Sagalio Energy Limited

Interim Financial Report

ARBN 152 971 821

16 March 2017

TABLE OF CONTENTS

Your Directors submit the Interim Financial Report of the consolidated Group for the 6 months ended 31 December 2016.

DIRECTORS

The names of the Directors of Sagalio Energy Limited (**SAN** or the **Company**) in office during the 6 months ended 31 December 2016 and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

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

PRINCIPAL ACTIVITIES

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

REVIEW OF OPERATIONS

Set out below is a review of significant activity for Sagalio Energy Limited for the 6 months ended 31 December 2016.

CONTINUATION OF TRIAL PRODUCTION

The Company has continued trial production on the 8 initial wells drilled. The Company currently sells its extracted product to local refineries.

For the six months period ended 31 December 2016, the Company has trial produced and transported an aggregate of 3,291 tonnes of oil to Kyrgyzneftegaz OJSC (KNG), of which 60% is appropriated to the Company in accordance with the Co-Investment Agreement entered into between the Company and KNG.

CONTINUOUS PROJECT DEVELOPMENT

The Company acknowledges the need for additional capital to continue its scheduled project exploration and development activities and has been actively seeking for appropriate fund source. The Company is confident that it will be able to raise additional capital to advance its projects' development. Reference should also be made to Note 5 of the financial statements regarding the status of the Company's rights under the Product Sharing Contract.

RESULTS OF OPERATIONS

The Group has reported a net loss for the period of US$0.75 million for the period ended 31 December 2016.

Net cash used in operations and net cash gained in investing activities over the period amounted to US$0.34 million and US0.23 million respectively. Cash on hand is US$0.17 million as at 31 December 2016.

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

The Directors are also pursuing alternative sources of funding in case additional resources are required, but have not yet secured a commitment.

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

CAPITAL STRUCTURE

A total number of 204,660,130 ordinary shares were on issue as at 31 December 2016.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the activities described in the Directors' report above, there were no other significant changes in the state of affairs of the Group for the 6 months period ended 31 December 2016.

SUBSEQUENT EVENTS

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

AUDITOR'S INDEPENDENCE DECLARATION

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

ROUNDING

The Company has applied the relief available to it in ASIC Corporations Instrument 2016/191 and accordingly certain amounts in the financial report and the Directors' report have been rounded off to the nearest thousand United States Dollars (US$'000).

Signed in accordance with a resolution of the Directors.

Harry King Hap Lee
Chairman & Non-executive Director
16 March 2017

CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Note	31-Dec-16 US$'000	31-Dec-15 US$'000
Total income		-	-
Administration costs		(743)	(651)
Impairment of deferred exploration assets		-	(3,602)
Finance cost		-	(1,930)
Exchange loss		(4)	(8)
Depreciation		(4)	(1)
Total operating expenses		(751)	(6,192)
Loss before income tax from continuing operations		(751)	(6,192)
Income tax expense		-	-
Loss for the period from continuing operations		(751)	(6,192)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		-	-
Other comprehensive loss for the period		-	-
Total comprehensive loss for the period		(751)	(6,192)
Total comprehensive loss attributable to :			
Members of the parent entity		(751)	(6,192)
Earnings per share from continuing operations			
Basic and diluted loss per share (US cent per share)	2	(0.37)	(3.03)

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

CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	31-Dec-16 US$'000	30-Jun-16 US$'000
Current assets			
Cash and cash equivalents	3	171	269
Inventory		56	39
Other receivable	4	212	153
Total current assets		439	461
Non-current assets			
Property, plant & equipment		50	54
Deferred Exploration	5	23,337	23,548
Non-current assets		23,387	23,602
Total assets		23,826	24,063
Current liabilities			
Accounts payables		8,187	7,688
Loan from related company		165	150
Total current liabilities		8,352	7,838
Non-current liabilities			
Deferred Tax Liability	6	1,135	1,135
Total non-current liabilities		1,135	1,135
Total liabilities		9,487	8,973
Net assets		14,339	15,090
Equity			
Contributed equity	7	26,563	26,563
Reserves	8	867	867
Accumulated losses		(13,091)	(12,340)
Parent entity interest		14,339	15,090
Total equity		14,339	15,090

