



**Sagalio Energy**  
**中普能源**

Listed on ASX (Stock Code : SAN)

# **Sagalio Energy Limited**

## **Interim Financial Report**

ARBN 152 971 821

**15 March 2016**

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## DIRECTORS' REPORT

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Your Directors submit the Interim Financial Report of the consolidated Group for the 6 months ended 31 December 2015.

### DIRECTORS

The names of the Directors of Sagalio Energy Limited (**SAN** or the **Company**) in office during the 6 months ended 31 December 2015 and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Name	Position	Date of appointment
Mr. Harry King Hap Lee	Chairman & Non-executive Director	9 July 2014
Dr. Louis Yang Luwu	Executive director & CEO	9 July 2014
Mr. Steven Hodgson	Non-executive director	5 August 2013
Mr. He Chuan	Non-executive director	1 June 2014

### PRINCIPAL ACTIVITIES

Sagalio Energy Limited and its controlled entities (the **Group**) currently has interest in three oil exploration and development projects in Kyrgyz Republic through the acquisition of PEI LLC which was completed in May 2015 and is principally engaged in the exploration and development of petroleum resources in the central Asia region.

### REVIEW OF OPERATIONS

Set out below is a review of significant activity for Sagalio Energy Limited for the 6 months ended 31 December 2015.

### NAME CHANGE AND COMMENCEMENT OF TRADING UNDER NEW STOCK CODE

During the 6 months ended 31 December 2015, the Company has completed its name change from FeOre Limited to Sagalio Energy Limited with the Registrar of Companies in Bermuda, ASIC and ASX and is now trading under the ASX code "SAN".

### ADDITIONAL EXPLORATION AND DEVELOPMENT OF THE KYRGYZSTAN PROJECTS

#### **Marleysu – East Yizbaskent Development Block**

The Company has conducted additional exploration and development work within the proven oil field area in Kyrgyzstan, including the drilling of 8 wells in the Marleysu - East Yizbaskent development block. The Company is currently in the process of evaluating the new information.

In addition, the Company has conducted production tests on Layers III, V and VII, a total of 9 tests over 8 of the drilled wells within the Marleysu – East Yizbaskent block. The test figures will be used to formalize a production plan as the project progresses towards the formal production stage.

#### **Susamur Exploration Block**

In September 2015, the Company has entered into a 2D Seismic Survey Agreement with a local surveying company to conduct 2D seismic survey on the Susamur exploration block.

## **DIRECTORS' REPORT**

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### **COMMENCEMENT OF TRIAL PRODUCTION**

The Company has commenced trial production on the 8 initial wells drilled. The Company entered into oil sale agreements with oil refineries in Kyrgyzstan in July 2015.

Up to 31 December 2015, the Company has trial produced and transported an aggregate of 3,560 tonnes of oil to Kyrgyzneftegaz OJSC (KNG), of which 60% is appropriated to the Company in accordance with the Co-Investment Agreement entered into between the Company and KNG.

### **CONTINUOUS PROJECT DEVELOPMENT**

The Company acknowledges the need for additional capital to continue its scheduled project exploration and development activities and has been actively seeking for appropriate fund source. The Company is confident that it will be able to raise additional capital to advance its projects' development.

### **RESULTS OF OPERATIONS**

The Group has reported a net loss for the period of US\$0.66 million for the period ended 31 December 2015.

The recoverability of the carrying amounts of Exploration and Evaluation Assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest. Management is committed with the further development of the project, however in light of oil prices decline its prospectivity has reduced and therefore during the half year ended 31 December 2015, impairment charges in relation to the Exploration and Evaluation Assets of US\$3.6 million (2014: nil) were recognised (Please refer to Note 5 of the financial statement for further details and basis of evaluation).

The Company acknowledges that there are credit risks associated with trade receivables as at 31 December 2015 and based on the assessment an impairment of \$1.93 million in regards to Disposal proceed receivable has been recognised.

Net cash used in operations and net cash gained in investing activities over the period amounted to US\$0.78 million and US\$0.29 million respectively. Cash on hand is US\$0.2 million as at 31 December 2015.

The Directors consider that the current outlook presents significant challenges in terms of development of the project. While the Directors are currently considering a range of measures to preserve cash and secure additional finance, these circumstances create material uncertainties over future cash flows.

