



**Sagaliao Energy**  
**中普能源**

Listed on ASX (Stock Code : SAN)

29<sup>th</sup> September 2017

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

## **Sagaliao Energy Limited Annual Financial Report**

The Directors of Sagaliao Energy Limited (ASX: SAN) are pleased to submit the annual financial report of the consolidated entity for the financial period from 1 July 2016 to 30 June 2017.

For and on behalf of Sagaliao Energy Limited



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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 2017

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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 (Chairman & Chief Executive Officer)  
Zhang Baoliang  
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  
200 George Street  
Sydney NSW 2000  
Australia

## DIRECTORS' REPORT

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**The Directors submit their report on the consolidated entity (hereinafter referred to as the “Group”) for the financial year ended 30 June 2017.**

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### 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	Chairman, Executive Director & CEO	9 July 2014	
Mr. Zhang Baoliang	Executive Director	13 April 2017	
Mr. Steven Hodgson	Non-executive Director	5 August 2013	
Mr. He Chuan	Non-executive Director	1 June 2014	
Mr. Harry King	Chairman & Non-executive Director	9 July 2014	13 April 2017

#### Louis Yang – Chairman, 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 2014. 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 and was subsequently appointed as the Chairperson of the Company on 13 April 2017. There is currently no termination payment under the terms of Dr. Yang's appointment.

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

#### Zhang Baoliang - Executive Director

Mr. Zhang has over 10 years of experience in conventional oil and gas exploration and development and over 5 years of experience in unconventional oil and gas exploration and development. Mr. Zhang was previously an production manager at Petrochina Company Limited (HK:0857) responsible for the supervision of oil extraction of the Tianjin Dagang oil field project. Mr. Zhang graduated from the China University of Petroleum, majoring in petroleum engineering. Mr. Zhang is also currently the general manager of PEI LLC, a wholly-owned subsidiary of the Company which develops the projects in Kyrgyzstan.

Mr. Zhang joined the Company as an Executive Director of the Company on 13 April 2017. Mr. Zhang'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. Zhang's appointment other than in accordance with the Bye-Laws of the Company. There is currently no termination payment under the terms of Mr. Zhang's appointment.

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

## DIRECTORS' REPORT

### 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 2014. There is currently no termination payment under the terms of Mr. Hodgson's appointment.

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

### 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'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 2015. There is currently no termination payment under the terms of Mr. He's appointment.

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 2017 <i>(Note 1)</i>	Annual Remuneration Received in 2016
Dr. Louis Yang	US\$ -	US\$ -
Mr. Zhang Baoliang <i>(Note 2)</i>	US\$ 38,390	US\$ -
Mr. Steven Hodgson	HK\$ -	HK\$150,000
Mr. He Chuan	HK\$ -	HK\$ -
Mr. Harry King	US\$ -	US\$ -

Notes:

1. The directors' remuneration should be read in conjunction with note 16 of the Financial Report. Fees owed to Directors in 2017 have been accrued, but have not been paid as at period end due to cash restraints.
2. The above amount was paid to Mr. Zhang as a performance bonus for his service in his capacity as general manager of PEI LLC and was agreed to between Mr. Zhang and the Company prior to his appointment as a director of the Company.

## DIRECTORS' REPORT

### 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 2017		As at 30 June 2016	
	Number of ordinary shares	Number of options over ordinary shares	Number of ordinary shares	Number of options over ordinary shares
Dr. Louis Yang	70,100,000 <i>(Note 1)</i>	—	70,100,000 <i>(Note 1)</i>	—
Mr. Zhang Baoliang	—	—	—	—
Mr. Steven Hodgson	—	—	—	—
Mr. He Chuan	—	—	—	—
Mr. Harry King	—	—	—	—

Notes:

1. Those shares were held through Jolly Medal Limited and Major Port Limited, of which Dr. Yang is the sole shareholder.

### INFORMATION ON SENIOR MANAGEMENT AND COMPANY SECRETARY

#### 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 (2016: Nil).

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

There have been no significant changes in the nature of the Group's principal activities during the period. 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 for the period of US\$21.3 million for the period ended 30 June 2017.

The recoverability of the carrying amounts of Deferred Exploration and Evaluation Assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest. The



## **DIRECTORS' REPORT**

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Directors also noted that there are risks involving the potential breach of the Co-Investment Agreement on the part of the Company attributable to its failure to develop the projects in accordance its minimal work program by December 2016.

Efforts were made to communicate with Kyrgyzneftegaz OJSC (KNG) on the waiver of breaches and to propose changes to a new 3-years work program (Jan 2017 – Dec 2019). Positive feedback was obtained and an unofficial go-ahead was granted. In light of the economic and political environment of Kyrgyzstan, it is unlikely that the Company will obtain any written waiver in the near future, but the Board is confident that its interest in the project will not be affected.

Nonetheless, the Company has obtained a legal opinion from a reputable Kyrgyzstan legal counsel, concerning the Company's right under the Co-Investment Agreement, and was opined that in the event that the breaches are not waived, the Company would be able to retain its rights to develop all wells that has been drilled by the Company prior to the time of the declaration of breaches by KNG. To-date, the Company has drilled 12 wells and has been continuously producing. Product sharing arrangement has been ongoing as agreed to between the Company and KNG under the Co-Investment Agreement.

As a prudent approach, the Company has performed analysis on the carrying value of the Deferred Exploration and Evaluation Assets, and recognised an impairment charges of US\$21.2 million (2016: US\$8.3 million). Further disclosure can be found on Note 8 of the Notes to the Financial Statements.

