



**Sagalia Energy**  
**中普能源**  
Listed on ASX (Stock Code : SAN)

30<sup>th</sup> September 2015

Company Announcements Platform  
Australian Stock Exchange  
10<sup>th</sup> Floor, 20 Bond Street  
Sydney  
NSW 2000

## **Sagalia Energy Limited Annual Financial Report**

The Directors of Sagalia Energy Limited (ASX: SAN) are pleased to submit the annual financial report of the consolidated entity for the financial period from 1 July 2014 to 30 June 2015

For and on behalf of Sagalia Energy Limited

Louis Yang  
Executive Director & CEO



**Sagalio Energy**  
**中普能源**

Listed on ASX (Stock Code : SAN)

## **Sagalio Energy Limited**

ARBN 152 971 821

(an exempted company incorporated in Bermuda Registration Number 45631)

## **Annual Financial Report**

For the Period Ended 30 June 2015

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## FORWARD LOOKING STATEMENT

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This report contains certain forward looking statements which by nature, contain risk and uncertainty because they relate to future events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements.

Certain statements made herein, including statements relating to matters that are not historical facts and statements of Sagalio Energy's beliefs, intentions and expectations about developments, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable legislation and "forward-looking statements" within the meaning of applicable provisions. Forward-looking information and statements relate to future events or future performance, reflect current expectations or beliefs regarding future events and are typically identified by words such as "anticipate," "could," "should," "expect," "seek," "may," "intend," "likely," "plan," "estimate," "will," "believe" and similar expressions suggesting future outcomes or statements regarding an outlook.

Forward-looking statements and information are made based upon certain assumptions and other important factors that, if untrue, could cause the actual results, performances or achievements of the Company to be materially different from future results, performances or achievements expressed or implied by such statements or information. Such statements and information are based on numerous assumptions regarding present and future business strategies and the environment in which the Company will operate, including the price of petroleum, anticipated costs and ability to achieve goals, as well as the timing of the completion of any fund-raising activities. Certain important factors that could cause actual results, performances or achievements to differ materially from those in the forward-looking statements and information include, among others, petroleum price volatility, discrepancies between actual and estimated production, petroleum reserves and resources, mining operational and development risks, litigation risks, regulatory restrictions (including environmental regulatory restrictions and liability), activities by governmental authorities, currency fluctuations, the speculative nature of oil exploration, the global economic climate, dilution, share price volatility, competition, loss of key employees, funding requirements and defective title to petroleum claims or property. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements and information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended.

All such forward-looking information and statements are based on certain assumptions and analysis made by Sagalio Energy's management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information or statements. Such factors include, among other things, the political risks associated with business operations in Kyrgyz Republic; the impact of changes in, changes in interpretation to or changes in enforcement of, laws, regulations and government practices in the jurisdictions in which Sagalio Energy operates; and changes in the attitudes of the Kyrgyz Republic government.

Important factors that could cause actual results to differ from these forward-looking statements include those described under the Directors' Report section included in Sagalio Energy's Annual Financial Report and the Company's Prospectus dated 12 February 2015. These risk factors may be generally stated as the risk that the assumptions and estimates expressed above do not occur, including the assumption in many forward-looking information or statements that other such information or statements will be correct. The reader is cautioned not to place undue reliance on forward-looking information or statements. All forward-looking information and statements herein are made as of the date hereof. Sagalio Energy does not intend or undertake to update or revise forward-looking statements or information, whether written or oral or whether as a result of new information, future events or otherwise, that may be made by Sagalio Energy or on its behalf, except as required by law.

## CORPORATE INFORMATION

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ARBN 152 971 821

### Directors

Louis Yang (Chief Executive Officer)  
Harry King (Chairman)  
Steven Hodgson  
He Chuan

### Company Secretary

Nicholas Ong

### Registered Office

Clarendon House  
2 Church Street  
Hamilton HM 11, Bermuda

### Head Office

62/F, The Center  
99 Queen's Road Central  
Hong Kong  
Tel: +852 3960 6518

### Share Registry

Computershare Investor Services Pty Limited  
Level 4, 60 Carrington Street  
Sydney NSW 2000  
Australia  
Tel: +61 2 8234 5000

### Stock Exchange Listing

Australian Securities Exchange (ASX)

### Principal Banker

DBS Bank (Hong Kong) Limited  
11th Floor, South East Wing,  
Somerset House, Taikoo Place,  
979 King's Road,  
Hong Kong

### Auditors

Ernst & Young  
680 George Street  
Sydney NSW 2000  
Australia

## DIRECTORS' REPORT

**The Directors submit their report on the consolidated entity (hereinafter referred to as the "Group") for the financial year ended 30 June 2015.**

### DIRECTORS

The names and details of the Company's Directors in office during the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names	Position	Appointed	Resigned
Dr. Louis Yang	Executive Director & CEO	9 July 2014	
Mr. Harry King	Chairman & Non-executive Director	9 July 2014	
Mr. Steven Hodgson	Non-executive Director	5 August 2013	
Mr. He Chuan	Non-executive Director	1 June 2014	
Dr. Tim Sun	Chairman & Non-executive Director	20 September 2011	9 July 2014

#### Louis Yang - Executive Director & Chief Executive Officer

Dr. Yang is a renowned leader with more than 20 years of experiences in the oil & gas industry in the PRC. Dr. Yang is a founder of Beijing Orion Energy Technology Development Co., Ltd., a top oil & gas service company in the PRC with over 1,000 employees, and the company was licensed by the PRC Central Government with Class-A certificates to operate in the oil & gas exploration and development businesses. The company has served Petro China, CNOOC and Sinopec for more than 9 years. Dr. Yang was the founding CEO and president of Asian American Gas Inc., which currently produces more than 1 million cubic meters of natural gas per day. Dr. Yang holds a Doctorate degree in Geology from China University of Mining and Technology.

#### Harry King - Chairman & Non-executive Director

Mr. King graduated from Xian Jiaotong University in 1983. He worked for various central government departments and state-owned enterprises for a considerable period of time and has more than 20 years' experience in government organizations and enterprises management. Mr. King was the deputy director and Chairman of Workers Union of Mechanic and Electronic Products Importation and Exportation Office of the State Council, the deputy general manager of China Machinery Industry Marketing & Supply Shenzhen Group Corporation and managing director of China National Machinery Hong Kong Company.

Mr. King is currently a director of Sino Oil and Gas Holdings Limited (since September 2012) (Hong Kong listed).

#### Steven Hodgson – Non-executive Director

Mr. Hodgson has 20 years of extensive experience in the mining industry, the last 8 years as mining consultant working for clients across the globe in multiple commodities. Mr. Hodgson is experienced in data management, exploration, resource estimation, feasibility study and legal compliance adhering to international mining codes. Mr. Hodgson holds a Bachelor of Applied Science degree in Geology from Curtin University in Western Australia, and a Graduate Diploma in Information Systems from Curtin University Business School. He is a member of the Australian Institute of Geoscientists and Australasian Institute of Mining and Metallurgy.

Mr. Hodgson held no directorships in other listed entities other than Sagalio Energy during the three years prior to the current year.

## DIRECTORS' REPORT

### He Chuan - Non-executive Director

Mr. He has over 30 years of experience in the field of strategic investment and corporate management. Mr. He has served as a senior management in numerous China and Hong Kong corporations, and was previously a vice-president of Sino Oil & Gas Holdings Ltd (HK:0702) focusing in project development. Mr. He holds a Bachelor degree majoring in Politics from Fujian Normal University.

Mr. He held no directorships in other listed entities other than Sagalio Energy during the three years prior to the current year.

### DIRECTORS' REMUNERATION

Due to the nature of the Company's operations which consisted of minerals exploration and evaluation, the remuneration of each Director is paid as per the agreement entered into between the Company and the Director and is currently not directly related to financial results and there is currently performance condition remuneration, non-monetary benefits or other short-term employee benefits other than those disclosed in this report.

