obligations under, this Scheme.

10.3 Authority and acknowledgement

Each of the Scheme Participants:

(a) irrevocably consents to Target and Bidder doing all things necessary or expedient for or incidental to the implementation of this Scheme; and

(b) acknowledges that this Scheme binds Target and all Scheme Participants (including those who do not attend the Scheme Meeting or do not vote at that meeting or vote against the Scheme at that Meeting) and, to the extent of any inconsistency and to the extent permitted by law, overrides the constitution of Target.

10.4 No liability when acting in good faith

Neither Target nor Bidder, nor any of their respective officers, will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

10.5 Enforcement of Deed Poll

Target undertakes in favour of each Scheme Participant to enforce the Deed Poll against Bidder on behalf of and as agent and attorney for the Scheme Participants.

10.6 Stamp duty

(a) Bidder will: pay all stamp duty (including any fines, penalties and interest) payable in connection with this Scheme;

(b) and indemnify each Scheme Participant against any liability arising from failure to comply with paragraph (a).

11 Governing law

11.1 Governing law and jurisdiction

The law in force in the place specified in the Details governs this document. The parties submit to the non-exclusive jurisdiction of the courts of that place.

11.2 Serving documents

Without preventing any other method of service, any document in an action in connection with this document may be served on a party by being delivered or left at that party's address set out in the Details.

D. ANNEXURE D – NOTICE OF MEETING

SINO GAS & ENERGY HOLDINGS LIMITED
ACN 124 242 422

NOTICE OF SCHEME MEETING

Notice is hereby given that, by order of the Federal Court of Australia made on 27 July 2018, a Scheme Meeting of Sino Gas Shareholders will be held at:

Time:	10.00am (Sydney time)
Meeting Date:	5 September 2018
Place:	at the Museum of Sydney, Warrane Theatre, Level 2, Corner of Phillip and Bridge Streets, Sydney, NSW 2000.

The Court has directed that Philip Bainbridge, or, failing him, Bernie Ridgeway act as chair of the meeting and has directed the chair to report the result of the Scheme Meeting to the Court.

BUSINESS OF THE SCHEME MEETING

The purpose of the Scheme Meeting to be held pursuant to this Notice of Scheme Meeting is to consider, and if thought fit, to agree (with or without modification) to a scheme of arrangement proposed to be made between Sino Gas and Sino Gas Shareholders.

SCHEME RESOLUTION

To consider and, if thought fit, to pass, with or without amendment, the following resolution:

> *That, pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth), the scheme of arrangement proposed between Sino Gas and the holders of its fully paid ordinary shares, the terms of which are contained in and more particularly described in the Scheme Booklet of which the notice convening the Scheme Meeting forms part, is approved (with or without alterations or conditions as approved by the Federal Court of Australia) and, subject to approval of the Scheme by the Court, the Sino Gas Board is authorised to implement the Scheme with any such alterations or conditions.*

SINO GAS BOARD COMMENT AND RECOMMENDATIONS

For the reasons set out in the Scheme Booklet, the Sino Gas Board unanimously recommends that Sino Gas Shareholders vote in favour of the Scheme Resolution in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Sino Gas Shareholders.

By Order of the Court and Sino Gas Board

Harry Spindler
Company Secretary
27 July 2018

NOTES TO THE NOTICE OF SCHEME MEETING

These notes should be read in conjunction with the Notice of Scheme Meeting and the information in the Scheme Booklet of which that notice forms part. Unless the context requires otherwise, terms used in the Notice of Scheme Meeting and in these notes have the same meaning as set out in section 9 (*Glossary and interpretation*) of the Scheme Booklet.

Majorities required

In accordance with section 411(4)(a)(ii) of the Corporations Act, the Scheme Resolution must be passed by:

- a majority in number (more than 50%) of Sino Gas Shareholders present and entitled to vote at the Scheme Meeting (either in person or by proxy); and
- at least 75% of the votes cast on the Scheme Resolution by Sino Gas Shareholders.

Entitlement to vote

The time for the purposes of determining voting entitlements pursuant to regulation 7.11.37 of the Corporations Regulations will be 7:00pm (Sydney time) on 3 September 2018.

Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Scheme Meeting.

Voting at the Scheme Meeting

You may vote in person at the Scheme Meeting, or appoint a proxy, attorney or, if you are a body corporate, a duly appointed corporate representative to attend and vote on your behalf.

Voting will be conducted by poll.

Proxies

If you are unable to attend the Scheme Meeting, you are encouraged to appoint a proxy to attend and vote on your behalf. If you wish to appoint a proxy, please complete the enclosed proxy form.

Sino Gas Shareholders are notified that:

- a member who is entitled to attend and cast a vote at the Scheme Meeting may appoint a proxy to attend and vote for the member;
- the appointment may specify the proportion or number of votes that the proxy may exercise;
- a member who is entitled to cast two or more votes at the Scheme Meeting may appoint two proxies and may specify the proportion or number of votes each proxy is entitled to exercise. If you appoint two proxies and the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes; and
- a proxy may be an individual or a body corporate and need not be a member of Sino Gas. If a Sino Gas Shareholder appoints a body corporate as proxy, the body corporate will need to ensure that it appoints an individual as corporate representative and provides satisfactory evidence of that appointment.