Net cash used in operations and net cash gained in investing activities over the period amounted to US\$0.5 million and US\$0.4 million respectively. Cash on hand is US\$0.2 million as at 30 June 2017. Net current liabilities as at 30 June 2017 was US\$8.3 million (30 June 2016: US\$7.3 million).

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 extended for another year in February 2017. In December 2016, Dr. Yang has further provided a US\$14,397 non-interest bearing unsecured loan to the Company. This loan is expected to mature on 31 December 2018. The above loans will be immediately callable if Dr. Yang ceases to be a director of the Company.

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. However, as the oil sector gradually recovers, and 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. Dr. Yang has also agreed to support the Company financially to satisfy financial obligations as and when they fall due. For these reasons the Company continue to adopt the going concern basis in preparing the financial report.

### **Review of Operations**

Set out below is a review of significant activity for Sagalio Energy Limited for the year ended 30 June 2017.

#### **KYRGYZ REPUBLIC PROJECTS**

During the year, the Company focused on the production of oil from the existing development wells drilled. The extracted oil were sold to oil refineries in Kyrgyzstan under sale agreements.

During the period under review, the Company has produced and transported an aggregate of 5,716 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.

## **DIRECTORS' REPORT**

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The Company is facing multiple challenges and obstacles amidst slow recovery of oil price for most part of the financial year. Capital market remained sluggish which has create additional difficulties to the Company's ability to seek financing to support the development of the Company's projects. Measures have been taken by the Directors to closely monitor the Company's expenditures and its development plan as an effort to better manage the capital outlay of the Company.

Meanwhile, the Directors continually explore various opportunities in the oil and gas and resources sector that are presented to it, if deemed in the best interests of shareholders. As part of this project evaluation, the Company will also consider potential divestments of its existing projects, or the acquisition of additional projects which provides immediate cash inflow if a commercial opportunity arises.

### **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. Risks 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. Risks relating to the Co-Investment Agreement**

As the Company is currently in potential breach of the Co-Investment Agreement to undertake the minimum work program, the economic value of the projects may be significantly affected. The Company has made continuous effect in remedying the situation, and has proceeded with a new 3-years plan for the development of the projects for 2017 to 2019. While the Company believes that its interest in the projects are validly existing and will continue to generate sustainable income, investors should note the existence of such risk. Further disclosure can be found on Note 8 of the Notes to the Financial Statements.

#### **4. 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).

#### **5. Capital Requirement for working capital**

The Company acknowledges that it is currently under a challenging environment and that it may not have the sufficient capital required for the Company's daily operations, 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).

#### **6. 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 sovereign and title risks, corporate governance risk, legal and counter-party risks, staffing risks and others. The Company views risk management as an 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.

## **DIRECTORS' REPORT**

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### **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 2017.

### **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**

There has been no formal board meetings held during the financial year ended 30 June 2017. 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 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 no 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.



## **DIRECTORS' REPORT**

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

The auditor's independence declaration for the period ended 30 June 2017 has been received and can be found on page 45 of the Financial 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 US\$1,000.

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

On behalf of the Board



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Louis Yang  
Executive Director & CEO  
Sagario Energy Limited  
Dated this 29<sup>th</sup> day of September, 2017

## **CORPORATE GOVERNANCE STATEMENT**

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The Company is required to provide a statement disclosing the extent to which it will follow, as at the date of the reinstatement of its securities to official quotation, the Corporate Governance Principles and Recommendations (3rd Edition) set by the ASX Corporate Governance Council.

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

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

#### **Board and Management functions - Recommendation 1.1**

The roles and responsibilities of the Board and management are set out in the Board Charter, available on the Company's website.

The Board Charter also provides for the Company's statement of delegated authority to set out the Company's policy relevant to the delegation of authority to management to conduct the day to day management of the Company.

As the Company has a small board 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.

#### **Electing or re-electing a director - Recommendation 1.2**

The process of appointment and re-election is set out in the Board Charter.

The Company will undertake appropriate checks before appointing a person, or putting forward to shareholders a candidate for election as a director.

The Board will provide shareholders with all material information in the possession of the company to enable shareholders to make an informed decision on the appointment and re-election of directors.

#### **Director and senior executive agreements - Recommendation 1.3**

The Company has a written agreement with each director and senior executive setting out the terms of their appointment.

#### **Company secretary - Recommendation 1.4**

The Company secretary is will be appointed and removed by the Board and reports to, and is directly accountable to, the Board, through the Chair, on all matters to do with the proper functioning of the Board.

#### **Diversity Policy - Recommendation 1.5**

The Company has a diversity policy and is committed to developing a business model that values and achieves diversity on its workforce and on its Board.

Due to the size of the Company, the Board does not consider it appropriate at this time, to formally set measurable objectives for gender diversity. The Board continues to monitor diversity across the organisation and is satisfied with the current level of gender diversity within the Company.

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. Management will monitor and report to the Board in the Company's progress under its diversity policy.

As at 30 June 2017, the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board are set out below:

Whole organisation	4 out of 19 (21.1%)
Board	0 out of 4 (0.0%)
Senior Executive	1 out of 3 (33.3%)

## **CORPORATE GOVERNANCE STATEMENT**

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### **Performance Evaluation – Recommendations 1.6 and 1.7**

The Board is responsible for the evaluation and review of the performance of the Board and its committees (if any) and Senior Executives.

The Chair is primarily responsible for the evaluation and review of the performance of individual non-executive directors. The Chair should disclose the process for evaluating the performance of those directors.

The Board (other than the Chair) is responsible for the evaluation and review of the performance of the Chair and review of the effectiveness and programme of Board meetings.