The actual remuneration of the Directors during the period under review is as follows:

Name	Annual Remuneration Received in 2015 <sup>(Note 1)</sup>	Annual Remuneration Received in 2014 <sup>(Note 1)</sup>
Dr. Louis Yang	US\$202,957	NA
Mr. Harry King	US\$121,799	NA
Mr. Steven Hodgson	HK\$165,000	HK\$120,000
Mr. He Chuan	HK\$ 20,000	HK\$ 10,000
Dr. Tim Sun <sup>(Note 2)</sup>	US\$ 1,720	US\$ 80,000
Ms Christina (Jun) Mu <sup>(Note 2)</sup>	NIL	US\$ 73,333
Mr. Bruce Higgins <sup>(Note 2)</sup>	NIL	US\$ 7,185

Notes:

1. The directors' remuneration should be read in conjunction with note 17 of the Financial Report
2. Dr. Tim Sun, Ms. Christina Mu and Mr. Bruce Higgins resigned from their respective capacity as Directors of the Company on 9 July 2014, 1 June 2014 and 5 August 2013 respectively

### INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of current Directors (or Directors during the period under review) in the shares and options of the Company were as follows:

Name	As at 30 June 2015		As at 30 June 2014	
	Number of ordinary shares	Number of options over ordinary shares	Number of ordinary shares	Number of options over ordinary shares
Dr. Tim Sun	—	2,272,163 <sup>(Note 1)</sup>	—	2,272,163 <sup>(Note 1)</sup>
Ms. Christina (Jun) Mu	—	2,272,163 <sup>(Note 2)</sup>	—	2,272,163 <sup>(Note 2)</sup>
Mr. Bruce Higgins	—	—	708,001 <sup>(Note 3)</sup>	—

Notes:

1. Those options were held through China Fortune Capital Holdings Limited, Mr. Tim Sun's nominated entity
2. Those options were held through Crosia Limited, Ms. Christina (Jun) Mu's nominated entity
3. 708,000 shares held by Bruce Eric Higgins and Ruth Janine Higgins ATF Family Superannuation Fund

### INFORMATION ON SENIOR MANAGEMENT AND COMPANY SECRETARY

#### **Louis Yang - Executive Director & Chief Executive Officer**

Dr. Yang is a renowned leader with more than 20 years of experiences in the oil & gas industry in the PRC. Dr. Yang is a founder of Beijing Orion Energy Technology Development Co., Ltd., a top oil & gas service company in the PRC with over 1,000 employees, and the company was licensed by the PRC Central Government with Class-A certificates to operate in the oil & gas exploration and development businesses. The company has served Petro China, CNOOC and Sinopec for more than 9 years. Dr. Yang was the founding CEO and president of Asian American Gas Inc., which currently produces more than 1 million cubic meters of natural gas per day. Dr. Yang holds a Doctorate degree in Geology from China University of Mining and Technology.

Dr. Yang joined the Company as a Director and Chief Executive Officer of the Company on 9 July 2015. Dr. Yang's appointment is subject to retirement by rotation and re-election in accordance with the Bye-Laws of the Company and there is no termination period to Dr. Yang's appointment other than in accordance with the Bye-Laws of the Company. Dr. Yang was re-elected as a Director of the Company through an annual general meeting which took place on 31 December 2014. There is currently no termination payment under the terms of Dr. Yang's appointment.

#### **Harry King - Chairman & Non-executive Director**

Mr. King graduated from Xian Jiaotong University in 1983. He worked for various central government departments and state-owned enterprises for a considerable period of time and has more than 20 years' experience in government organizations and enterprises management. Mr. King was the deputy director and Chairman of Workers Union of Mechanic and Electronic Products Importation and Exportation Office of the State Council, the deputy general manager of China Machinery Industry Marketing & Supply Shenzhen Group Corporation and managing director of China National Machinery Hong Kong Company.

Mr. King joined the Company as a Non-executive Director of the Company on 9 July 2015. Mr. King's appointment is subject to retirement by rotation and re-election in accordance with the Bye-Laws of the Company and there is no termination period to Mr. King's appointment other than in accordance with the Bye-Laws of the Company. Mr. King was re-elected as a Director of the Company through an annual general meeting which took place on 31 December 2014. There is currently no termination payment under the terms of Mr. King's appointment.

#### **Steven Hodgson - Non-executive Director**

Mr. Hodgson has 20 years of extensive experience in the mining industry, the last 8 years as mining consultant working for clients across the globe in multiple commodities. Mr. Hodgson is experienced in data management, exploration, resource estimation, feasibility study and legal compliance adhering to international mining codes. Mr. Hodgson holds a Bachelor of Applied Science degree in Geology from Curtin University in Western Australia, and a Graduate Diploma in Information Systems from Curtin University Business School. He is a member of the Australian Institute of Geoscientists and Australasian Institute of Mining and Metallurgy.

Mr. Hodgson's appointment is subject to retirement by rotation and re-election in accordance with the Bye-Laws of the Company and there is no termination period to Mr. Hodgson's appointment other than in accordance with the Bye-Laws of the Company. Mr. Hodgson was re-elected as a Director of the Company through an annual general meeting which took place in December 2013. There is currently no termination payment under the terms of Mr. Hodgson's appointment.

#### **He Chuan - Non-executive Director**

Mr. He has over 30 years of experience in the field of strategic investment and corporate management. Mr. He has served as a senior management in numerous China and Hong Kong corporations, and was

## DIRECTORS' REPORT

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previously a vice-president of Sino Oil & Gas Holdings Ltd (HK:0702) focusing in project development. Mr. He holds a Bachelor degree majoring in Politics from Fujian Normal University.

Mr. He's appointment is subject to retirement by rotation and re-election in accordance with the Bye-Laws of the Company and there is no termination period to Mr. He's appointment other than in accordance with the Bye-Laws of the Company. Mr. He was re-elected as a Director of the Company through an annual general meeting which took place on 31 December 2014. There is currently no termination payment under the terms of Mr. He's appointment.

### **Tim Sun - Non-executive Director (Resigned)**

Dr. Sun holds a Ph.D in Mining Engineering from the Faculty of Mining from Queen's University of Canada. Dr. Sun has extensive experience in mining explorations, developments, and operations in Canada, Mongolia, Democratic Republic of Congo and the PRC for more than 25 years, being one of the most active and experienced investors in the joint venture mining industry over the PRC. He had served in Ivanhoe Mines Limited as Chief Representative for two years and has also been in charge of and participated in the PRC's first Sino-foreign joint venture gold mine, the Dayin'gezhuang gold mine in the Shandong Province, Griffin Mining Ltd's Caijiaying lead-zinc mine and the Oyu Tolgoi copper and gold deposit in Mongolia.

Dr. Sun resigned from his capacity as a Director of the Company on 9 July 2015.

### **Nicholas Ong - Company Secretary**

Mr. Ong was a Principal Adviser at the Australian Securities Exchange in Perth and brings 11 years' experience in listing rules compliance and corporate governance. He has overseen the admission of over 100 companies to the official list of the ASX. During his tenure at the ASX, he has supervised and monitored the compliance of a wide range of listed companies with businesses in services, telecommunications, industrial, mining and construction. Mr. Ong is a Chartered Secretary, holds a Bachelor of Commerce degree and a Master of Business Administration from the University of Western Australia. Mr. Ong is currently a director of CoAsset Limited, Excelsior Gold Limited and Segue Resources Limited. Mr. Ong is also fluent in Mandarin and Cantonese.

Mr. Ong joined the Company in December 2015. Mr. Ong's engagement is currently subject to one month's termination notice. There is currently no termination payment under the terms of Mr. Ong's appointment.

## **DIVIDEND**

No dividends were paid or declared for future payment during the financial year (2014: Nil).

## **PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN NATURE OF ACTIVITIES**

There have been significant changes in the nature of the Group's principal activities during the period as the Company has disposed of its entire interest in the Mongolian Iron projects in June 2014 and the acquisition of interest in three oil exploration and development projects.

The Company 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.

### OPERATING AND FINANCIAL REVIEW

#### Review of Financial Performance

The Group has reported a net loss of US\$2.0 million for the year ended 30 June 2015 compared to a net profit of US\$7.5 million for the year ended 30 June 2014. Basic and diluted loss per share for the year ended 30 June 2015 was US\$2.22 cents per share (2014: US\$1.41 cents earning per share).

The Group incurred costs of US\$1.5 million for administration (2014: US\$2.0 million) and US\$0.3 million relating to a foreign exchange loss during the year (2014: US\$0.2 million gain).

Net cash utilized in operations during the year amounted to US\$3.5 million (2014: US\$1.5 million).

The net cash outflow in investing activities amounted to US\$12.4 million (2014: US\$47.0 million), broken down as follows:

- US\$17.0 million (2014: Nil) was used during the year for acquiring Quangas Poly Limited, an unlisted company with interests in 3 oil projects in KYRGYZ Republic. The transaction was completed on 5 May 2015 and should be read in conjunction with note 18 of the Financial Report;
- US\$4.7 million cash inflow (2014: Nil) relating to the loan receivable of Topone Star Investments Limited was received in full;
- US\$0.1 million (2014: Nil), relating to the operating and development expenditure of the Maleysu-East Yizbaskent oil project. This comprised of well-drilling work, technical survey and the purchase of fixed assets.

The net cash outflow in financing activities amounted to US\$26.2 million (2014: US\$25.0 million), broken down as follows:

- US\$29.5 million was used for share buyback in July 2014, the Company bought back a total of 416,753,871 fully-paid ordinary shares of the Company at US\$0.0709 (A\$0.075);
- US\$3.6 million (A\$4.6 million) was raised from public offer in May 2015, 92,304,000 fully paid ordinary shares was issued at a price of A\$0.05 each before cost. The total costs of shares issued during the year were US\$0.1 million.

Cash on hand was US\$0.7 million as at 30 June 2015 (at 30 June 2014: US\$43.2 million).

#### Review of Operations

Set out below is a review of significant activity for Sagalio Energy Limited for the year ended 30 June 2015.

#### SHARE BUY-BACK AND TREASURY SHARE CANCELLATION

The Company has completed the buy-back of 416,753,871 shares of the Company in July 2014 following the sale of its iron projects.

In April 2015, in order to facilitate a simple capital structure, the Company has cancelled 416,753,871 treasury shares being all the treasury shares held under the name of the Company.