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

CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Note	31-Dec-16 US$'000	31-Dec-15 US$'000
CASH FLOWS RELATED TO OPERATING ACTIVITIES			
Payments to suppliers and employees		(343)	(780)
NET OPERATING CASH FLOWS	10	(343)	(780)
CASHFLOWS RELATED TO INVESTING ACTIVITIES			
Payments for exploration and evaluation activities to related parties		(41)	(99)
Proceeds from disposal of subsidiaries		-	20
Sales from exploration		268	371
NET INVESTING CASH FLOWS		227	292
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Proceeds from loan		22	-
NET FINANCING CASH FLOWS		22	-
NET (DECREASE) IN CASH HELD		(94)	(488)
Foreign Currency Translation		(4)	(8)
Cash and cash equivalents at beginning of period		269	685
CASH AND CASH EQUIVALENTS AT END OF PERIOD		171	189

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

CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JULY 2016 TO 31 DECEMBER 2016

	Issued Capital	Accumulated earnings	Share based payment reserve	Foreign currency translation reserve	Capital reserve	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 30 June 2015	**26,563**	**(1,715)**	**776**	**91**	**-**	**25,715**
Loss for the period	-	(6,192)	-	-	-	(6,192)
Other comprehensive Income	-	-	-	-	-	-
Total Comprehensive loss for the period	-	(6,192)	-	-	-	(6,192)
Transfer from share base payment reserve to capital reserve	-	-	(776)	-	776	-
Balance at 31 December 2015	**26,563**	**(7,907)**	**-**	**91**	**776**	**19,523**
Balance at 30 June 2016	**26,563**	**(12,340)**	**-**	**91**	**776**	**15,090**
Loss for the period	-	(751)	-	-	-	(751)
Other comprehensive Income	-	-	-	-	-	-
Total Comprehensive loss for the period	-	(751)	-	-	-	(751)
Balance at 31 December 2016	**26,563**	**(13,091)**	**-**	**91**	**776**	**14,339**

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

NOTES TO THE FINANCIAL INFORMATION

General Information

Sagalio Energy Limited (the “Company”) is a for profit company and is incorporated in Bermuda on 1 August 2011 and the consolidated financial statements of the company and its subsidiaries (the “Group”) for the period ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 16 March 2017

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

Note 1 – Summary of Significant Accounting Policies

(a) Basis of preparation

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

The interim financial report does not include all the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Group as at and for the year ended 30 June 2016 as well as in conjunction with public announcements made by the Group during the interim period.

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 31 December 2016 of US$751 thousand (2015: Loss US$6,192 thousand) and experienced net cash outflows from operating activities of US$343 thousand (2015: US$780 thousand). As at 31 December 2016 the Group has US$171 thousand cash at bank (2015: US$189 thousand) and a negative working capital of $7,913 thousand (2015: negative US$7,045 thousand).

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, and that the Company will have continued title to the active license. See disclosure in Note 5 regarding the status of the Company’s rights under the Product Sharing Contract. 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 to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Group not continue as a going concern.

(b) Segment information

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

NOTES TO THE FINANCIAL INFORMATION

Note 1 – Summary of Significant Accounting Policies (continued)

(c) New Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended 30 June 2016, except for the adoption of the following new standards and interpretations effective as of 1 July 2016:

- AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations

- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012 – 2014 Cycle

- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative Amendments to AASB 101

The adoption of these amendments did not have any material impact on the financial position or performance of the Company. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

AASB 9 Financial Instruments

On 24 July 2014 the IASB issued the final version of IFRS9 which replaces IAS39 and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The standard is not applicable until 1 January 2018 and will become effective for the Company on 1 July 2018 but is available for early adoption. The Company is currently assessing the full impact of the standard on its accounting policy, financial position and financial performance. The Company has not yet decided whether to early adopt AASB 9.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes principles for reporting useful information to users of the financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In December 2015, the Australian Accounting Standards Board deferred the application of this standard to annual periods beginning on or after 1 January 2018. (ie this will be effective for the Company on 1 July 2018). The Company is currently assessing the impact of AASB 15 and has not yet decided whether to early adopt it.