The process of the performance evaluation of the Board, its committees (if any), directors and senior executives, generally involves an internal review. From time to time as the Company's needs and circumstances require, the Board may commission an external review of the Board, and its composition.

There were no formal performance evaluation undertaken during the 2017 financial year. The Board reviews the performance of the Company (including the Board and Senior Executives) on a regular and informal basis.

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

### **Nomination Committee and Board skills matrix - Recommendations 2.1 and 2.2**

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 the resources industry and broader business backgrounds. The Board will establish a skills matrix setting out the mix of skills and diversity that the Board currently has or is seeking to acquire.

The Company provides details of each Director, such as their skills, experience and expertise relevant to their position in the Directors' Report in the Annual Report

### **Independence of directors - Recommendations 2.3, 2.4 and 2.5**

The Board comprises two executive directors (Dr. Louis Yang and Mr. Zhang Baoliang) and two non-executive directors (Mr. Steven Hodgson and Mr. He Chuan). Dr. Louis Yang is a substantial shareholder of the Company and Mr. Zhang Baoliang is an executive director. Both Dr. Louis Yang and Mr. Zhang Baolian are not considered to be an independent director 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. Zhang Baoliang 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.

Dr. Louis Yang holds both positions of Chair and CEO of the Company. Although the Chair is not an independent director, the Board believes that Dr. Louis Yang is able, and will make quality and independent judgements in the best interests of the Company on all relevant issues before the Board. The Board believes that Dr. Yang's positions as Chairman and CEO of the Company is appropriate and acceptable at this stage of the Company's development.

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

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 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.

### **Director induction and development - Recommendation 2.6**

Induction, training and continuing education arrangements are the subject of the terms and conditions of the appointment of members to the Board. The requirement for the Board to implement an appropriate induction and education process for new Board appointees and Senior Executives is set out in the Board Charter on the Company's website. The process is designed to enable Board appointees and Senior Executives to gain a better understanding of: the Company's financial, strategic, operational and risk management position; the rights, duties and responsibilities of the directors; the roles and responsibilities of Senior Executives; and the role of Board committees (if any).

## **PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY**

### **Code of conduct – Recommendation 3.1**

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.

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

### **Audit Committee - Recommendation 4.1**

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.

### **Financial Statements - Recommendation 4.2**

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 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.

### **Auditor attendance at AGM – Recommendation 4.3**

The opportunity for shareholders to question a listed entity's external auditor at the AGM is an important safeguard for the integrity of the corporate reporting process. For companies incorporated in Australia, such opportunity is provided by sections 250PA, 250RA and 250T of the Corporations Act. As the Company is established outside Australia, it is not subject to the provisions of the Corporations Act and there are no equivalent provisions under the law of its home jurisdiction. The Company will however make a representative of the auditor available at its AGM to enable shareholders to ask questions relevant to the audit.



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

#### **Continuous Disclosure Policy – Recommendation 5.1**

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. The Company's Continuous Disclosure Policy is available on its website.

### **PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS**

#### **Communications Policy – Recommendation 6.1**

The Company is committed to open and accessible communication with its shareholders, employees, customers and other stakeholders.

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.

#### **Investor relations – Recommendations 6.2, 6.3 and 6.4**

The Board is responsible for the communication strategy to promote effective communications with investors 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.

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

#### **Risk Management – Recommendations 7.1, 7.2, 7.3 and 7.4**

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 Company does however employ appropriate processes for continually improving the effectiveness of risk management and internal control processes.

The Chief Executive Officer is required to provide a declaration in writing to the Board as to whether 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.

The Board is satisfied with the current level of risk, risk management and control monitoring processes currently in place for the Company.

The Company is of the view that it does not have material exposure to economic, environmental or social sustainability risks other than those disclosed in the Director's report.

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

#### **Remuneration Committee – Recommendations 8.1, 8.2 and 8.3**

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 for the evaluation of the remuneration of the Company's Non-Executive Directors, Executive Directors and Senior Executives.

Remuneration of the Company's Non-Executive Directors and Executive Directors is set out in the Company's Remuneration Report (which forms part of the Directors' Report) in the Company's Annual Report.

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 2017**

	Note	30-Jun-17 US\$'000	30-Jun-16 US\$'000
Bank interest income		-	-
Gain from disposal of asset		-	-
Other income		-	-
Total income		-	-
Administration costs	19	(1,264)	(1,194)
Impairment of deferred exploration assets	8	(21,175)	(8,318)
Impairment of financial asset		-	(1,930)
Exchange loss		(5)	(7)
Depreciation	7	(8)	(8)
Other expenses		(6)	-
Total operating expenses		(22,458)	(11,457)
Loss before income tax from continuing operations		(22,458)	(11,457)
Income tax benefit	6,10	1,135	832
Loss from continuing operations		(21,323)	(10,625)
Items that may be reclassified subsequently to profit or loss		-	-
Total comprehensive (loss)		(21,323)	(10,625)
Total comprehensive (loss) attributable to :			
Member's of the parent entity		(21,323)	(10,625)
Loss per share from continuing operations			
Basic and diluted (loss) per share (US cent per share)	3	(10.42)	(5.19)