The Group has approved the issue of shares at the recent Annual General Meeting on the 4th of January 2016. The Directors are also pursuing alternative sources of funding in case additional resources are required, but have not yet secured a commitment.

The Directors have concluded that the combination of these circumstances represent a material uncertainty that casts significant doubt about the Group's ability to continue as a going concern. Nevertheless after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the financial report.

### **CAPITAL STRUCTURE**

A total number of 204,660,130 ordinary shares were on issue as at 31 December 2015.

## **DIRECTORS' REPORT**

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### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Other than the activities described in the Directors' report above, there were no other significant changes in the state of affairs of the Group for the 6 months period ended 31 December 2015.

### **SUBSEQUENT EVENTS**

Other than the activities described in the Directors' report above, no other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### **AUDITOR'S INDEPENDENCE DECLARATION**

An Auditor's Independence Declaration has been received from our auditors, Ernst & Young, which immediately follows this Directors' report.

### **ROUNDING**

The Company has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the Directors' report have been rounded off to the nearest thousand United States Dollars (US\$'000).

Signed in accordance with a resolution of the Directors.



Harry King Hap Lee  
Chairman & Non-executive Director  
15 March 2016

## INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Note	31-Dec-15 US\$'000	31-Dec-14 US\$'000
Bank interest income		-	39
Other income		-	1
Total income		-	40
Administration costs		(651)	(870)
Impairment of deferred exploration assets	5	(3,602)	-
Finance cost	4	(1,930)	-
Exchange loss		(8)	(243)
Depreciation		(1)	-
Total operating expenses		(6,192)	(1,112)
Loss before income tax from continuing operations		(6,192)	(1,072)
Income tax expense		-	-
Loss for the period from continuing operations		(6,192)	(1,072)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		-	-
Other comprehensive loss for the period		-	-
Total comprehensive loss for the period		(6,192)	(1,072)
Total comprehensive loss attributable to :			
Members of the parent entity		(6,192)	(1,072)
Earnings per share from continuing operations			
Basic and diluted loss per share (US cent per share)	2	(3.03)	(0.81)

This statement should be read in conjunction with the notes to the financial report.

## INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	31-Dec-15 US\$'000	30-Jun-15 US\$'000
<b>Current assets</b>			
Cash and cash equivalents	3	189	685
Inventory		32	-
Other receivable	4	109	1,957
Total current assets		<u>330</u>	<u>2,642</u>
<b>Non-current assets</b>			
Property, plant & equipment		44	57
Deferred Exploration	5	28,491	28,575
Non-current assets		<u>28,535</u>	<u>28,632</u>
<b>Total assets</b>		<u>28,865</u>	<u>31,274</u>
<b>Current liabilities</b>			
Accounts payables		7,010	3,435
Other payables		365	185
Total current liabilities		<u>7,375</u>	<u>3,620</u>
<b>Non-current liabilities</b>			
Deferred Tax Liability	6	1,967	1,939
Total non-current liabilities		<u>1,967</u>	<u>1,939</u>
<b>Total liabilities</b>		<u>9,342</u>	<u>5,559</u>
<b>Net assets</b>		<u>19,523</u>	<u>25,715</u>
<b>Equity</b>			
Contributed equity	7	26,563	26,563
Reserves	8	867	867
Accumulated losses		(7,907)	(1,715)
Parent entity interest		19,523	25,715
<b>Total equity</b>		<u>19,523</u>	<u>25,715</u>

This statement should be read in conjunction with the notes to the financial report.

## INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Note	31-Dec-15 US\$'000	31-Dec-14 US\$'000
<b>CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(780)	(769)
Interest and other items of a similar nature received		-	40
NET OPERATING CASH FLOWS	10	(780)	(729)
<b>CASHFLOWS RELATED TO INVESTING ACTIVITIES</b>			
Payments for exploration and evaluation activities		(99)	-
Proceeds from disposal of subsidiaries		20	-
Exploration testing sale net of costs		371	-
Deposit for acquisition of oil project		-	(10,000)
Repurchase of shares		-	(29,552)
NET INVESTING CASH FLOWS		292	(39,552)
<b>CASH FLOWS RELATED TO FINANCING ACTIVITIES</b>			
NET FINANCING CASH FLOWS		-	-
NET (DECREASE) IN CASH HELD		(488)	(40,281)
Foreign Currency Translation		(8)	(243)
Cash and cash equivalents at beginning of period		685	43,255
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>189</b>	<b>2,731</b>

This statement should be read in conjunction with the notes to the financial report.



## INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JULY 2015 TO 31 DECEMBER 2015

	Issued Capital	Accumulate d earnings	Share based payment reserve	Foreign currency translation reserve	Capital reserve	Owners of Parent	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Balance at 30 June 2014</b>	<b>52,600</b>	<b>291</b>	<b>776</b>	<b>-</b>	<b>-</b>	<b>53,667</b>	<b>53,667</b>
Loss for the period	-	(1,072)	-	-	-	(1,072)	(1,072)
Repurchase of shares	(29,552)	-	-	-	-	(29,552)	(29,552)
Total Comprehensive loss for the period	(29,552)	(1,072)	-	-	-	(30,624)	(30,624)
<b>Balance at 31 December 2014</b>	<b>23,048</b>	<b>(781)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,043</b>	<b>23,043</b>
<b>Balance at 30 June 2015</b>	<b>26,563</b>	<b>(1,715)</b>	<b>776</b>	<b>91</b>	<b>-</b>	<b>25,715</b>	<b>25,715</b>
Loss for the period	-	(6,192)	(776)	-	776	(6,192)	(6,192)
Other comprehensive Income	-	-	-	-	-	-	-
Total Comprehensive loss for the period	-	(6,192)	(776)	-	776	(6,192)	(6,192)
<b>Balance at 31 December 2015</b>	<b>26,563</b>	<b>(7,907)</b>	<b>-</b>	<b>91</b>	<b>776</b>	<b>19,523</b>	<b>19,523</b>

This statement should be read in conjunction with the notes to the financial report.

### NOTES TO THE FINANCIAL INFORMATION

#### General Information

Sagalia Energy Limited (the "Company") is a for profit company and is incorporated in Bermuda on 1 August 2011 and the consolidated financial statements of the company and its subsidiaries (the "Group") for the period ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 15 March 2016.

The financial statements are presented in thousands of United States Dollars.

#### Note 1 – Summary of Significant Accounting Policies

##### (a) Basis of preparation

The Consolidated financial statements of Sagalia Energy Limited have been prepared in accordance with AASB 134 *Interim Financial Reporting*. They have been prepared under the historical cost accounting convention.

The interim financial report does not include all the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Group as at and for the year ended 30 June 2015 as well as in conjunction with public announcements made by the Group during the interim period.

##### (b) Segment information

The Company is seen as a single segment as management reporting is performed on a single segment basis and the financial results of this segment are equivalent to those of the consolidated financial statements.

#### Going Concern

This consolidated financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group has incurred a net loss after tax for the period ended 31 December 2015 of \$6,192 (2014: \$1,072) and experienced net cash outflows from operating activities of \$780 (2014: \$729). At 31 December 2015 the Company had cash of \$189 and a net current liability of \$7,045. The liabilities as at 31 December 2015 include \$6,991 of exploration payables to Beijing Orion, a related party. Beijing Orion have not demanded repayment of those payables.

The Directors consider that the current outlook presents significant challenges in terms of development of the project. While the Directors are currently considering a range of measures to preserve cash and secure additional finance, these circumstances create material uncertainties over future cash flows.

The Group has approved the issue of shares at the recent Annual General Meeting on the 4th of January 2016. The Directors are also pursuing alternative sources of funding in case additional resources are required, but have not yet secured a commitment.

The Directors have a reasonable expectation, after making enquiries and considering the uncertainties described above, that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing the financial report. However should the Company be unsuccessful in undertaking additional raisings and proceed with the sale of oil from its projects there is a material uncertainty whether the Company will be able to continue as a going concern. No adjustments have been made relating to the recoverability of assets and classification of liabilities that might be necessary should the Company not continue as a going concern.

**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(b) New Accounting Standards and Interpretations**

The principal Australian Accounting Standards and interpretations that became effective since 30 June 2015 are set out in the following table.

AASB 2014-7 Financial instruments

AASB 2014 -8 Financial instruments

AASB 2015-3 - Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.

The adoption of these standards did not have a significant impact on the group's results in the current and prior period.