#### KYRGYZ REPUBLIC PROJECTS

In July 2014, the Company has entered into a binding memorandum of understanding (the "MOU") with Gain Diligence Limited (the "Seller") to acquire 100% of Quangas Poly Ltd (the "Target Company") (the "Proposed Acquisition"). The Target Company is involved in oil & gas projects in Kyrgyzstan. This potentially could lead to the establishment of profitable oil production operations in the Kyrgyz Republic (or "Kyrgyzstan") and other countries including Central Asia.

## DIRECTORS' REPORT

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In May 2015, the Company has completed the acquisition and has commenced exploration and development of the projects.

Technical information regarding the projects can be found in the Company's prospectus dated 12 February 2015.

In August 2015, MHA Petroleum Consultants (**MHA**) has completed a technical review of the Company's drilling results.

MHA has not, at that time, revised the 2014 Resource Estimate but providing a technical update on the first eight wells that the Company has drilled in the Marleysu-East Yizbaskent Field. Eight wells (Numbers 315, 316, 534, 573, 574, 575, 576, 657) have been drilled within the existing development area of the Marleysu-East Yizbaskent Field. The initial well program was designed to satisfy the government obligation of production wells and six wells are drilled as vertical production wells. Two wells (573 and 576) were drilled as deviated wells. Five of the eight drilled wells have been put on production by the time of this report and seven of the eight wells have reported detailed reservoir reports; demonstrating the Company's ability to operate and produce oil in the Marleysu-East Yizbaskent Oilfield. All of those seven wells encountered oil bearing reservoirs in Layer III at approximately the predicted reservoir. Drilling has penetrated the strata in Layers V and VII which indicate that the thicknesses originally predicted are accurate but there have been no tests to date to verify the hydrocarbon content of these reservoirs.

Full detail of the technical review can be found in the Company's announcement date 1 September 2015.

### THE PLACEMENT AND REINSTATEMENT OF OFFICIAL QUOTATION

The Company had sought shareholder approval for the proposed issue of up to 100 million shares in the Company to raise up to a maximum of A\$5 million (the "Placement").

The Company had subsequently completed the Placement in May 2015, raising a total of A\$4,615,200 and issued a total of 92,304,000 fully paid ordinary shares at an issue price of A\$0.05 per share. The Company's shares were reinstated to official quotation on the ASX on 11 May 2015.

### **Risk Management**

#### 1. Risks relating to resources exploration

Since the acquisition of PEI, the Company has positioned itself as an oil exploration company. The Company acknowledges that exploration of natural resources carries risks and will continue to review all risks relating to the exploration and development of the Company's asset.

#### 2. Risk relating to the fluctuation of petroleum prices

Primary source of the Company's income will be derived from the sale of petroleum products extracted from the Company's oil project. The Company noted that there has been fluctuation in petroleum prices. The Company will actively monitor and take appropriate measures to mitigate such risk, including the controlling of development costs, negotiation of oil sale contracts and other hedging arrangements where appropriate.

#### 3. Capital Requirement for future development

The Company acknowledges that it may not have the sufficient capital required for the Company's projects, and it may be required to raise funds by ways of debt or equity. The Company will closely monitor the capital market environment and determine the appropriate time and terms for any fund raising activity (if required).

#### 4. Other Risks

In addition to the risk factors identified above, the Board is aware that there may be additional risk factors associated with the business, including but not limited to sovereign and title risks, corporate governance risk, legal and counter-party risks, staffing risks and others. The Company views risk management as an

## DIRECTORS' REPORT

essential factor in its goal of maximizing shareholder value and continues to actively identify risks and implement risk management measures. The Board regularly reviews its risk profile and is responsible for implementing risk management strategy and policies, internal compliance and internal control.

### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Other than the activities described in this report, there were no other significant changes in the state of affairs of the Company for the year ended 30 June 2015.

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

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.

### FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Company will focus on the identifying of potential investments opportunities to add shareholders' value. Subject to the identification and acquisition of a suitable investment project, the Company will formulate an appropriate business strategy specific to the project.

### INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

### MEETINGS OF DIRECTORS

The number of meetings of directors (including meetings of committees of directors) held during the financial year ended 30 June 2015 and the number of meetings attended by each director was as follows:

	Directors' Meetings Number eligible to attend <sup>(Note 1)</sup>	Number attended
Mr. Harry King	1	1
Dr. Louis Yang	1	1
Mr. Steven Hodgson	1	0
Mr. He Chuan	1	1
Dr. Tim Sun	0	0

Notes:

1. The information represents the number of meetings eligible to be attended and the number of meetings attended by the retiring or resigning director or the newly appointed director.

The Directors confirms that the number of meetings held during the year does not affect the Company's corporate governance position, and that discussions were held during the year in relation to key matters, being the conclusions achieved via resolutions.

The Company has arranged insurance cover to each of its Directors and the Chief Executive Officer which provide an indemnity for specified liabilities, costs or expenses including legal fees which they may become liable for while an officer of the Company or the Group.

The Company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of

## **DIRECTORS' REPORT**

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Director or officer of the Company, other than conduct involving a willful breach of duty in relation to the Company.

### **SHARE OPTIONS**

As at the date of this report, there were 8,152,571 options to acquire ordinary shares in the Company in issue.

Other than as set out above, there have been no unissued shares or interests under option in the Company or a controlled entity during and since the reporting date.

During the period, employees, consultants and executives have not exercised any options to acquire any fully paid ordinary shares in the Company.

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

The auditor's independence declaration for the period ended 30 June 2015 has been received and can be found on page 49 of the Financial 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 US\$1000.

This Report of the Directors is signed in accordance with a resolution of the Board of Directors.

On behalf of the Board



\_\_\_\_\_  
Louis Yang  
Executive Director & CEO  
Sagario Energy Limited  
Dated this 30<sup>th</sup> day of September, 2015

## CORPORATE GOVERNANCE STATEMENT

Achieving a high standard of corporate governance is a priority for the Board of Directors.

The Company has reviewed the Corporate Governance Principles and Recommendations (2<sup>nd</sup> Edition) prepared by the ASX Corporate Governance Council in order to provide a framework for its corporate governance practices with regard to the Company's particular circumstances and in particular its size and level of resources.

### PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

As the Company has a small board at year end comprising one executive director, three non-executive directors and a small management team, roles and functions must necessarily be flexible to deliver the Company's objectives. The statement of Board and management responsibilities is found within the Board Charter on the Company's website.

### PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

The Board comprises one executive director (Dr. Louis Yang) and three non-executive directors (Mr. Harry King, Mr. Steven Hodgson and Mr. He Chuan). Dr. Louis Yang and Mr. Harry King are substantial shareholders of the Company and are not considered to be independent directors in terms of the ASX Corporate Governance Council's discussion of independent status. Despite this relationship, the Board believes that Dr. Louis Yang and Mr. Harry King are able, and will make quality and independent judgements in the best interests of the Company on all relevant issues before the Board. Mr. Steven Hodgson and Mr. He Chuan are considered to be independent directors in terms of the ASX Corporate Governance Council's discussion of independent status. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of a majority of independent directors.

The appointment date of each director is disclosed in the Directors' Report. The below table sets out the nature and value of Dr. Yang and Mr. King's interest in the Company.

Name of Director	Interest in number of shares	Percentage Interest	Nature of Interest
Mr. Harry King	36,100,000	17.64%	Shares held via Sagalio Limited, of which Mr. King is a director of.
Dr. Louis Yang	34,000,000	16.61%	Shares held via Jolly Medal Limited (24,000,000 shares) and Major Port Limited (10,000,000 shares), both of which Dr. Yang is a director of.

The Chairman is a non-executive director and the roles of Chairman and Chief Executive Officer are exercised by different individuals. Although the Chairman is not an independent director, the Board believes that this is both appropriate and acceptable at this stage of the Company's development.

The skills, experience and expertise of each director is set out in the Directors' Report.

Directors are entitled to seek independent professional advice at the Company's expense in the furtherance of their duties.

The Company believes it is not of a size to justify a Nomination Committee. If vacancies arise on the Board, all directors are involved in search and recruitment. The Board seeks to achieve a balance of entrepreneurial, capital markets, technical, operational, commercial and financial skills from mining industry and broader business backgrounds.

No formal evaluation of the performance of the Board was undertaken due to the staggered appointment of directors.

Under the Company's Constitution, no director except the Managing Director may hold office for a period in excess of three years or beyond the third annual general meeting following the director's election without

## **CORPORATE GOVERNANCE STATEMENT**

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being submitted for re-election. At every annual general meeting one third of the Directors or the number nearest to but not exceeding one third must retire from office and are eligible for re-election.

### **PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

#### **Code of conduct**

The Board has adopted a formal Code of Conduct (Obligations to Stakeholders) and a formal Code of Conduct for directors and key officers to promote lawful, ethical and responsible decision-making by directors, management and employees. The Codes promote compliance with laws and regulation and avoidance of conflicts of interest, embraces the values of honesty, integrity, enterprise, excellence, accountability, justice, independence and equality of stakeholder opportunity. The Codes of Conduct are available on the Company's website.