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 2017

	Note	30-Jun-17 US\$'000	30-Jun-16 US\$'000
<b>Current assets</b>			
Cash and cash equivalents	4	246	269
Inventory		-	39
Other receivable	5	231	153
Total current assets		477	461
<b>Non-current assets</b>			
Property, plant & equipment	7	46	54
Deferred exploration	8	2,060	23,548
Total non-current assets		2,106	23,602
<b>Total assets</b>		2,583	24,063
<b>Current liabilities</b>			
Accounts payables	9	8,816	7,838
Other payables		-	-
Total current liabilities		8,816	7,838
<b>Non-current liabilities</b>			
Deferred tax Liability	6	-	1,135
Total non-current liabilities		-	1,135
<b>Total liabilities</b>		8,816	8,973
<b>Net (liabilities) / assets</b>		(6,233)	15,090
<b>Equity</b>			
Contributed equity	11	26,563	26,563
Reserves		867	867
Accumulated (loss)		(33,663)	(12,340)
Parent entity interest		(6,233)	15,090
<b>Total equity</b>		(6,233)	15,090

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

**ANNUAL FINANCIAL STATEMENTS****CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	30-Jun-17 US\$'000	30-Jun-16 US\$'000
<b>CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(471)	(1,093)
NET CASH OUTFLOW USED IN OPERATING ACTIVITIES	18	(471)	(1,093)
<b>CASHFLOWS RELATED TO INVESTING ACTIVITIES</b>			
Proceeds from disposal of subsidiaries		-	20
Payments for exploration and evaluation activities		(43)	(99)
Precommissioning sales		481	613
NET CASH INFLOW USED IN INVESTING ACTIVITIES		438	534
<b>CASH FLOWS RELATED TO FINANCING ACTIVITIES</b>			
Loan from related company	13	14	150
NET CASH OUTFLOW USED IN FINANCING ACTIVITIES		14	150
NET DECREASE IN CASH HELD		(18)	(409)
Foreign Currency Translation		(5)	(7)
Cash and cash equivalents at beginning of period		269	685
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>246</b>	<b>269</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 2017

	Issued Capital	Treasury shares	Accumulated earnings/ (losses)	Share based payment reserve	Foreign currency translation reserve	Capital Reserve	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Balance at 30 June 2015</b>	<b>26,563</b>	-	<b>(1,715)</b>	<b>776</b>	<b>91</b>	-	<b>25,715</b>
Loss for the period	-	-	(10,625)	-	-	-	(10,625)
Other comprehensive Income	-	-	-	-	-	-	-
Total Comprehensive loss for the period	-	-	(10,625)	-	-	-	(10,625)
Transfer from share base payment reserve to capital reserve	-	-	-	(776)	-	776	-
<b>Balance at 30 June 2016</b>	<b>26,563</b>	-	<b>(12,340)</b>	-	<b>91</b>	<b>776</b>	<b>15,090</b>
Loss for the period	-	-	(21,323)	-	-	-	(21,323)
Other comprehensive Income	-	-	-	-	-	-	-
Total Comprehensive loss for the period	-	-	(21,323)	-	-	-	(21,323)
<b>Balance at 30 June 2017</b>	<b>26,563</b>	-	<b>(33,663)</b>	-	<b>91</b>	<b>776</b>	<b>(6,233)</b>

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

**NOTES TO THE FINANCIAL INFORMATION****General Information**

Sagalio Energy Limited (formerly named FeOre Limited, the “Company”) is a for profit company and was incorporated in Bermuda on 1 August 2011. The consolidated financial statements of the company and its subsidiaries (the “Group”) for the period ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 29 September 2017. 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 2016 to 30 June 2017.

The financial statements are presented in thousands in accordance with ASIC CI 2016/191.

**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 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 2017 of US\$21,323 thousand (Loss 2016: US\$10,625 thousand) and experienced net cash outflows from operating activities of US\$471 thousand (2016: US\$1,093 thousand). As at 30 June 2017 the Group has US\$246 thousand cash and cash equivalent (2016: US\$269 thousand) and a negative working capital of US\$8,339 thousand (2016: negative US\$7,377 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 and the continued support of related parties. 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****New, revised or amending Accounting Standards and Interpretations adopted**

Sagalia Energy Limited has adopted the following new and amended accounting standards from 1 July 2017:

**AASB 2015-2 Disclosure Initiative Amendment to AASB-** This Standard amends AASB 101 Presentation of Financial Statements to clarify existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying the Standard in determining what information to disclose, where and in what order information is presented in their financial statements.

**AASB 2014-4 Amendments to Australian Accounting Standards- Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify the principle in AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. Adoption of these standards did not have any material effect on the Statement of Financial Performance, Statement of Comprehensive Income and Statement of Financial Position of the Group.

None of the above standards and amendments had a significant impact the Group.

**Accounting standards issued but not yet effective**

Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the year ended 30 June 2017. At this time the following standards and interpretations may have an impact, but the extent of this is not expected to be material:

**AASB 2016-1 Recognition of Deferred Tax Assets for Unrealised Losses-** The amendments to AASB 112 Income Taxes clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. Effective for annual periods beginning on or after 1 January 2017.

**AASB 2016-2 Disclosure Initiative-** The amendments to AASB 107 Statement of Cash Flows require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

**AASB 9 Financial Instruments-** A new Principal standard which replaces AASB 139. This new Principal version includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. Effective for annual periods beginning on or after 1 January 2018.

**AASB 15 Revenue from Contracts with Customers-** The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or 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. Effective for annual periods beginning on or after 1 January 2018. As The company is not generating revenue, there is no impact on current reporting.

**AASB 16 Leases-** AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases. Effective for annual periods beginning on or after 1 January 2019.

**Interpretation 23 Uncertainty over Income Tax Treatments-** The interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. Effective for annual periods beginning on or after 1 January 2019.

The Company is still in the process of evaluating the impact of the above standards.



**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,

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**

Property, 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 useful life used for each class of depreciable assets are:

Class of Fixed Asset

Buildings	20
Furniture, Fixtures and Fittings	10
Equipment	5
Vehicles	5

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.