AASB 16 Leases

In January 2016, the International Accounting Standards Board issued IAS 16 Leases which replaces IAS 17. The Australian Accounting Standards Board subsequently issued AASB 16 Leases in February 2016. The new standard requires lessees to have a single balance sheet accounting model to be adopted for all leases, except for leases of 'low value assets'. The lease accounting for lessors is substantially unchanged. There will also be additional disclosure requirements for both lessors and lessees. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16. The Company is currently assessing the impact of AASB 16 and has not yet decided whether to early adopt it.

NOTES TO THE FINANCIAL INFORMATION

Note 2 – Earnings Per Share

Reconciliation of earnings to profit or loss	31-Dec 2016 US$'000	31-Dec 2015 US$'000
Loss for the period	(751)	(6,192)
Loss attributable to non-controlling equity interest	-	-
Loss attributable to the owners of the Company	(751)	(6,192)
Basic and diluted earnings (loss) per share (US cent per share)	**(0.37)**	**(3.03)**

The weighted average number of ordinary shares outstanding during the period used in calculating basic earnings per share: 204,660,130 (2015: 204,660,130).

Note 3 – Cash and Cash Equivalents

	31-Dec 2016 US$'000	30-Jun 2016 US$'000
Cash at banks and on hand	171	269
	171	269

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

Note 4 – Current receivable

Current Receivable	31-Dec 2016 US$'000	30-Jun 2016 US$'000
Other receivable	212	153
Total current receivable	212	153

Other receivables consist of US$160k of loan receivables, and US$52k of other prepayments.

Note 5 – Deferred Exploration and Evaluation Assets

	31-Dec 2016 US$'000	30-Jun 2016 US$'000
At the beginning of the year	23,548	28,575
Exchange re-alignment	-	-
Exploration expenditure during the period	-	3,904
Exploration tenements acquired through acquisition	-	-
Exploration tenements impaired through revaluation	-	(8,318)
Net margin on precommissioning sales	(211)	(613)
Carrying value at the end of the year	23,337	23,548

NOTES TO THE FINANCIAL INFORMATION

Note 5 – Deferred Exploration and Evaluation Assets (continued)

The Company's economic interest through its subsidiary, PEI LLC, includes Marleysu-East Yizbaskent, Yibaskent Arash and Susamur tenements for exploration of oil under a Co-investment agreement with Kyrgyzneftegaz OJSC.

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

Effective 5 May 2015, the Company acquired PEI which has a Product Sharing Contract ("PSC") for the exploration of oil in the Marleysu-East Yizbaskent, Yibaskent Arash and Susamur tenements. The PSC was executed in 2013. Under the PSC, a Minimum Work Program was agreed between PEI and Kyrgyzneftegaz OJSC (the counter party, Kyrgyz). The Minimum Work Program required the drilling of five new wells, hydrofracking of three wells, and completing the overhaul workover of 15 wells in calendar year 2016.

The Minimum Work Program has not been met for 2016. Under the PSC, if the Company fails to meet the Minimum Work Program without providing evidence and explanation, Kyrgyz has the right to terminate the contact. If the contract is terminated, PEI retain the right to develop wells already drilled and workover wells but would relinquish rights to hydrocarbons from planned drilling of new wells under the PSC. The above events create a material uncertainty in its ability of the Company to realise the recorded carrying value of the exploration and evaluation asset.

