

7 October 2017

Mr Jeremy Newman
Senior Adviser, Listings Compliance (Perth)
Level 40, Central Park
152-158 St Georges Terrace
Perth WA 6000

By email: jeremy.newman@asx.com.au

Annual Report Query

Dear Mr Newman,

I refer to your letter dated 5 October 2017 relating to the 2017 Annual Report released by Sagalia Energy Ltd (**Sagalia** or the **Company**) for the financial year ended 30 June 2017 (the **Annual Report**).

The Company responds as follows, and adopting the same numbering as in your letter:

1. Is the Company able to confirm that, in the directors' opinion, the Annual Report:

- (a) complies with the relevant Accounting Standards; and**
- (b) gives a true and fair view of the financial performance and financial position of the Company?**

The directors are of the opinion that: (a) the Annual report complies with the relevant Accounting Standards; and (b) gives a true and fair view of the financial performance and finance position of the Company.

2. Please advise the steps the Company takes to ensure that payments for goods and services in cash made in the Kyrgyz Republic are consistent with the Company's business objectives. Do the directors of the Company consider that these steps are adequate to ensure that the Company does not expend cash in a manner inconsistent with its business objectives?

Payments for goods and services are only recorded and accepted by the management when the nature of such expense relates to the normal business operation of the Company. Payments for goods and services paid for and on behalf of the Company by employees are also subject to the same verification procedures with valid receipts before such payments are reimbursed to the said employee. The directors believe the steps and procedures currently in place is adequate and provide sufficient controls for the directors to ensure relevance of all expenses incurred by the Company.

3. Does the Company consider that the financial condition of the Company is sufficient to warrant the continued quotation of its securities and its continued listing on ASX in accordance with the requirements of Listing Rule 12.2? In answering this question, please also explain the basis of this conclusion.

The Company consider that the financial condition of the Company is sufficient to warrant the continued quotation of its securities and its continued listing on ASX in accordance with the requirement of Listing Rule 12.2. The qualified opinion issued by the Company's independent auditor relates to payments of goods and services, which in the opinion of the independent auditor, may or may not have been appropriately accrued or whether all cash payments have been recorded. Having considered the independent auditor's opinion, the Company has taken steps to

ensure that all future payments of goods and services will be appropriately recorded. Please refer to the response provided at question 5.

- 4. If the answer to question 3 is "No", please explain what steps the Company has taken, or proposed to take, to warrant its continued listing on ASX in accordance with the requirements of Listing Rule 12.2.**

Not applicable.

- 5. What steps does the Company intend to take to obtain an unqualified audit opinion in the future?**

The Company is in the process of putting in place a cash advance and petty cash management system whereby: (i) all petty cash and cash advances to employees are restricted to specific nature with varying level of approval depending on the value of such petty cash and cash advances; and (ii) all receipts relating to payment for goods and services and its reimbursement to the relevant employees are only accepted with an appropriate cut-off time of submission for management's approval in order to ensure that all such payments are appropriately accrued and all payments relating to the relevant financial year are recorded. The directors believe that with such system in place, the Company will be able to obtain an unqualified audit opinion in the future.

- 6. Please confirm that the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.**

The directors confirm that the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

- 7. Please confirm that the Company's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of the Entity with delegated authority from the board to respond to ASX on disclosure matter.**

The Company confirms that our response has been authorised and approved.

Yours sincerely



Louis Yang
Executive Director & CEO
Sagelio Energy Limited



5 October 2017

Mr Nicholas Ong
Company Secretary
Sagalio Energy Limited

By email:

Dear Mr Ong

SAGALIO ENERGY LIMITED (the “Company”)

ASX Limited (“ASX”) refers to the following.

1. The Company’s annual report for the year ended 30 June 2017, released to the market on 2 October 2017 (“Annual Report”).
2. The Independent Auditor’s Report on pages 46-49 of the Annual Report which includes the following Qualified Opinion (“Qualified Opinion”):

“Basis of 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 [being the independent auditor] 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.”

Relevant Listing Rules and Guidance

- Listing Rule 12.2 – *An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.*
- Listing Rule 19.11A (b) – *If a listing rule requires an entity to give ASX accounts, the accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.*

Questions for Response

In light of the Qualified Opinion, the information contained in the Annual Report, and the application of the Listing Rules stated above, please note the following and respond to the relevant questions.



1. Is the Company able to confirm that, in the directors' opinion, the Annual Report:
 - (a) complies with the relevant Accounting Standards; and
 - (b) gives a true and fair view of the financial performance and financial position of the Company?
2. Please advise the steps the Company takes to ensure that payments for goods or services in cash made in the Kyrgyz Republic are consistent with the Company's business objectives. Do the directors of the Company consider that these steps are adequate to ensure that the Company does not expend cash in a manner inconsistent with its business objectives?
3. Does the Company consider that the financial condition of the Company is sufficient to warrant the continued quotation of its securities and its continued listing on ASX in accordance with the requirements of Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.
4. If the answer to question 3 is "No", please explain what steps the Company has taken, or proposes to take, to warrant its continued listing on ASX in accordance with the requirements of Listing Rule 12.2.
5. What steps does the Company intend to take to obtain an unqualified audit opinion in the future?
6. Please confirm that the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.
7. Please confirm that the Company's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of the Entity with delegated authority from the board to respond to ASX on disclosure matters.

Please note that ASX intends under Listing Rule 18.7A to release this letter and the Company's response to the market. Accordingly, the Company's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by **no later than 3.00pm WST on Friday, 6 October 2017**. If the information is required immediately under Listing Rule 3.1, you should discuss with ASX whether it is appropriate to request a trading halt in the Company's securities under Listing Rule 17.1.

Any response should be sent to me by return email to jeremy.newman@asx.com.au and tradinghaltspert@asx.com.au. It should not be sent to the ASX Market Announcements Office.

If you have any questions in relation to the above, please do not hesitate to contact me if you have any enquiries on the above.

Yours sincerely,

[sent electronically without signature]

Jeremy Newman
Senior Adviser, Listings Compliance (Perth)