**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(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. If any indication exists, the Group estimates the asset's recoverable amount as outlined in Note 1 (k).

**(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.

The Group has no legal or constructive obligation for restoration under the Co-investment agreement with Kyrgyzneftegaz OJSC. The Group pays a monthly reclamation amount to Kyrgyzneftegaz OJSC. As a result, there is no restoration or rehabilitation provision recognised,

**(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).

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.

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

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.



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

**(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. Goodwill and indefinite useful life intangibles are tested for impairment annually.

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 changes 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.

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

An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and value in use (VIU). For the purpose of the exploration and evaluation assets, the recoverable amount is based on FVLCD. In determining FVLCD, recent market transactions (where available) are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. From time to time external valuers are used to assess FVLCD of the Group's non-financial assets.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset/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 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 expected 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 disposal 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.

**(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**

The Company has done an analysis of our operating segments and based on operations have concluded we have only one segment to report.

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.



**NOTES TO THE FINANCIAL INFORMATION****Note 1 – Summary of Significant Accounting Policies (continued)****(s) Operating Segments (continued)****(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.

**(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 8 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) Treasury Shares**

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.

**Note 2 – Auditors' Remuneration**

	2017 US\$	2016 US\$
Remuneration of the auditor of the Group for:		
- auditing and reviewing the financial statements	59,100	61,800
- non-audit services	-	-
Total	<u>59,100</u>	<u>61,800</u>

**NOTES TO THE FINANCIAL INFORMATION**
**Note 3 – Earnings Per Share**

	<b>2017</b> <b>US\$'000</b>	<b>2016</b> <b>US\$'000</b>
Reconciliation of earnings to profit or loss		
(Loss) for the period	(21,323)	(10,625)
(Loss) attributable to non-controlling equity interest	-	-
(Loss) attributable to the owners of the Company	(21,323)	(10,625)
Basic and diluted earnings (loss) per share (US cent per share)	<b>(10.42)</b>	<b>(5.19)</b>

The weighted average number of ordinary shares outstanding during the period used in calculating basic earnings per share: 204,660,130 (2016: 204,660,130).

**Note 4 – Cash and Cash Equivalents**

	<b>30-Jun</b> <b>2017</b> <b>US\$'000</b>	<b>30-Jun</b> <b>2016</b> <b>US\$'000</b>
Cash at banks and on hand	246	269
	<b>246</b>	<b>269</b>

**Note 5 – Other Receivable**

	<b>30-Jun</b> <b>2017</b> <b>US\$'000</b>	<b>30-Jun</b> <b>2016</b> <b>US\$'000</b>
<b>Other Receivable</b>		
Other receivable	231	153
Total other receivable	<b>231</b>	<b>153</b>

As at 30 June 2017, there was a US\$189,000 current receivable for loans taken out by employees of PEI LLC. Dr. Yang has undertaken to offset any shortfall of the said amount against the director's fees owing to him by the Company should any portion of these receivables be unrecoverable.

**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 Nil after the impairment to intangible uplift of exploration and evaluation assets (Note 8).

		<b>30-Jun</b> <b>2017</b> <b>US\$'000</b>	<b>30-Jun</b> <b>2016</b> <b>US\$'000</b>
	Note		
Opening balance		1,135	1,939
Adjustment on prior year PPA		-	28
Adjusted from impairment of deferred exploration asset	8	(1,135)	(832)
Closing balance		<b>-</b>	<b>1,135</b>

**NOTES TO THE FINANCIAL INFORMATION**
**Note 7 – Property, Plant & Equipment**

	Furniture, fixture and fittings US\$'000	Equipment US\$'000	Vehicles US\$'000	Total property, plant & equipment US\$'000
As at 30 June 2016				
At cost	1	12	49	62
Accumulated depreciation	-	(2)	(6)	(8)
Total	1	10	43	54
As at 30 June 2017				
At cost	1	12	49	62
Accumulated depreciation	-	(4)	(12)	(16)
Total	1	8	37	46

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

	Furniture, fixture and fittings US\$'000	Equipment US\$'000	Vehicles US\$'000	Total property, plant & equipment US\$'000
Opening balance at 1 July 2015	1	3	53	57
Additions	-	9	-	9
Depreciation	-	(2)	(6)	(8)
Foreign Exchange	-	-	(4)	(4)
Closing balance at 30 June 2016	1	10	43	54
Additions	-	-	-	-
Depreciation	-	(2)	(6)	(8)
Foreign Exchange	-	-	-	-
Closing balance at 30 June 2017	1	8	37	46

**NOTES TO THE FINANCIAL INFORMATION**
**Note 8 – Deferred Exploration and Evaluation Assets**

	30-Jun 2017 US\$'000	30-Jun 2016 US\$'000
At the beginning of the year	23,548	28,575
Exploration expenditure during the year	168	3,904
Exploration tenements acquired through acquisition	-	-
Exploration tenements impaired through revaluation	(21,175)	(8,318)
Net margin on precommissioning sales	(481)	(613)
Fair value at the end of the year	<u>2,060</u>	<u>23,548</u>

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 in the exploration and evaluation phase. During the year testing results from PEI have been generated, and the excess of sale of oil over the costs of producing the oil have not been reflected in the Statement of Comprehensive Income of the Group. Instead, sales has been offset against the costs of exploration and evaluation expenditure of the field as reported in the Statement of Financial Position.

The Company's interest continues to be classified as exploration and evaluation assets as the technical feasibility and commercial viability of the full field development of the tenements has not yet been established. At 30 June 2017, no reserves had been recognised.