Notwithstanding the uncertainty, the Director's believe that the Company will continue to enjoy the exclusive rights under the PSC. The Company has had continual discussions with authorities from Kyrgyz to explain the delay in drilling and the failure to meet with the Minimum Work Program. At this stage, there has been no indication from Kyrgyz that they intend to terminate the contract. Furthermore, the Company continues to receive cash from oil sales under the PSC.

No adjustment has been made to the carrying value of the exploration and evaluation asset and should the counterparty terminate the PSC, the exploration and evaluation asset would be required to be impaired.

Note 6 – Deferred Tax Liability

The Deferred Tax liability relates to the fair value uplift of exploration and evaluation assets arising from acquisition of the subsidiary. This has been recorded based at the Kyrgyz Republic tax rate of 10%. It was revised to US$1,135,000 after the impairment to intangible uplift of exploration and evaluation assets as at 30 June 2016 (Note 5).

	Note	**31-Dec 2016 US$'000**	**30-Jun 2016 US$'000**
Opening balance		1,135	1,939
Adjustment on prior year PPA		-	28
Adjusted from impairment of deferred exploration asset		-	(832)
Closing balance		1,135	1,135

NOTES TO THE FINANCIAL INFORMATION

Note 7 – Contributed Equity

Authorised share capital:
1,000,000,000,000 shares with par value of US$0.00001 each

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

Fully paid ordinary shares	**Number**	**US$'000**
Shares issued to Promoters on 1 August 2011	283,200,001	-
Pre IPO shares issued (A$0.14 per share) on 15 December 2011	53,100,000	7,325
Issue of shares for purchase of TSI on 15 December 2011 (A$0.25 per share)	22,800,000	5,844
Placement to wholesale and institutional investors (A$0.25 per share) on 15 December 2011	100,000,000	25,631
IPO shares issued on 15 December 2011 (A$0.25 per share)	70,010,000	17,944
Costs of Offer	-	(4,144)
Repurchase of shares on 9 July 2014 (Held as treasury shares)	(416,753,871)	(29,552)
Issue of shares on 5 May 2015 (A$0.05 per shares)	92,304,000	3,640
Costs of Offer	-	(125)
Quoted as at 31 December 2016	204,660,130	26,563

Note 8 – Reserves

Share Based Payment	Note	**31-Dec 2016 US$'000**	**30-Jun 2016 US$'000**
Opening balance		-	776
Transfer to capital reserve	(a)	-	(776)
Closing balance		-	-

FCTR Reserve			
Opening balance		91	91
Foreign exchange movements on translation of foreign entities	(b)	-	-
Closing balance		91	91

Capital Reserve			
Opening balance		776	-
Transfer from Share Based Payment Reserve		-	776
Closing balance		776	776
Total Reserves		867	867

NOTES TO THE FINANCIAL INFORMATION

Note 8 – Reserves (continued)

(a) All options (8,152,571 shares) granted expired on 9 December 2015. As a result the amount previously recognised in the share based payments reserve was transferred to capital reserve.

(b) The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign controlled entities and associates.

Note 9 – Related Party Disclosures

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

Name	Country of Incorporation	31 Dec 16 % interest	30 Jun 16 % interest
Resource Depot Holdings Limited	BVI	100%	100%
Total Dynamic Investments Limited	BVI	100%	100%
Total Dynamic Investments LLC	Mongolia	100%	100%
Sino Edge Ventures Limited	BVI	100%	100%
Sino Edge Power Limited	Hong Kong	100%	100%
Sino Edge Management Limited	Hong Kong	100%	100%
Sagalio Energy Technologies Limited	Hong Kong	100%	100%
Beijing Sagalio Luhai Energy Technology Co., Ltd (北京中普陆海能源技术有限公司)	China	100%	100%
Wild Prestige Limited	BVI	100%	100%
Plenty Max Limited	BVI	100%	100%
Timely Ideal Limited	BVI	100%	100%
PEI LLC	Kyrgyzstan	100%	100%

With the exception of the amounts payable to Dr. Yang as disclosed below, the following table provides the total amount of transactions that have been entered into with related parties during the year ended 31 December 2016 and 2015, as well as balances with related parties as at 31 December 2016 and 31 December 2015:

		Purchases from / (Credits to) 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") and its controlled entity Orion Energy Technology Development Co., Ltd.	2016	(40)	6,707
	2015	3,827	6,991

US$188,000 was paid for oil extraction and reduction of US$227,000 account payable for well drilling as a result of settlement in SOM instead of USD during the period.