#### **Policy for trading in Company's securities**

The Board has adopted in accordance with ASX Listing Rules 12.9, 12.10, 12.11 and 12.12 a policy on trading in the Company's securities by directors, senior executives and employees which raises awareness of the law in relation to insider trading, specifies blackouts and provides notification protocols. The trading policy is located on the Company's website.

#### **Gender diversity**

The Company has a policy of selecting and recruiting the best staff for each position in the Company regardless of race and gender. The company values diversity and has a goal to report the diversity within the company annually and initially target a range of 25 to 35% female employees within 4 years.

### **PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

The Company does not currently have an Audit Committee. The Board considers that the formation of an Audit Committee is not warranted at this time given the size of the Board.

The Board will at some time consider forming an Audit Committee if the size of the Board increases and efficiencies may be derived from a formal committee structure.

The Board as a whole acts as the Audit Committee and performs the functions thereof including the making sure that the financial records of the Company have been properly maintained and that the Company's financial statements for the period ended 30 June 2015 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

### **PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE**

#### **Disclosure policy**

The Board places a strong emphasis on full and appropriate disclosure and has adopted a Continuous Disclosure Policy to ensure timely and accurate disclosure of price-sensitive information to shareholders through the lodgment of announcements with ASX. Clear procedures govern the preparation, review and approval of all announcements including technical material.

### **PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS**

The Board is committed to open and accessible communication with holders of the Company's shares and other securities.

The Board is responsible for the communication strategy to promote effective communications with shareholders and to encourage effective participation at general meetings. The Company adheres to best practice in its preparation of Notices of Meetings and through its share registry offers to members the option of receiving shareholder communications electronically.

In accordance with ASX recommendations, the Company publishes all relevant announcements on its website after ASX has acknowledged that the announcements have been released. The Continuous Disclosure Policy can be found on the Company's website. Subject to ASX disclosure rules, the Company communicates regularly with shareholders, brokers and analysts and publishes the information provided on its website.

### **PRINCIPLE 7 – RECOGNISE AND MANAGE RISK**

The Board has been committed to ensuring that the risks associated with the Company's business activities are properly identified, monitored and managed and to embedding in its management and reporting systems a number of risk management controls. Operational management regularly reviews the risks and controls and updates the Board in light of changing circumstances and emergent risk factors and weightings.

The Board considers that the Company is not of a size sufficient to warrant the establishment of an internal audit function or a risk management committee.

The Chief Executive Officer has declared in writing to the Board that the declaration in accordance with section 295A of the Corporations Act is founded on a sound system of internal control and that the system is operating effectively in all material respects in relation to financial risks.

### **PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY**

The Directors consider the current size of the Board does not warrant the establishment of a separate Remuneration Committee. However, the Board will at some time consider forming a Remuneration Committee if the size of the Board increases and efficiencies may be derived from a formal committee structure. Nonetheless the Board is committed to ensuring that the principles of fair and responsible remuneration govern its operations.

There are no schemes for retirement benefits, other than superannuation, for non-executive directors.

## ANNUAL FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

	Note	30-Jun-15 US\$'000	Restated 30-Jun-14 US\$'000
Bank interest income		47	266
Gain from disposal of asset	6	20	-
Exchange gain		-	216
Other income		111	40
Total income		178	522
Administration costs		(1,499)	(1,961)
Acquisition costs		(317)	-
Exchange loss		(253)	-
Other expenses		(115)	-
Total operating expenses		(2,184)	(1,961)
Loss before income tax from continuing operations		(2,006)	(1,439)
Income tax expense	11	-	-
Loss for the period from continuing operations		(2,006)	(1,439)
Discontinued operation	19	-	9,046
(Loss)/profit from discontinued operation		(2,006)	7,607
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		91	(122)
Other comprehensive gain/(loss) for the period		91	(122)
Total comprehensive (loss)/gain for the period		(1,915)	7,485
Total comprehensive (loss)/gain attributable to :			
Members of the parent entity		(1,915)	7,485
Earnings per share from continuing operations			
Basic and diluted (loss)/gain per share (US cent per share)	3	(1.52)	1.36

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

## ANNUAL FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

	Note	30-Jun-15 US\$'000	30-Jun-14 US\$'000
<b>Current assets</b>			
Cash and cash equivalents	4	685	43,255
Other receivable	5	1,957	-
<b>Total current assets</b>		<u>2,642</u>	<u>43,255</u>
<b>Non-current assets</b>			
Property, plant & equipment	8	57	-
Deferred Exploration	9	28,575	-
Other receivable	5	-	4,742
Restricted cash		-	5,670
<b>Non-current assets</b>		<u>28,632</u>	<u>10,412</u>
<b>Total assets</b>		<u>31,274</u>	<u>53,667</u>
<b>Current liabilities</b>			
Accounts payables	10	3,435	-
Other payables	10	185	-
<b>Total current liabilities</b>		<u>3,620</u>	<u>-</u>
<b>Non-current liabilities</b>			
Deferred Tax Liability	7	1,939	-
<b>Total non-current liabilities</b>		<u>1,939</u>	<u>-</u>
<b>Total liabilities</b>		<u>5,559</u>	<u>-</u>
<b>Net assets</b>		<u>25,715</u>	<u>53,667</u>
<b>Equity</b>			
Contributed equity	12	26,563	52,600
Reserves	13	867	776
Accumulated (loss)/gain		(1,715)	291
Parent entity interest		25,715	53,667
<b>Total equity</b>		<u>25,715</u>	<u>53,667</u>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2015**

	Note	30-Jun-15 US\$'000	30-Jun-14 US\$'000
<b>CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(3,500)	(1,816)
Interest and other items of a similar nature received		47	266
NET CASH OUTFLOW USED IN OPERATING ACTIVITIES	21	(3,453)	(1,550)
<b>CASHFLOWS RELATED TO INVESTING ACTIVITIES</b>			
Issuance of loans receivable		-	(1,122)
Proceeds from repayment of loans receivable		4,743	-
Payments for exploration and evaluation activities		(135)	-
Acquisition of KYRGYZ Republic oil project	20	(16,977)	-
Transaction cost on sale of discontinued operation		-	(2,776)
Net cash inflow/(outflow) from discontinued operation		-	50,934
Net cash inflow/(outflow) from disposal of asset	6	(73)	-
NET CASH OUTFLOW/(INFLOW) USED IN INVESTING ACTIVITIES		(12,442)	47,036
<b>CASH FLOWS RELATED TO FINANCING ACTIVITIES</b>			
Repurchase of shares	12	(29,552)	-
Proceeds from issues of shares	12	3,640	-
Cost of issue	12	(125)	-
Repayment of convertible bond		-	(25,000)
NET CASH OUTFLOW USED IN FINANCING ACTIVITIES		(26,037)	(25,000)
NET DECREASE/(INCREASE) IN CASH HELD		(41,932)	20,486
Foreign Currency Translation		(638)	631
Cash and cash equivalents at beginning of period		43,255	22,138
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>685</b>	<b>43,255</b>

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

## ANNUAL FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2015

	Issued Capital	Treasury shares	Accumulated earnings/ (losses)	Share based payment reserve	Foreign currency translation reserve	Owners of Parent	Non- controlling interest	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Balance at 30 June 2013</b>	52,600	-	(7,194)	776	(10)	46,172	11,129	57,301
Loss for the period	-	-	7,607	-	10	7,617	(11,129)	(3,512)
Exchange Translation	-	-	(122)	-	-	(122)	-	(122)
Total Comprehensive loss for the period	-	-	7,485	-	10	7,495	(11,129)	(3,634)
<b>Balance at 30 June 2014</b>	52,600	-	291	776	-	53,667	-	53,667
Loss for the period	-	-	(2,006)	-	91	(1,915)	-	(1,915)
Other comprehensive Income	-	-	-	-	-	-	-	-
Total Comprehensive loss for the period	-	-	(2,006)	-	91	(1,915)	-	(1,915)
Issue of shares Capital raising cost	3,640 (125)	-	-	-	-	3,640 (125)	-	3,640 (125)
Repurchase of shares	-	(29,552)	-	-	-	(29,552)	-	(29,552)
Cancellation of shares	(29,552)	29,552	-	-	-	-	-	-
<b>Balance at 30 June 2015</b>	<b>26,563</b>	<b>-</b>	<b>(1,715)</b>	<b>776</b>	<b>91</b>	<b>25,715</b>	<b>-</b>	<b>25,715</b>

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

## **NOTES TO THE FINANCIAL INFORMATION**

### **General Information**

Sagolio Energy Limited (formerly named FeOre 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 30 June 2015 were authorised for issue in accordance with a resolution of the Directors on 30 September 2015. The Company was listed on the Australian Stock Exchange (ASX) on 15 December 2011. The Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows have been prepared for the period from 1 July 2014 to 30 June 2015.

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

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

#### **(a) Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of Australian Accounting Standard Board (AASB).

The financial statements also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on a historical cost basis, except for land and buildings, which have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The financial report is presented in US dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

The principal activities of the company and its subsidiaries were exploration activities in Kyrgyz Republic. The Company is seen as a single segment as management reporting is performed on a single segment basis and majority of activities were happening in Kyrgyz Republic. Hence, 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 year ended 30 June 2015 of \$2,006 (profit 2014: \$7,485) and experienced net cash outflows from operating activities of \$3,453 (2014: \$1,550).