The Directors noted that there are risks involved in the potential breach of the Co-Investment Agreement on the part of the Company attributable to its failure to meet the minimal work program by December 2016. While efforts were made to communicate with Kyrgyzneftegaz OJSC (KNG) on the waiver of breaches and to propose changes to a new 3-years work program (Jan 2017 – Dec 2019), the Company has obtained a legal opinion from a reputable Kyrgyzstan legal counsel, concerning the Company's right under the Co-Investment Agreement.

It was opined that as at 30 June 2017, the Company legally retained its rights to develop all wells that has been drilled by the Company prior to the time of the declaration of breaches by KNG. To-date, the Company has drilled 12 wells and has been continuously producing test production. The product sharing arrangement has been ongoing as agreed to between the Company and KNG under the Co-Investment Agreement.

The above events have been deemed to be a trigger under AASB6, and as such, a full impairment analysis has been performed under AASB136.

The Company has performed an internal analysis on the recoverable value of the Deferred Exploration and Evaluation Assets as at 30 June 2017 based on a cashflow model which only includes future cashflows for the wells drilled. Impairment of US\$21,175 thousand including estimated cost of disposal was recognized.

The determination of fair value less costs of disposal (FVLCD) for the exploration and evaluation assets is considered to be Level 3 fair value measurement, as they are derived from valuation techniques that include inputs that are not based on observable market data. The Group considers the inputs and the valuation approach to be consistent with the approach taken by market participants.

The recoverable amount determined by the FVLCD method is based on the net present value of the future estimated cash flows.

**NOTES TO THE FINANCIAL INFORMATION**
**Note 8 – Deferred Exploration and Evaluation Assets (continued)**

Costs to sell are not expected to be material.

The main assumptions used in determining the FVLCD are described below:

Oil Price – Estimated oil price per barrel in USD is evaluated annually based on publicly available market data. Long term world inflation rate has been taken as growth rate on future oil price.

Discount rate – A market-derived discount rate is applied to establish the present value of income stream associated with the asset, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates.

Description of valuation techniques used and key inputs to valuation of exploration and evaluation assets:

	Valuation technique	Significant unobservable inputs	Value
Deferred exploration assets of Kyrgyz investment	FVLCD		US\$45 - US\$63 through 2020
		Estimated Oil price per barrel	LT Growth steady at 3.16% (inflation) per annum after 2019
		Discount rate	15.02%

As the deferred exploration and evaluation asset above has been impaired to its recoverable amount, any change in key assumptions on which the valuation is based would further impact the asset carrying value. It is estimated that changes in the following key assumptions would result in additional impairment in 2017 on the evaluation and exploration asset:

Discount increase	rate	Further impairment US\$'000	Oil price decrease	Further impairment US\$'000
2.00%		214	5.00%	348

As identified above, the impact of changes in key assumptions such as commodity price and discount rates are significant on the determination of recoverable amount. Due to the number of factors and actions taken that could impact any of these assumptions, actual future determinations of recoverable amount may vary from those stated above.

**Note 9 – Current Payables**

	Note	30-Jun 2017 US\$'000	30-Jun 2016 US\$'000
Exploration payables	13	6,626	7,031
Exploration other payables		539	39
Related party loan payable	13	165	150
Other payables		1,486	618
Total current payables		8,816	7,838



**NOTES TO THE FINANCIAL INFORMATION**
**Note 10 – Income Tax Benefit**

	30-Jun 2017 US\$'000	30-Jun 2016 US\$'000
Income tax	1,135	832
	<u>1,135</u>	<u>832</u>
	30-Jun 2017 US\$'000	30-Jun 2016 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 10%		
- economic entity	(2,100)	(1,063)
Add / (less) tax effect of:		
- non-deductible expenses	2,085	832
- tax losses not recognized	15	231
Income tax attributable to entity	<u>-</u>	<u>-</u>

**Note 11 – 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)
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 2017	<u>204,660,130</u>	<u>26,563</u>

**NOTES TO THE FINANCIAL INFORMATION**
**Note 12 – Reserves**

	Note	30-Jun 2017 US\$'000	30-Jun 2016 US\$'000
Share Based Payment			
Opening balance		-	776
Transfer to capital reserve		-	(776)
Closing balance		-	-
FCTR Reserve			
Opening balance		91	91
Foreign exchange movements on translation of foreign entities		-	-
Closing balance		91	91
Capital Reserve			
Opening balance		776	-
Transfer from Share Based Payment Reserve		-	776
Closing balance		776	776

**Note 13 – 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 17 % 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 Zhongpu Luhai Energy Technology Co., Ltd	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%

**NOTES TO THE FINANCIAL INFORMATION****Note 13 – Related Party Disclosures (continued)**

The following disclosure provides the total amount of transactions that have been entered into with related parties during the year ended 30 June 2017 and 2016, as well as balances with related parties as at 30 June 2017 and 30 June 2016:

		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") and its controlled entity Orion Energy Technology Development Co., Ltd.	2017	(73)	6,626
	2016	3,810	7,031

US\$154,000 was paid for oil extraction service, US\$227,000 was reduced from account payable for well drilling during the period.

There was no new exploration agreements formed with related parties during the year.

The Full balance of Technical service agreement on exportation and production research is US\$1.33 million as at 30 June 2017.

Other outstanding balances in existence at year-end related to a well drilling contract for the Marleysu-East Yizbaskent oil project and Oil Extraction System Installation before the acquisition. Which US\$5.30 million was recognized as current payable as at 30 June 2017.

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 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 is expected to mature on 25 February 2018 and will be immediately callable if Dr. Yang ceases to be a director of the Company.