**Note 2 – Earnings Per Share**

Reconciliation of earnings to profit or loss	<b>31-Dec 2015 US\$'000</b>	<b>31-Dec 2014 US\$'000</b>
Loss for the period	(6,192)	(1,072)
Loss attributable to non-controlling equity interest	-	-
Loss attributable to the owners of the Company	(6,192)	(1,072)
Basic and diluted earnings (loss) per share (US cent per share)	<b>(3.03)</b>	<b>(0.81)</b>

The weighted average number of ordinary shares outstanding during the period used in calculating basic earnings per share: 204,660,130 (2014: 132,740,830).

**Note 3 – Cash and Cash Equivalents**

	<b>31-Dec 2015 US\$'000</b>	<b>30-Jun 2015 US\$'000</b>
Cash at banks and on hand	189	685
	<u>189</u>	<u>685</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates (average annual deposit rate was approximately 1%). Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

**NOTES TO THE FINANCIAL INFORMATION**
**Note 4 – Current receivable**

	31-Dec 2015 US\$'000	30-Jun 2015 US\$'000
<b>Current Receivable</b>		
Disposal proceed receivable*	-	1,950
Other receivable	109	7
Total current receivable	<u>109</u>	<u>1,957</u>

\*Quangas Poly Limited and CAXY was disposed right after acquisition, the proceed of \$1,950,000 has been re-negotiated to be received as follow:

1. An amount of US\$20,000 on or before 31 December 2015;
2. An amount of US\$60,000 (or the remaining balance for the final payment) at the end of each calendar month beginning from 31 March 2016 until all outstanding amount has been paid.

**Impairment of disposal proceed receivable**

An impairment analysis of financial instruments is performed at each reporting date. The Company acknowledges that there are credit risks associated to trade receivables as at 31 December 2015 and therefore identified an impairment of \$1.93 million on Disposal proceed receivable. The impairment on the receivable is recognised within finance costs in the statement of profit or loss.

**Note 5 – Deferred Exploration and Evaluation Assets**

	31-Dec 2015 US\$'000	30-Jun 2015 US\$'000
At the beginning of the period	28,575	-
Exchange re-alignment	-	110
Exploration expenditure during the period	3,889	1,630
Exploration tenements acquired through acquisition / (adjustment)	-	26,835
Exploration tenements impaired through revaluation	(3,602)	-
Exploration testing sale net of costs	(371)	-
At the end of the period	<u>28,491</u>	<u>28,575</u>

Tenements being acquired include Marleysu-East Yizbaskent, Yibaskent Arash and Susamur project. The Company's economic interest through its subsidiary PEI LLC of oil extracted from each project arises under a Co-investment agreement with Kyrgyzneftegaz OJSC.

The directly attributable costs of exploration and evaluation expenditure include the costs of testing whether the field is functioning properly, after deducting the net proceeds from selling any items produced while bringing the field to development. During the half year testing results from PEI have been generated and revenues received from the sale of oil over the costs of producing the oil have not been reflected in the Statement of Comprehensive Income of the Group, instead net margin has been offset against the costs of exploration and evaluation expenditure of the field as reported in the Statement of Financial Position.

### NOTES TO THE FINANCIAL INFORMATION

#### Note 5 – Deferred Exploration and Evaluation Assets (continued)

##### Information on prior year acquisition

On 5 May 2015, the acquisition of 100% interest in Quangas Poly Limited ("Quangas") was completed by acquiring 100% of its shares which in turn has an 100% interest in PEI LLC that held 3 Kyrgyzstan oil projects (referred to as "Quangas consolidated"). The purchase consideration transferred was US\$22.78 million. A final review of the fair value of the assets and liabilities acquired will be completed within 12 months of the acquisition date in accordance with AASB 3.

##### Impairment of exploration tenements

The recoverability of the carrying amounts of Exploration and Evaluation Assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest. Management is committed with the further development of the project, however in light of oil prices decline its prospectivity has reduced and therefore during the half year ended 31 December 2015, impairment charges in relation to the Exploration and Evaluation Assets of US\$3.6 million (2014: nil) were recognized.

The amount has been determined based on the fair value less cost of disposal method using cash flow projections from financial budgets approved by the directors covering the period of the right to explore and extract oil agreement with Kyrgyzstan Government owned company, Kyrgyzneftegaz OJSC (KGN). The pre-tax discount rate applied to the cash flow projections is 13.42%. The calculation of fair value is most sensitive to the following assumptions:

- Discount rate: taking into consideration the time value of money and risks of the underlying project that have not been incorporated in the cash flow estimates. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate
- Crude oil prices: Forecast commodity prices are based on management's estimates and available market data

#### Note 6 – Deferred Tax Liability

The Deferred Tax liability of \$1,967 thousands relates to the fair value adjustments arising from acquisition of the subsidiary. This has been recorded based at the Kyrgyz Republic tax rate of 10%.