The ability of the Group to continue as a going concern is dependent on the Group being able to raise additional funds as required to fund ongoing exploration commitments and for working capital. The Directors believe that additional capital will be raised as required and also cash inflow will arise from the future development of the oil projects. The Directors believe that the Company will continue as a going concern. As a result the financial report has been prepared on a going concern basis. However should the Company be unsuccessful in undertaking additional raisings and proceed with the sale of oil from its projects there is a significant 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 AASB has issued new and amended accounting standards and interpretations for the period and which the Group applied. A discussion of those future requirements and their impact on the Group follows:

##### *AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities*

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

##### *Interpretation 21 Levies*

This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.

##### *AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*

AASB 2013-3 amends the disclosure requirements in AASB 136 *Impairment of Assets*. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.

##### *AASB 1031 Materiality*

The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality.

AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.

AASB 2014-1 Part C issued in June 2014 makes amendments to eight Australian Accounting Standards to delete their references to AASB 1031. The amendments are effective from 1 July 2014\*.

##### *AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*

The Standard contains three main parts and makes amendments to a number of Standards and Interpretations.

Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.

Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.

Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 *Financial Instruments*.

##### *AASB 2014-1 Part A Annual Improvements to IFRSs 2011–2013 Cycle* addresses the following items:

- AASB 13 - Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132.

**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(b) New Accounting Standards and Interpretations (continued)****AASB 2014-1 Part A -Annual Improvements 2010–2012 Cycle**

This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle.

Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:

- ▶ AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.
- ▶ AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.
- ▶ AASB 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segment assets to the entity's total assets.
- ▶ AASB 116 & AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.
- ▶ AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 Related Party Disclosures for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.

None of the above standards and amendments are expected to significantly impact the Group.

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2015.

AASB 9	<i>Financial Instruments</i>
AASB 2014-3	<i>Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 &amp; AASB 11]</i>
AASB 2014-4	<i>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)</i>
AASB 15	<i>Revenue from Contracts with Customers</i>
AASB 2015-1	<i>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle</i>
AASB 2015-2	<i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i>
AASB 2015-3	<i>Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality</i>
AASB 2015-4	<i>Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent</i>
AASB 2015-5	<i>Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception</i>

None of the above standards and amendments are expected to significantly impact the Group.

**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(c) Business Combinations**

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the identifiable net assets of the acquiree and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

**(d) Taxes****(i) Income taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(d) Taxes (continued)**

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**(ii) Other taxes**

Revenues, expenses and assets are recognised net of the amount of Goods and Service Tax (GST) or Value Added Tax (VAT) except:

- When the GST/VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST/VAT included.

The net amount of GST/VAT recoverable from or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Commitments and contingencies are disclosed net of the amount of GST/VAT recoverable from, or payable to, the taxation authority.

**(e) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(e) Leases (continued)**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the leased term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the leased term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expenses and reduction of the liability.

**(f) Cash and Cash Equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short term deposits with a maturity of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

**(g) Property, Plant and Equipment**

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

Plant, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit and loss as incurred.

*Depreciation*

Depreciation is calculated on a diminishing value basis over the estimated useful life of the specific assets.

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

**Class of Fixed Asset**

Buildings	5%
Furniture, Fixtures and Fittings	10%
Office Equipment	20%
Vehicles and equipment	20%

**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(g) Property, Plant and Equipment (continued)**

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

*Derecognition*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

**(h) Exploration and Evaluation Costs**

Direct and indirect costs attributable to finding the oil resources are allocated to the exploration and evaluation assets. General and administrative costs that are not related directly to operational activities in the areas of interest have been expensed as incurred.

Exploration and evaluation assets are reclassified when technical feasibility and commercial viability has been established.

The exploration and evaluation assets are assessed against facts and circumstances to determine whether the carrying amount exceeds the recoverable amount. The facts and circumstances considered include whether the rights to explore are current, whether any area of interest has been removed from plans for substantive exploration, whether a decision has been taken to discontinue activities and whether data suggests that the carrying amounts are unlikely to be recovered from development or sale.

**(i) Restoration and Rehabilitation**

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground/environmental is disturbed at the production location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development/construction of the mine. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognised in profit and loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognised immediately in profit or loss.

**(j) Financial Instruments***Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets this is the equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(j) Financial Instruments (continued)**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale (AFS) financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

*Classification and subsequent measurement*

Financial instruments are subsequently measured at fair value or amortised cost using the effective interest rate method.

*Amortised cost* is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

*The effective interest method* is used to allocate interest income or interest expenses over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial liability. Revisions to expected future net cash flows will necessitate adjustments to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

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

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

All assets and liabilities, for which fair value is measured or disclosed in the financial statements, are categorised within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(j) Financial Instruments (continued)**

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

**(ii) Loans and receivables**

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

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting periods. All other loans and receivables are classified as non-current assets.

**(iii) Financial liabilities**

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

**Impairment**

Objective evidence that a financial asset is impaired includes default by a debtor evidence that the debtor is likely to be enter bankruptcy or adverse economic conditions in the stock exchange. At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired through the occurrence of a loss event. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to indicate that an impairment has arisen.

Where a subsequent event causes the amount of the impairment loss to decrease (e.g. payment received), the reduction in the allowance account (provision for impairment of receivables) is taken through profit and loss.

However, any reversal in the value of an impaired available for sale asset is taken through other comprehensive income rather than profit and loss.

Impairment losses are recognised through an allowance account for loans and receivables in the statement of comprehensive income.

**Derecognition**

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

**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(k) Impairment of Non-Financial Assets**

Non-financial assets other than goodwill and indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as charges in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognised. Such a reversal is recognised in the statement of profit or loss and other comprehensive income..

**(l) Foreign Currency Translation***Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in United States Dollars (\$) which is the Company's functional and presentation currency.

*Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

*Group companies*

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

- Assets and liabilities are translated at period end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed of.

**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(m) Employee Benefits***Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

*Long service leave*

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

**(n) Trade and Other Creditors**

Trade and other payables are carried at amortised cost due to their short term nature and are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

**(o) Revenue and Other Income**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Interest revenue*

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to the net carrying amount of the financial asset.

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

**(p) Borrowing Costs**

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(q) Critical Accounting Estimates and Judgments**

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

*Key judgments – exploration and evaluation expenditure*

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the Directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period.

*Key judgments – asset impairment*

The Group assesses each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties less costs for disposing the asset. Fair value for oil assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

*Key judgments – recoverable reserves and resources*

Estimates of recoverable quantities of proven and probable reserves reported include assumptions regarding commodity prices, exchange rates, discount rates, production and transportation costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the calculation of depreciation and amortisation charged to the income statement.

*Key judgments – environmental rehabilitation costs*

The provisions for rehabilitation costs are based on estimated future costs using information available at the balance sheet date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the income statement may be impacted.

## **NOTES TO THE FINANCIAL INFORMATION**

### **Note 1 – Summary of Significant Accounting Policies (continued)**

#### **(r) Earnings Per Share**

##### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year.

##### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

#### **(s) Operating Segments**

An operating segments are component of entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

The operating segments have been identified based on the information provided to the chief operating decision makers being the Board of Directors.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services
- Nature of the production processes
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services and if applicable,
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

##### **(i) Identification of reportable segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director and the Board of Directors (the Chief Operating Decision Makers) in assessing performance and determining the allocation of resources. The operating segments identified by management are each exploration tenement.

The Group operates entirely in the industry of oil exploration, evaluation and development of oil projects.

## **NOTES TO THE FINANCIAL INFORMATION**

### **Note 1 – Summary of Significant Accounting Policies (continued)**

#### **(s) Operating segments (continued)**

- (ii) Discrete pre-tax financial information, being expenditure incurred year to date and from the start date, about each of these segments is reported to the Chief Operating Decision Makers on a monthly basis.

Accounting policies, segment revenue, and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis.

All expenses incurred for exploration and evaluation which qualify for capitalisation as described in Note 9 are capitalised.

There are no intersegment transactions within the Group's segment.

The segment results include the capitalised allocation of overhead that can be directly attributed to an individual business segment. .

#### **(t) Contributed Equity**

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

#### **(u) Share Based Payments**

The Group provides benefits to its employees (including Directors) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using the Black Scholes model, further details of which are given in Note 13.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than (if applicable):

- Non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment in equity or cash, and
- Conditions that are linked to the price of the shares of the Group (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods.

#### **(v) Treasury Shares**

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share-based payments reserve. Share options exercised during the reporting period are satisfied with treasury shares.