In December 2016, Dr. Yang, the CEO of the Company has provided a US\$14,397 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 is expected to mature on 31 December 2018 and will be immediately callable if Dr. Yang ceases to be a director of the Company.

**Note 14 – Capital and Leasing Commitments****(a) Finance Lease Commitments**

The Group and the Company have no finance lease commitments as at 30 June 2017 (2016: Nil).

**NOTES TO THE FINANCIAL INFORMATION****Note 14 – Capital and Leasing Commitments (continued)****(b) Capital Expenditure Commitments (US\$'000)**

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

	2017	2016
Payable:		
Not later than 12 months	200	206
Between 12 months to 5 years	8,979	8,761
	<u>9,179</u>	<u>8,967</u>

**Note 15 – 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:

<b>Financial Assets (US\$'000)</b>	2017	2016
Cash and cash equivalents	246	269
Trade and other receivables	231	192
Total Financial Assets	<u>477</u>	<u>461</u>
<b>Financial Liabilities (US\$'000)</b>	2017	2016
Trade and other payables	8,816	7,838
Total Financial Liabilities	<u>8,816</u>	<u>7,838</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.

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.

**NOTES TO THE FINANCIAL INFORMATION****Note 15 – Financial Risk Management (continued)****Specific Financial Risk Exposures and Management (continued)**

The credit quality of financial assets, other than the disposal proceed receivable (Note 5), are neither past due nor impaired as the Company 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)*

	<b>2017</b>	<b>2016</b>
<b>Financial liabilities due for payment (US\$'000)</b>		
Trade and other payables	8,816	7,838
Total contractual outflows	<u>8,816</u>	<u>7,838</u>
	<b>2017</b>	<b>2016</b>
<b>Financial assets – cash flows realisable (US\$'000)</b>		
Cash and cash equivalents	246	269
Other receivable	231	192
Net inflow/(outflow) on financial instruments	<u>(8,339)</u>	<u>(7,377)</u>

**(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.



**NOTES TO THE FINANCIAL INFORMATION**
**Note 15 – Financial Risk Management (continued)**
**Specific Financial Risk Exposures and Management (continued)**
*Sensitivity Analysis (continued)*

	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 2016				
Cash and cash equivalents	3	-	(3)	-
Year ended 30 June 2017				
Cash and cash equivalents	2	-	(2)	-

*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 2017 (US\$'000)	AUD	HKD	KGS
Cash and cash equivalents	5	-	228
Receivables	-	-	-
Payables	-	-	-
Gross statement of financial position exposure	5	-	228

As at 30 June 2016 (US\$'000)	AUD	HKD	KGS
Cash and cash equivalents	20	-	55
Receivables	-	-	-
Payables	-	-	-
Gross statement of financial position exposure	20	-	55

A 10% weakening of the US dollar against the following currencies at 30 June 2017 would have decreased profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

**NOTES TO THE FINANCIAL INFORMATION****Note 15 – Financial Risk Management (continued)****Specific Financial Risk Exposures and Management (continued)***Sensitivity Analysis (continued)*

Consolidated 2017		
Effect in US\$'000	Equity	Profit
AUD	-	(1)
HKD	-	-
KGS	-	(23)
Consolidated 2016		
Effect in US\$'000	Equity	Profit
AUD	-	(2)
HKD	-	-
KGS	-	(5)

A 10% strengthening of the US dollar against the above currencies at 30 June 2017 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 were applied during the financial year:

	Average exchange rate	Spot rate as at the end of the year
AUD		0.7686
HKD	0.1291	0.1291
KGS		0.0145

*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.

**Note 16 – Key Management Personnel Disclosures**

<i>Compensation of Key Management Personnel</i>	2017 US\$'000	2016 US\$'000
Short-term employee benefits (Salary/fee)	470	423
	<u>470</u>	<u>423</u>

**NOTES TO THE FINANCIAL INFORMATION****Note 17 – 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>2017</b>	<b>2016</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Assets		
Current Assets	8	30
Non-current assets	-	15,171
Total Assets	8	15,201
Liabilities		
Current liabilities	1,483	618
Loan from related party	150	150
Total liabilities	1,633	768
Equity		
Issued capital	26,563	26,563
Capital reserve	776	776
Accumulated losses	(28,964)	(12,906)
Total Equity	(1,625)	14,433

**Statement of Comprehensive Income**

Total loss for the period	(16,058)	(11,185)
Total comprehensive income	(16,058)	(11,185)

**NOTES TO THE FINANCIAL INFORMATION****Note 18 – Reconciliation of Cash Flow to the Operating Loss**

	<b>30-Jun 2017 US\$'000</b>	<b>30-Jun 2016 US\$'000</b>
Operating loss	(22,458)	(11,457)
Depreciation	8	3
Impairment of deferred exploration assets	21,175	8,318
Impairment of other receivables	-	1,930
Foreign exchange variances	5	7
Increase in receivables and other assets	(39)	(157)
Increase in creditors	838	263
	<u>(471)</u>	<u>(1,093)</u>

**Note 19 – Administration costs**

	<b>2017 US\$'000</b>	<b>2016 US\$'000</b>
Director remuneration	470	423
Professional fee	554	609
Kyrgyzstan local administrative expenses	154	90
Office related expenses	30	32
Sundry expenses	56	40
Total	<u>1,264</u>	<u>1,194</u>

**Note 20 – Dividends**

No dividends were declared or paid during the year ended 30 June 2017 (2016: Nil)

**Note 21 – Subsequent Events**

A loan agreement between the company and Mr. Liang Tian was formed on 3 August 2017. The company borrowed US\$12,000 at an interest rate of 5% per annum and shall repay Mr. Liang Tian the loan principal and interest on 3 August 2018.