NOTES TO THE FINANCIAL INFORMATION

Note 9 – Related Party Disclosures (continued)

Terms and conditions of transactions with related parties

The Company has not signed any new contracts since previous report date.

Consistent with the June 2016 disclosure, the total balance above is materially made up of the balance related to the technical service agreement on exploration and production research, totalling US$1.33 million as at 31 December 2016, and US$5.08 million related to the well drilling contract for the Marleysu-East Yizbaskent oil project and Oil Extraction System Installation before the acquisition.

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.

In February 2016, Dr. Yang, the CEO of the Company has provided a US$150,000 non-interest bearing unsecured loan, to the Company as part of the management's effort to support the working capital requirement of the Company. This loan was due to mature on 25 February 2017 and was extended to 25 February 2018 subsequent to period-end. This will be immediately recallable if Dr. Yang ceases to be a director of the Company.

In Dec 2016, Dr. Yang, the CEO of the Company has provided a US$15,000 non-interest bearing unsecured loan, to the Company's subsidiary "北京中普陸海能源技術有限公司" as part of the management's effort to support the working capital requirement of the Company. This loan is expected to mature on 31 December 2017 and will be immediately recallable if Dr. Yang ceases to be a director of the Company.

Note 10 – Reconciliation of Cash Flow to the Operating Loss

	31-Dec 2016 US$'000	31-Dec 2015 US$'000
Operating loss	(751)	(6,192)
Depreciation	4	1
Exchange re-alignment	4	8
Impairment of deferred exploration assets	-	3,602
Impairment of other receivables	-	1,930
(Increase)/decrease in receivables and other assets	(76)	(314)
Increase/(decrease) in creditors	476	185
	(343)	(780)

Note 11 – Net fair values

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

NOTES TO THE FINANCIAL INFORMATION

Note 12 – Capital and Leasing Commitments

(a) Operating Lease Commitments

The Group and the Company have no operating lease commitments as at 31 December 2016 (2015: Nil).

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

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

	31-Dec 2016 US$'000	31-Dec 2015 US$'000
Payable:		
Not later than 12 months	184	13
Between 12 months to 5 years	8,989	11,101
	9,173	11,114

Note 13 – Dividends

No dividends were declared or paid during the half-year ended 31 December 2016.

Note 14 – Subsequent Events

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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

(a) the financial statements and notes of the Group:
 (i) present fairly the Group's financial position as at 31 December 2016 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: 16 March 2017

Building a better working world

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

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

To the members of Sagalio Energy Limited

Report on the Half-Year Financial report

We have reviewed the accompanying half-year financial report of Sagalio Energy Limited which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year then ended or from time to time during the half-year.

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

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

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

Independence

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

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying half-year financial report of Sagalio Energy Limited does not present fairly, in all material respects, the company's financial position as at 31 December 2016 and its financial performance and its cash flows for the half-year ended on that date, in accordance with IAS 134 Interim Financial Reporting.

Building a better
working world

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.

Emphasis of Matter - Material Uncertainty in relation to the Exploration and Evaluation Asset

Without qualifying our opinion, we draw attention to Note 5 of the financial statements which describes the material uncertainty related to the rights to the exploration and evaluation asset. As a result of these matters, there is significant uncertainty whether the consolidated entity will continue to have exclusive rights to the PSC, and therefore whether it will be able to realise its exploration and evaluations asset at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability of recorded asset amounts that might be necessary should the company not continue to have exclusive rights to the exploration and evaluation asset.

Ernst + Young

Ernst & Young

Scott Jarrett
Partner
Sydney
16 March 2017