**NOTES TO THE FINANCIAL INFORMATION**

**Note 2 – Auditors' Remuneration**

	2015 US\$'000	2014 US\$'000
Remuneration of the auditor of the Group for:		
- auditing and reviewing the financial statements	65	62
- non-audit services	4	-
<b>Total</b>	<b>69</b>	<b>62</b>

**Note 3 – Earnings Per Share**

	2015 US\$'000	Restated 2014 US\$'000
Reconciliation of earnings to profit or loss		
(Loss)/gain for the period	(2,006)	7,485
(Loss)/gain attributable to non-controlling equity interest	-	-
(Loss)/gain attributable to the owners of the Company	(2,006)	7,485
<b>Basic and diluted earnings (loss) per share (US cent per share)</b>	<b>(1.52)</b>	<b>1.36</b>

The weighted average number of ordinary shares outstanding during the period used in calculating basic earnings per share: 131,994,005 (2014 restated: 549,957,877). The weighted average number of ordinary shares to be issued with options was not included in the calculation of diluted earnings per share for the period as the options are unlikely to be executed as the exercise price is higher than the average stock price for the period.

**Note 4 – Cash and Cash Equivalents**

	30-Jun 2015 US\$'000	30-Jun 2014 US\$'000
Cash at banks and on hand	685	1,222
Short-term deposits	-	42,033
<b>Total</b>	<b>685</b>	<b>43,255</b>

Cash at banks earns interest at floating rates based on daily bank deposit rates (average annual deposit rate was approximately 1%).

**Note 5 – Non-Current Receivable and Current Receivable**

	30-Jun 2015 US\$'000	30-Jun 2014 US\$'000
<b>Non-Current Receivable</b>		
Other receivable	-	4,742
<b>Total current receivable</b>	<b>-</b>	<b>4,742</b>

## NOTES TO THE FINANCIAL INFORMATION

## Note 5 – Non-Current Receivable and Current Receivable (continued)

	30-Jun 2015 US\$'000	30-Jun 2014 US\$'000
<b>Current Receivable</b>		
Disposal proceed receivable*	1,950	-
Other receivable	7	-
<b>Total current receivable</b>	<b>1,957</b>	<b>-</b>

\*Quangas Poly Limited and CAXY was disposed right after acquisition, the proceed of \$1,950,000 is scheduled to be received as follow:

US\$'000	Due date
20	31 August 2015
650	31 October 2015
640	31 December 2015
640	29 February 2016

Details of the transaction could be referred to Note 6.

## Note 6 – Gain from Disposal of Assets

On 31 May 2015, the Group restructured and sold Quangas Poly Limited and its subsidiary CAXY Financial Leasing Limited right after the acquisition, retaining the oil project of Kyrgyz Republic only.

	2015 US\$'000
Cash and cash equivalents	(73)
Other receivables	(1,875)
Property, plant & equipment	(1)
Deferred exploration	-
Trade and other creditors	19
Total identifiable net assets disposed at fair value	(1,930)
Disposal consideration to be received	1,950
<b>Gain from disposal of assets</b>	<b>20</b>
Net cash inflow/(outflow) from disposal of assets:	
Consideration received	-
Cash and cash equivalents disposed of	(73)
<b>Net cash outflow</b>	<b>(73)</b>

## Note 7 – Deferred Tax Liability

The Deferred Tax liability of \$1,939,242 relates to the fair value adjustments arising from acquisition of the subsidiary (see note 20). This has been recorded based at the Kyrgyz Republic tax rate of 10%.

## NOTES TO THE FINANCIAL INFORMATION

## Note 8 – Property, Plant &amp; Equipment

	Land	Buildings	Furniture, fixture and fittings	Equipment	Vehicles	Construction in progress	Total property, plant & equipment
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
As at 30 June 2014							
At cost	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-
As at 30 June 2015							
At cost	-	-	1	3	54	-	58
Accumulated depreciation	-	-	-	-	(1)	-	(1)
Total	-	-	1	3	53	-	57

## Movements in Carrying Amounts

Movement in the carrying amount for each class of property, plant & equipment between the beginning and the end of the current financial year:

	Land	Oil and gas properties	Furniture, fixture and fittings	Equipment	Vehicles	Construction in progress	Total property, plant & equipment
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Closing balance at 1 July 2013	36	719	39	71	333	112	1,310
Foreign Exchange	(7)	(138)	(8)	(15)	(66)	(23)	(257)
Disposal	-	(23)	-	-	-	-	(23)
Additions	-	57	-	-	-	-	57
Transfers	-	87	-	-	-	(87)	-
Depreciation	-	(2)	(7)	(9)	(30)	-	(48)
Disposal from sales of equity investments	(29)	(700)	(24)	(47)	(237)	(2)	(1,039)
Closing balance at 30 June 2014	-	-	-	-	-	-	-
Acquisition	-	-	2	-	57	-	59
Additions	-	-	-	3	-	-	3
Depreciation	-	-	-	-	(1)	-	(1)
Foreign Exchange	-	-	-	-	(3)	-	(3)
Disposal from sales of equity investments	-	-	(1)	-	-	-	(1)
Closing balance at 30 June 2015	-	-	1	3	53	-	57

NOTES TO THE FINANCIAL INFORMATION

Note 9 – Deferred Exploration and Evaluation Assets

	30-Jun 2015 US\$'000	30-Jun 2014 US\$'000
At the beginning of the year	-	75,452
Exchange re-alignment	110	(622)
Exploration expenditure during the year	1,630	95
Exploration tenements acquired through acquisition	26,835	-
Exploration tenements disposed through sale of investment	-	(74,925)
At the end of the year	28,575	-

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.

Note 10 – Non-Current Payables and Current Payables

	30-Jun 2015 US\$'000	30-Jun 2014 US\$'000
Exploration payables	3,435	-
Other payables	185	-
Total current payables	3,620	-

Note 11 – Income Tax Expense

	30-Jun 2015 US\$'000	30-Jun 2014 US\$'000
Current tax	-	-
Deferred tax	-	-
	-	-

	30-Jun 2015 US\$'000	30-Jun 2014 US\$'000
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 0%		
- economic entity	-	-
Add / (less) tax effect of:		
- difference in overseas tax rates	(51)	(311)
- non deductible expenses	51	311
Income tax attributable to entity	-	-

## NOTES TO THE FINANCIAL INFORMATION

## Note 12 – 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.

	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)
As at 30 June 2014	529,110,001	52,600
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 30 June 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 13 – Reserves

	Note	30-Jun 2015 US\$'000	30-Jun 2014 US\$'000
Share based payment reserve	(a)	776	776
Consolidated balance		<b>776</b>	<b>776</b>
Foreign exchange movements on translation of foreign entities	(b)	91	-
Consolidated balance		<b>91</b>	<b>-</b>

## NOTES TO THE FINANCIAL INFORMATION

## Note 13 – Reserves (continued)

- (a) The Share Based Payment reserve is used to record the value of share based payments issued to employees as part of their remuneration. The Company issued 8,152,571 options as follows:

- Mr Quintus Roux – 3,408,245 options;
- Ms Christina Mu – 2,272,163 options;
- Mr Tim Sun – 2,272,163 options;
- Mr Leo Hui – 200,000 options.

All options fully vested as at 30 June 2012 and expire in 4 years after the grant date which was 15 December 2011.

- (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 14 – Related Party Disclosures

## 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	30 Jun 15 % interest	30 June 14 % interest
*Aspiration Global Limited	BVI	-	100%
Resource Depot Holdings Limited	BVI	100%	100%
*Resource Depot Limited	Hong Kong	-	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%	-
Quangas Poly Limited	BVI	-	-
CAXY Financial Leasing Limited	PRC	-	-
Wild Prestige Limited	BVI	100%	-
Plenty Max Limited	BVI	100%	-
Timely Ideal Limited	BVI	100%	-
PEI LLC	Kyrgyzstan	100%	-

- \* Resource Depot Limited has been disposed on 07 Oct 2014. The disposal did not have a material impact on the financial statements of the Company.

Aspiration Global Limited has been disposed on 05 May 2015 as part of the consideration to acquire Quangas Poly Limited.

Quangas Poly Limited and CAXY Financial Leasing Limited has been disposed on 31 May 2015. The disposal did not have a material impact on the financial statements of the Company.

## NOTES TO THE FINANCIAL INFORMATION

## Note 14 – Related Party Disclosures (continued)

The following table provides the total amount of transactions that have been entered into with related parties during the year ended 30 June 2015 and 2014, as well as balances with related parties as at 30 June 2015 and 30 June 2014:

		Purchases from related parties US\$'000	Outstanding balance payable to related parties US\$'000
Entity related with key management personnel of the Group:			
Beijing Orion Energy Technology & Development Co. Ltd. ("Orion Energy")	2015	849	3,435
	2014	-	-

US\$799,000 was recognized as account payable for technical service and US\$50,000 non-current payable for well drilling as at 30 June 2015.

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

The Company has signed 2 contracts involving a sum of total US\$1,382,000 with Beijing Orion Energy Technology & Development Co. Ltd during the financial year after the acquisition.

	Contract sum US\$'000
Technical service agreement on exportation and production research	1,332
Well drilling supplement agreement	50
	1,382

The material terms of technical service agreement is as follow:

- Orion Energy shall conduct oil reserve research, exploration planning, well examining, production and follow up evaluation and field examination during the contract period.
- PEI shall pay to Orion Energy US\$799,200, representing 60% of the contract sum after first examination stage has been passed with satisfaction of PEI on 30 June 2015.
- PEI shall pay the remaining 35% within 30 days after final examination has been passed with satisfaction of PEI on 31 December 2015. Last 5% shall be paid 30 days after guarantee period (60 days after satisfied final examination) and no service quality issue.
- The contract is governed by People's Republic of China law.