#### Note 7 – Contributed Equity

##### Authorised share capital:

**1,000,000,000,000 shares with par value of US\$0.00001 each**

##### *Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held.

**NOTES TO THE FINANCIAL INFORMATION**

**Note 7 – Contributed Equity (continued)**

	Number	US\$'000
<b>Fully paid ordinary shares</b>		
Shares issued to Promoters on 1 August 2011	283,200,001	-
Pre IPO shares issued (A\$0.14 per share) on 15 December 2011	53,100,000	7,325
Issue of shares for purchase of TSI on 15 December 2011 (A\$0.25 per share)	22,800,000	5,844
Placement to wholesale and institutional investors (A\$0.25 per share) on 15 December 2011	100,000,000	25,631
IPO shares issued on 15 December 2011 (A\$0.25 per share)	70,010,000	17,944
Costs of Offer	-	(4,144)
Repurchase of shares on 9 July 2014 (Held as treasury shares)	(416,753,871)	(29,552)
Issue of shares on 5 May 2015 (A\$0.05 per shares)	92,304,000	3,640
Costs of Offer	-	(125)
Quoted as at 31 December 2015	<b>204,660,130</b>	<b>26,563</b>

To facilitate a simple capital structure, the Company has cancelled 416,753,871 treasury shares on 15 April 2015. All shares being issued on 5 May 2015 are new fully paid ordinary shares.

**Note 8 – Reserves**

	Note	31-Dec 2015 US\$'000	30-Jun 2015 US\$'000
Opening balance		776	776
Share based payment reserve	(a)	(776)	-
Consolidated balance		<u>-</u>	<u>776</u>
Opening balance		91	-
Foreign exchange movements on translation of foreign entities	(b)	-	91
Consolidated balance		<u>91</u>	<u>91</u>
Opening balance		-	-
Capital reserve	(a)	776	-
Consolidated balance		<u>776</u>	<u>-</u>



**NOTES TO THE FINANCIAL INFORMATION**

**Note 8 – Reserves (continued)**

- (a) All options (8,152,571 shares) granted expired on 9 December 2015. As a result the amount previously recognised in the share based payments reserve was transferred to capital reserve.
- (b) The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign controlled entities and associates.

**Note 9 – Related Party Disclosures**

**a. Subsidiaries**

The consolidated financial information within this report includes the financial statements of Sagalio Energy Limited and the subsidiaries listed in the following table.

Name	Country of Incorporation	31 Dec 15 % interest	30 Jun 15 % interest
Resource Depot Holdings Limited	BVI	100%	100%
Total Dynamic Investments Limited	BVI	100%	100%
Total Dynamic Investments LLC	Mongolia	100%	100%
Sino Edge Ventures Limited	BVI	100%	100%
Sino Edge Power Limited	Hong Kong	100%	100%
Sino Edge Management Limited	Hong Kong	100%	100%
Sagalio Energy Technologies Limited	Hong Kong	100%	100%
Wild Prestige Limited	BVI	100%	100%
Plenty Max Limited	BVI	100%	100%
Timely Ideal Limited	BVI	100%	100%
PEI LLC	Kyrgyzstan	100%	100%

The following table provides the total amount of transactions that have been entered into with related parties during the period ended 31 December 2015 and 2014, as well as balances with related parties as at 31 December 2015 and 31 December 2014:

		Purchases from related parties <b>US\$'000</b>	Outstanding balance payable to related parties <b>US\$'000</b>
Entity related with key management personnel of the Group:			
Beijing Orion Energy Technology & Development Co. Ltd. ("Orion Energy")	2015	3,606	6,991
	2014	-	-

US\$492,000 was recognized as account payable for technical service, US\$458,000 as account payable for oil extraction and US\$2,656,000 as account payable for well drilling during the period.

## NOTES TO THE FINANCIAL INFORMATION

### Note 9 – Related Party Disclosures (continued)

#### Terms and conditions of transactions with related parties

The Company has signed 2 new supplement agreements involving a sum of total U\$277,000 with Beijing Orion Energy Technology & Development Co. Ltd during the period.