No other 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.



## **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 2017 and of its performance for the 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: 29 September 2017



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

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

As lead auditor for the audit of Sagalio Energy Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Australian professional accounting bodies in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Sagalio Energy Limited and the entities it controlled during the financial year.

Ernst & Young

Scott Jarrett  
Partner  
29 September 2017



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

## Independent Auditor's Report to the Members of Sagalio Energy Limited

### Report on the Audit of the Financial Report

#### Qualified Opinion

We have audited the financial report of Sagalio Energy Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the financial report presents fairly, in all material respects, the financial position of Sagalio Energy Limited as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### Basis for Qualified Opinion

The Group operates in the Kyrgyz Republic and often makes payment for goods or services in cash from petty cash or cash advances to employees included in other receivables. The expenditure relating to these cash payments is recorded when supporting evidence of payment is provided and approved. We were unable to determine whether all expenditure incurred had been appropriately accrued or whether all cash payments had been recorded at 30 June 2017. As a result, we were unable to obtain sufficient appropriate audit evidence related to the completeness of expenditure and trade payables as at 30 June 2017 and whether there were amounts included in employee related other receivables that should have been expensed. Consequently, we were unable to determine whether any adjustments to other receivables, trade payables and expenses were necessary.

We conducted our audit in accordance with International Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Material Uncertainty Related to Going Concern

We draw attention to Note 1a in the financial report, which describe the events or conditions indicating that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* section and *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

## 1. Carrying Value of Deferred Exploration Assets

Why significant	How our audit addressed the key audit matter
<p>Capitalised exploration and evaluation assets represent 80% of the Group's total assets and an impairment charge of \$21,175,000 was recognised during the year. The carrying value of the assets is impacted by the Group's ability and intention to continue to explore the tenements and its ability to realise the value of the asset through development or sale.</p> <p>Due to the significance of exploration and evaluation assets and the subjectivity involved in assessing the carrying value and impairment of these assets, this was a key audit matter.</p> <p>Refer to Note 15 – Exploration and evaluation assets to the financial statements for the amounts held on the Balance sheet by the Group as at 30 June 2017 and related disclosure.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>• Consideration of the Company's right to explore in the relevant exploration areas which included obtaining and assessing relevant documentation such as contracts and a legal opinion on the Company's rights;</li> <li>• Considered the Group's intention to continue to carry out exploration and evaluation activity in the relevant exploration area which included assessment of the Group's cash-flow forecast and the intentions and strategy of the Group;</li> <li>• We tested the mathematical accuracy of the cash flow models used in the impairment test;</li> <li>• We assessed the basis of the Group's cash flow forecasts including comparison to historical results;</li> <li>• We assessed the discount rates, oil prices and other key assumptions to internal and external data, with involvement from our Valuation specialists; and</li> <li>• We evaluated the adequacy of the related disclosures in the financial report including those made with respect to judgements and estimates.</li> </ul>

## Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.





### Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the International Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

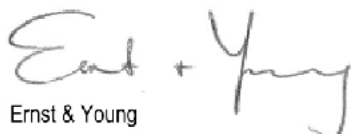
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.





From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Ernst & Young



Scott Jarrett  
Partner  
Sydney  
29 September 2017

## 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 20 September 2017.

### 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	24	331	0.00%
1,001 – 5,000	2	7,000	0.00%
5,001 – 10,000	25	197,234	0.10%
10,001 – 100,000	224	9,576,589	4.68%
100,001 – and over	50	194,878,976	95.22%
<b>Rounding</b>			<b>0.00%</b>
<b>Total</b>	<b>325</b>	<b>204,660,130</b>	<b>100%</b>

The number of shareholders held in less than marketable parcels is 228.

### SUBSTANTIAL SHAREHOLDERS

	Fully Paid Ordinary Shares	
	Number	Percentage
Jolly Medal Limited	60,100,000	29.37%
Ms Xiaojing Shao	20,000,000	9.77%
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%
Major Port Limited	10,000,000	4.89%
<b>Total</b>	<b>150,100,000</b>	<b>73.34%</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.

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

### TWENTY LARGEST SHAREHOLDERS – ORDINARY SHARES

The shareholder information set out below was applicable as at 20 September 2017.

Rank	Name	Fully Paid Ordinary Shares	
		Number	Percentage
1	Jolly Medal Limited	60,100,000	29.37%
2	Ms Xiaojing Shao	20,000,000	9.77%
3	Mr Guoli Deng	16,000,000	7.82%
4	Mr Kang Fu	16,000,000	7.82%
5	Century Elite Holdings Ltd	14,000,000	6.84%
6	Grand Step Global Limited	14,000,000	6.84%
7	Major Port Limited	10,000,000	4.89%
8	Frountere Limited	9,314,000	4.55%
9	River Fortune Ventures Ltd	7,893,000	3.86%
10	Yang Lei Lei	5,100,000	2.49%
11	BNP Paribas Nominee Pty Ltd	3,295,595	1.61%
12	Mrs Juli Ekman Nee Feiglin	2,814,982	1.38%
13	Ding Lei	2,100,000	1.03%
14	Ms Qiaorong Ma	1,848,286	0.90%
15	Ms Wei Zhang	1,649,145	0.81%
16	Omnioffices Pty Limited	1,115,000	0.54%
17	Pershing Australia Nominees Pty Ltd	860,384	0.42%
18	Sun Liyang	700,000	0.34%
19	Citicorp Nominees Pty Ltd	642,500	0.31%
20	Zhang Xiaonan	600,000	0.29%
<b>Total</b>		<b>188,032,892</b>	<b>91.88%</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.

## **ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

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### **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.