Other outstanding balance existed were related to a well drilling contract and for Maleysu-East Yizbaskent oil project and Oil Extraction System Installation before the acquisition. Which US\$2.58m was recognized as current payable as at 30 June 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.

## NOTES TO THE FINANCIAL INFORMATION

## Note 15 – Capital and Leasing Commitments

## (a) Finance Lease Commitments

The Group and the Company have no finance lease commitments as at 30 June 2015 (2014: Nil).

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

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

	2015	2014
Payable:		
Not later than 12 months	538	-
Between 12 months to 5 years	11,377	1,045
	<u>11,915</u>	<u>1,045</u>

## Note 16 – Financial Risk Management

The Group's financial instruments consist mainly of deposit with banks, receivables and payables. The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

Financial Assets (US\$'000)	2015	2014
Cash and cash equivalents	685	43,255
Trade and other receivables	1,957	4,742
Restricted cash	-	5,670
Total Financial Assets	<u>2,642</u>	<u>53,667</u>

Financial Liabilities (US\$'000)	2015	2014
Trade and other payables	3,620	-
Total Financial Liabilities	<u>3,620</u>	<u>-</u>

## Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk and commodity and equity price risk.

## (a) Credit Risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contractual obligations that could lead to a financial loss to the Group.

The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Group does not hold any credit derivatives to offset its credit exposure.

## NOTES TO THE FINANCIAL INFORMATION

## Note 16 – Financial Risk Management (continued)

## Specific Financial Risk Exposures and Management (continued)

The Group trades only with recognised, creditworthy third parties and as such collateral is not requested nor is it the Group's policy to scrutinise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

The credit quality of financial assets that are neither past due nor impaired as the Company only has one creditor and management has assessed that to be highly probable to receive.

## (b) Liquidity Risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financial activities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit risk profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

*Financial liability and financial asset maturity analysis  
(within 1 year)*

	2015	2014
<b>Financial liabilities due for payment (US\$'000)</b>		
Trade and other payables	3,620	-
Total contractual outflows	3,620	-
	<b>2015</b>	<b>2014</b>
<b>Financial assets – cash flows realisable (US\$'000)</b>		
Cash and cash equivalents	685	43,255
Other receivable	1,957	4,742
Restricted cash	-	5,670
Net inflow/(outflow) on financial instruments	(978)	53,667

## NOTES TO THE FINANCIAL INFORMATION

## Note 16 – Financial Risk Management (continued)

## Specific Financial Risk Exposures and Management (continued)

## (c) Market Risk

*Interest rate risk* - Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

*Sensitivity Analysis*

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonable possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Increase in interest rate by 1%		Decrease in interest rate by 1%	
	Profit US\$'000	Equity US\$'000	Profit US\$'000	Equity US\$'000
Year ended 30 June 2014				
Cash and cash equivalents	432	-	(432)	-
Year ended 30 June 2015				
Cash and cash equivalents	7	-	(7)	-

*Foreign exchange risk* - Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies.

The Group's year-end statement of financial position exposure to foreign currency risk was as follows, based on notional amounts. The following are financial assets and liabilities in currencies other than the functional currencies of the entity in which they are recorded:

As at 30 June 2015 (US\$'000)	AUD	HKD	KGS
Cash and cash equivalents	116	-	1
Receivables	-	-	-
Payables	-	-	-
Gross statement of financial position exposure	116	-	1
As at 30 June 2014 (US\$'000)	AUD	HKD	MNT
Cash and cash equivalents	30,635	-	-
Receivables	-	-	-
Payables	-	-	-
Gross statement of financial position exposure	30,635	-	-

## NOTES TO THE FINANCIAL INFORMATION

## Note 16 – Financial Risk Management (continued)

## Specific Financial Risk Exposures and Management (continued)

*Sensitivity Analysis (continued)*

A 10% weakening of the US dollar against the following currencies at 30 June 2015 would have decreased profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Consolidated 2015		
Effect in US\$'000	Equity	Profit
AUD	-	(11)
HKD	-	-
KGS	-	-

Consolidated 2014		
Effect in US\$'000	Equity	Profit
AUD	-	(3,063)
HKD	-	-
MNT	-	-

A 10% strengthening of the US dollar against the above currencies at 30 June 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The following significant exchange rates applied during the financial year:

	Average exchange rate	Spot rate as at the end of the year
AUD	0.8369	0.7655
HKD	0.1290	0.1287
KGS	0.0174	0.0162

*Commodity price risk* - Commodity price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

The Group has no exposure to commodity price risk as it is not yet in production.

*Net Fair Value*

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.

## NOTES TO THE FINANCIAL INFORMATION

## Note 17 – Key Management Personnel Disclosures

<i>Compensation of Key Management Personnel</i>	Note	2015 US\$'000	2014 US\$'000
Short-term employee benefits (Salary/fee)		419	176
		<u>419</u>	<u>176</u>

*Shareholdings of Key Management Personnel*

The Group issued US\$100,000 convertible note to Bruce Higgins and Ruth Janine Higgins ATF Higgins Family Superannuation fund in 2011. The note was converted to 708,000 shares of the Company as a part of pre-IPO shares issued. No other shares were held by KMP as at or during the year ended 30 June 2015.

*Option Holdings of former Key Management Personnel*  
**2015**

Name	Balance 01.07.14 (number)	Granted during the year (number)	Option expired (number)	Balance 30.06.15 (number)	Vested at 30 June 2015	
					Total (number)	Exercisable %
Mr. Tim Sun	2,272,163	-	-	2,272,163	2,272,163	100%
Ms. Christina (Jun) Mu	2,272,163	-	-	2,272,163	2,272,163	100%
Mr. Quintus Roux	3,408,245	-	-	3,408,245	3,408,245	100%
Total:	7,952,571	-	-	7,952,571	7,952,571	100%

**2014**

Name	Balance 01.07.13 (number)	Granted during the year (number)	Option expired (number)	Balance 30.06.14 (number)	Vested at 30 June 2014	
					Total (number)	Exercisable %
Mr. Tim Sun	2,272,163	-	-	2,272,163	2,272,163	100%
Ms. Christina (Jun) Mu	2,272,163	-	-	2,272,163	2,272,163	100%
Mr. Quintus Roux	3,408,245	-	-	3,408,245	3,408,245	100%
Total:	7,952,571	-	-	7,952,571	7,952,571	100%

- \* Mr. Tim Sun left the Company on 9 July 2014  
 Ms. Christina (Jun) Mu left the Company on 1 June 2014  
 Mr. Quintus Roux left the Company on 1 November 2012  
 Mr. Bruce Higgins left the Company on 5 August 2013

There have been no other share option transactions involving key management personnel.

**NOTES TO THE FINANCIAL INFORMATION**

**Note 18 – Parent Entity**

The following information has been extracted from the books and records of the parent, Sagalio Energy Limited and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, Sagalio Energy Limited has been prepared on the same basis as the consolidated financial statements except as disclosed below.

*Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost in the financial statements of the parent entity.

**Statement of Financial Position**

	<b>2015</b>	<b>2014</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Assets</b>		
Current Assets	500	43,255
Non- current assets	25,306	10,412
<b>Total Assets</b>	<b>25,806</b>	<b>53,667</b>
<b>Liabilities</b>		
Current liabilities	156	-
<b>Total liabilities</b>	<b>156</b>	<b>-</b>
<b>Equity</b>		
Issued capital	26,563	52,600
Share-based reserve	776	776
Accumulated (losses) / earnings	(1,689)	291
<b>Total Equity</b>	<b>25,650</b>	<b>53,667</b>

**Statement of Comprehensive Income**

Total (loss)/gain for the period	(2,105)	6,494
<b>Total comprehensive income</b>	<b>(2,105)</b>	<b>6,494</b>

## NOTES TO THE FINANCIAL INFORMATION

## Note 19 – Discontinued Operations

On 31 May 2014, the Group sold its entire mining segment; the segment was not a discontinued operation or classified as held for disposal at 30 June 2013 and the comparative consolidated statement of other comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

	2014 US\$'000	2013 US\$'000
Results of discontinued operation		
Revenue	2	2
Expenses	(1,246)	(682)
Results from operating activities	(1,244)	(680)
Tax	-	-
Results from operating activities, net of tax	(1,244)	(680)
Gain on sale of discontinued operation	13,066	-
Transaction cost	(2,776)	-
Tax on gain on disposal of discontinued operation	-	-
Profit (loss) for the year	9,046	(680)
Basic earnings (loss) per share (USD)	0.017	(0.001)
Cash flow from (used in) discontinued operation	US\$'000	US\$'000
Net cash used in operating activities	(37)	183
Net cash from investing activities	51,447	272
Net cash from financing activities	-	-
Effect of foreign translation	434	(434)
Net cash inflows for the year	50,934	21
Effect of disposal on the financial position of the Group		31-May-14 US\$'000
Property, plant and equipment		(1,038)
Exploration and evaluation assets		(74,925)
Prepaid expenses		(1,154)
Trade and other receivables		(467)
Cash and cash equivalents		(53)
Deferred tax liabilities		18,014
Trade and other payables		405
NCI		10,885
Net assets and liabilities		(48,333)
Consideration received, satisfied in cash		51,030
Total cash outflow of discontinued operation		(43)
Cash and cash equivalents disposed		(53)
Net cash inflow		50,934
Consideration received as restricted financial asset		5,670
Consideration received as non-current receivable		4,742
Less: Net assets and liabilities (excluding Cash and cash equivalents)		(48,280)
Profit on disposal		13,066

## NOTES TO THE FINANCIAL INFORMATION

## Note 20 – Acquisition of Subsidiaries

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”), US\$22.78 million settled in cash and residual asset as follows:

- Tranche 1: US\$10.00 million refundable deposit paid upon signing the MOU. The amount was settled on 28 July 2014
- Tranche 2: US\$7.11 million cash and transfer of an entity holding title to a residual asset valued at approximately US\$5.67 million was paid and executed upon completion date.