	Contract sum US\$'000
Well drilling supplement agreement	174
Oil extraction supplement agreement	103
	277

The material terms of supplement agreements are as follow:

- Orion will be responsible for directional well drilling, at a fee of U\$50,000 each.
- The fee of core drilling had been adjusted to U\$2,000 per metre.
- Orion will be responsible for perforation, at a fee of U\$1,200 per metre
- Starting from the 9<sup>th</sup> oil well, the fee of system construction will be adjusted according to the following table:

Depth of well (m)	<1200	1200-1500	1500-1800	1800-2100	2100-2400	>2400
Cost (USD)	176,000	191,000	206,000	223,000	238,000	258,000

The balance of Technical service agreement on exportation and production research, US\$0.49m was recognized as current payable, total amounted US\$1.29m as at 31 December 2015.

Other outstanding balance existed were related to a well drilling contract and for Malaysu-East Yizbaskent oil project and Oil Extraction System Installation before the acquisition. Which US\$5.42m was recognized as current payable as at 31 December 2015.

For the details of material contract existed before acquisition, please read with Section 12 of prospectus announced on 12 February 2015.

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

### Note 10 – Reconciliation of Cash Flow to the Operating Loss

	31-Dec 2015 US\$'000	31-Dec 2014 US\$'000
Operating loss	(6,192)	(1,072)
Depreciation	1	-
Exchange re-alignment	8	243
Impairment of deferred exploration assets	3,602	
Impairment of other receivables	1,930	
(Increase)/decrease in receivables and other assets	(314)	-
Increase/(decrease) in creditors	185	100
	(780)	(729)



**NOTES TO THE FINANCIAL INFORMATION****Note 11 – Net fair values**

Fair values are those amounts at which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. Management assessed that the fair values of cash, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

**Note 12 – Capital and Leasing Commitments****(a) Finance Lease Commitments**

The Group and the Company have no finance lease commitments as at 31 December 2015 (2014: Nil).

**(b) Capital Expenditure Commitments (US\$'000)**

The exploration commitments of the Group and the Company for Maleysu-East Yizbaskent oil project are tabulated below:

	31-Dec 2015 US\$'000	31-Dec 2014 US\$'000
Payable:		
Not later than 12 months	13	-
Between 12 months to 5 years	11,101	-
	<u>11,114</u>	<u>-</u>

**Note 13 – Dividends**

No dividends were declared or paid during the half-year ended 31 December 2015.

**Note 14 – Subsequent Events**

No matters or circumstances have been arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of the operations, or the state of affairs of the Group in future financial years.


## INTERIM FINANCIAL STATEMENTS

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In accordance with a resolution of the directors of Sagalio Energy Limited I state that:  
In the opinion of the directors:

- (a) the financial statements and notes of the Group:
  - (i) present fairly the Group's financial position as at 31 December 2015 and of its performance for the half year ended on that date; and
  - (ii) comply with Australian Accounting Standards;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

On behalf of the Board

  
.....  
Louis Yang

Executive Director & CEO

Dated: 15 March 2016



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Independent review report to the Directors of Sagalio Energy Limited

### ***Report on the Half-Year Financial report***

We have reviewed the accompanying half-year financial report of Sagalio Energy Limited which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year then ended or from time to time during the half-year.

### ***Directors' responsibility for the Half-Year Financial Report***

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the accompanying financial report is not presented fairly, in all material respects, in accordance with IAS 34 Interim Financial Reporting. As the auditor of Sagalio Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### ***Independence***

In conducting our review we have complied with the independence requirements of the Australian professional accounting bodies.

### ***Conclusion***

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying half-year financial report of Sagalio Energy Limited does not present fairly, in all material respects, the company's financial position as at 31 December 2015 and its financial performance and its cash flows for the half-year ended on that date, in accordance with IAS 134 Interim Financial Reporting.



### ***Material Uncertainty Regarding Continuation as a Going Concern***

Without qualifying our opinion, we draw attention to Note 1 in the financial report which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern. As a result of these matters, there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

A handwritten signature in dark ink, appearing to read 'Ernst + Young', is written over the printed name.

Ernst & Young

A handwritten signature in dark ink, appearing to read 'Scott Jarrett', is written over the printed name.

Scott Jarrett  
Partner  
Sydney  
15 March 2016