Voting by Proxy

A Sino Gas Shareholder can direct its proxy how to vote (either for, against or abstain from voting) on the Scheme Resolution by marking the appropriate box in the Voting Directions section of the proxy form. If a proxy holder votes, they must cast all votes as directed. Any directed proxies that are not voted will automatically default to the Chairman, who must vote the proxies as directed.

If the Chairman of the Scheme Meeting is appointed as your proxy (or is appointed your proxy by default), you can direct the Chairman how to vote by marking the relevant boxes in the Voting Directions section next to the Scheme Resolution on the proxy form (i.e. 'for', 'against' or 'abstain'). The Chairman is required to cast all votes as directed. The Chairman of the Scheme Meeting intends to vote all undirected and available proxies in favour of the Scheme Resolution.

Any directed proxies that are not voted on a poll at the Scheme Meeting by a Sino Gas Shareholder's appointed proxy will automatically default to the Chairman of the Scheme Meeting, who is required to vote proxies as directed on a poll.

Lodgment of proxies

Your proxy form must be received by Sino Gas or the Sino Gas Registry, Link Market Services Limited, by 10:00am (Sydney time) on 3 September 2018.

The completed proxy form may be lodged:

- **online** to the Company's share registry by visiting the website, **www.linkmarketservices.com.au.** You will need your 'Holder Identifier' (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on your proxy form). You will be taken to have signed the proxy form if you lodge it in accordance with the instructions on the website;
- by **mail** (using the reply paid envelope included with the Scheme Booklet) to Sino Gas & Energy Holdings Limited, C/- Link Market Services Limited, Locked Bag A14, Sydney South, NSW, 1235, Australia;
- by **fax** to Link Market Services Limited on +61 2 9287 0309; or
- by **hand delivering** it to Link Market Services Limited at 1A Homebush Bay Drive, Rhodes NSW 2138 during business hours (Monday – Friday, 9.00 am – 5.00pm (Sydney time)).

Sino Gas Shareholders should contact the Sino Gas Registry on 1300 554 474 (callers in Australia) or +61 1300 554 474 (callers outside Australia) between 8:30am and 7:30pm (Sydney time) Monday to Friday (excluding days which are public holidays in New South Wales) with any queries regarding the number of Sino Gas Shares they hold, how to vote at the Scheme Meeting or how to lodge the Proxy Form.

Further details in respect of the Scheme Resolution to be put to the Scheme Meeting are set out in the accompanying Scheme Booklet.

Lodging Online

At **www.linkmarketservices.com.au**

Select 'Investor Login' and enter Sino Gas & Energy Holdings Limited or the ASX code (SEH) in the Issuer name field, your Security Reference Number (SRN) or Holder Identification Number (HIN) (which is shown on the front of your proxy form), postcode (or country of origin if located outside of Australia) and security code which is shown on the screen and click 'Login'.

Select the 'Voting' tab and then follow the prompts. You will be taken to have signed your Proxy Form if you lodge it in accordance with the instructions given on the website.

Voting by corporate representative

If you are a body corporate, you can appoint a corporate representative to attend and vote at the Scheme Meeting on your behalf. The appointment must comply with section 250D of the Corporations Act.

A corporate representative should bring to the Scheme Meeting evidence of their appointment including any authority under which the document appointing them as corporate representative was signed.

Voting by attorney

Powers of attorney must be received by the Sino Gas Registry by no later than 10:00am (Sydney time) on 3 September 2018.

Persons attending the Scheme Meeting as an attorney should bring to the Scheme Meeting the original or certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

Admission to Scheme Meeting

If you will be attending the Scheme Meeting, you will need to register at one of the registration desks on the day. Prompt registration will be facilitated if you bring a copy of your Proxy Form with you, using the bar code appearing at the top of the Proxy Form.

Sino Gas Shareholders who do not plan to attend the Scheme Meeting are encouraged to complete and return a proxy form for each of their holdings of shares in Sino Gas.

A replacement proxy form may be obtained from the Sino Gas Registry, Link Market Services Limited.

Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Scheme (with or without modification) must be approved by an order of the Court. If the Scheme Resolution put to this Scheme Meeting is passed by the requisite majorities and the other conditions are satisfied or waived (if applicable), Sino Gas intends to apply to the Court on or around 11 September 2018 for approval of the Scheme.

NOTES

NOTES

CORPORATE DIRECTORY

Sino Gas & Energy Holdings Limited
(ACN 124 242 422)

311-313 Hay Street
Subiaco WA 6008

Sino Gas Registry
Link Market Services Limited
Level 12, QV1 Building 250 St Georges Terrace
Perth WA 6000

Financial Adviser
Royal Bank of Canada
Level 47
2 Park Street
Sydney NSW 2000

Australian Legal Adviser
Allens
Level 28
126 Phillip Street
Sydney NSW 2000

Independent Expert
Grant Thornton
Level 17
383 Kent Street
Sydney NSW 2000

Technical Expert
RISC Advisory
Level 2
1138 Hay Street
West Perth WA 6005

Auditors
Ernst & Young
The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000

SINO Gas & Energy

www.sinogasenergy.com