The Company believes that this transaction presents that this transaction presents an opportunity to the exploration of oil & gas in strategic markets.

The acquisition has been accounted for as a business combination under AASB 3: Business Combinations. The purchase price allocation is based on management judgment from the cash flow projection of oil projects. The annual consolidated financial statements include the results of Quangas for the one month period from the acquisition date

The purchase consideration was \$22.78million. The provisional fair values of the identifiable assets and liabilities of Quangas as at the date of acquisition were:

	Note	US\$'000
Cash and cash equivalents		135
Other receivables		1,886
Property, plant & equipment	8	59
Deferred exploration	9	26,835
Deferred Tax Liabilities	7	(1,939)
Trade and other creditors		(4,194)
Total identifiable net assets at fair value		22,782
<b>Purchase consideration transferred</b>		<b>22,782</b>
<b>Consideration</b>		
Paid in cash		17,112
Settled by transferring an entity holding escrowed cash		5,670
Total		<b>22,782</b>
Net cash acquired with the subsidiary (included in cash flows from investing activities)		135
Cash paid		(17,112)
<b>Net cash outflow</b>		<b>(16,977)</b>

The net assets recognised in the 30 June 2015 financial statements were based on a provisional assessment of their fair value while the Group sought an independent valuation for the liabilities arising from the exploration activities. The valuation had not been completed by the date the 2015 financial statements were approved for issue by management.

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.

At the date of acquisition, the gross amount of the trade receivables was the same as fair value at US\$1,886,000. At 30 May 2015, trade receivables of US\$1,875,000 were disposed with CAXY, please refer to Note 6 for details. None of the trade receivables have been impaired at 30 June 2015.

## NOTES TO THE FINANCIAL INFORMATION

### Note 20 – Acquisition of Subsidiaries (continued)

From the date of acquisition, Quangas contributed no revenue and U\$513,000 to the net loss before tax from continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been zero and the net loss from continuing operation would have been U\$ 488,000.

The acquisition transaction cost of approximately U\$ 317,000 have been expensed and are included in administration cost in the statement of profit and loss and are part of operating cash flows in the statement of cash flows.

### Note 21 – Reconciliation of Cash Flow to the Operating Loss

	30-Jun 2015 US\$'000	30-Jun 2014 US\$'000
Operating loss	(2,006)	(1,439)
Depreciation	1	47
Exchange re-alignment	253	(216)
(Increase)/decrease in receivables and other assets	(1,857)	(67)
Increase/(decrease) in creditors	156	125
	<u>(3,453)</u>	<u>(1,550)</u>

### Note 22 – Dividends

No dividends were declared or paid during the year ended 30 June 2015 (2014: Nil)

### Note 23 – Significant events after the balance date

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.

### Note 24 – Company Details

The registered office of the Company is:

Sagalio Energy Limited  
Clarendon House  
2 Church Street  
Hamilton, HM 11, BERMUDA

The principal place of business of the Company is:

Sagalio Energy Limited  
62/F, The Center, 99 Queen's Road Central, HONG KONG

## ANNUAL 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 30 June 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: 30 September 2015

## AUDITOR'S INDEPENDENCE DECLARATION

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Ernst & Young  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

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ey.com/au

### Auditor's Independence Declaration to the Directors of Sagalio Energy Limited

In relation to our audit of the financial report of Sagalio Energy Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Australian professional accounting bodies.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'S Jarrett'.

Scott Jarrett  
Partner  
Sydney

30 September 2015



Ernst & Young  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

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### Independent auditor's report to the members of Sagalio Energy Limited

#### Report on the financial report

We have audited the accompanying financial report of Sagalio Energy Limited which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

#### Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

#### Independence

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



## Opinion

In our opinion:

- i. the financial report presents fairly, in all material respects, the financial positions of the company and the consolidated entity as of 30 June 2015 and their financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards.
- ii. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## 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 grey ink, appearing to read 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in grey ink, appearing to read 'Scott Jarrett'.

Scott Jarrett  
Partner  
Sydney

30 September 2015

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Stock Exchange Limited in respect of listed public companies only.

The shareholder information set out below was applicable as at 28 September 2015.

### DISTRIBUTION OF SHAREHOLDERS

Analysis of numbers of equity securities holders by size of holding:

Category (size of holding)	Total Holders	Units	% of Issued Capital
1 – 1,000	20	327	0.00%
1,001 – 5,000	1	2,000	0.00%
5,001 – 10,000	23	186,600	0.09%
10,001 – 100,000	235	10,054,722	4.91%
100,001 – and over	52	194,416,481	94.99%
<b>Rounding</b>			<b>0.01%</b>
<b>Total</b>	<b>331</b>	<b>204,660,130</b>	<b>100%</b>

The number of shareholders held in less than marketable parcels is 68.

### SUBSTANTIAL SHAREHOLDERS

	Fully Paid Ordinary Shares	
	Number	Percentage
Sagalio Limited	36,100,000	17.64%
Jolly Medal Limited	24,000,000	11.73%
Ms Xiaojing Shao	20,000,000	9.70%
Mr Guoli Deng	16,000,000	7.82%
Mr Kang Fu	16,000,000	7.82%
Century Elite Holdings Ltd	14,000,000	6.84%
Grand Step Global Limited	14,000,000	6.84%
<b>Total</b>	<b>140,100,000</b>	<b>68.39%</b>

### VOTING RIGHTS

The voting rights attached to each class of equity securities are as follows:

#### Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.
- Treasury shares do not carry a right to vote.

#### Options

- Options do not carry a right to vote.

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

### TWENTY LARGEST SHAREHOLDERS – ORDINARY SHARES

The shareholder information set out below was applicable as at 28 September 2015.

Rank	Name	Fully Paid Ordinary Shares	
		Number	Percentage
1	Sagalio Limited	36,100,000	17.64%
2	Jolly Medal Limited	24,000,000	11.73%
3	Ms Xiaojing Shao	20,000,000	9.77%
4	Mr Guoli Deng	16,000,000	7.82%
5	Mr Kang Fu	16,000,000	7.82%
6	Century Elite Holdings Ltd	14,000,000	6.84%
7	Grand Step Global Limited	14,000,000	6.84%
8	Major Port Limited	10,000,000	4.89%
9	Frountere Limited	9,314,000	4.55%
10	River Fortune Ventures Ltd	7,893,000	3.86%
11	Yan Lei Lei	5,100,000	2.49%
12	Citicorp Nominees Pty Limited	3,843,590	1.88%
13	Mrs Juli Ekman Nee Feiglin	2,346,986	1.15%
14	Ding Lei	2,100,000	1.03%
15	Miss Ying Ma	1,848,286	0.90%
16	Mr Yalei Hao	1,233,900	0.60%
17	Omnioffices Pty Limited	1,115,000	0.54%
18	Pershing Australia Nominees Pty Ltd <Phillip Securities (Hk) A/C>	860,384	0.42%
19	Sun Liyang	700,000	0.34%
20	Zhang Xiaonan	600,000	0.29%
<b>Total</b>		<b>187,055,146</b>	<b>91.40%</b>

### RESTRICTED SECURITIES

There are currently no restricted securities or securities subject to voluntary escrow that are in issue as of the date of this report.

**COMPANY SECRETARY**

Nicholas Ong

**REGISTERED OFFICE**

Clarendon House  
2 Church Street  
Hamilton HM 11, Bermuda

**HEAD OFFICE**

62/F, The Center  
99 Queen's Road Central  
Hong Kong  
Tel: +852 3960 6518

**SHARE REGISTRY**

Computershare Investor Services Pty Limited  
Level 4, 60 Carrington Street  
Sydney NSW 2000  
Australia  
Tel +61 2 8234 5000

**STOCK EXCHANGE LISTING**

Quotation has been granted for 204,660,130 ordinary shares of the Company on all member exchanges of the Australian Stock Exchange Limited.

**ON-MARKET BUY-BACK**

There is no current on-market buy-back in respect of the Company's shares.