



**Sagalio Energy**  
**中普能源**

Listed on ASX (Stock Code : SAN)

30<sup>th</sup> September 2022

Company Announcements Platform  
Australian Stock Exchange  
Exchange Centre, 20 Bridge Street  
Sydney  
NSW 2000

## **Sagalio Energy Limited Annual Financial Report**

The Directors of Sagalio Energy Limited (ASX: SAN) are pleased to submit the annual financial report of the consolidated entity for the financial period from 1 July 2021 to 30 June 2022.

For and on behalf of Sagalio Energy Limited



Louis Yang  
Executive Director & CEO

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**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 2022

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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), health environment, 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  
Zheng Lu

### **Company Secretary**

Wayne Rossiter

### **Registered Office**

Clarendon House  
2 Church Street  
Hamilton HM 11, Bermuda

### **Head Office**

Level 13, 68 Yee Wo Street  
Causeway Bay  
Hong Kong  
Tel: +852 3796 3601

### **Share Registry**

Computershare Investor Services Pty Limited  
Level 3, 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  
11/F, The Center  
99 Queen's Road Central  
Hong Kong

### **Auditors**

ShineWing Australia  
Level 25, 108 St Georges Terrace  
Perth WA 6000  
Australia

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## DIRECTORS' REPORT

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**The Directors submit their report on the consolidated entity for the financial year ended 30 June 2022.**

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### DIRECTORS

The names and details of Directors in office of Sagalio Energy Limited ("the Company") and its controlled entities ("the Group") during the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

<b>Names</b>	<b>Position</b>	<b>Appointed</b>
Dr. Louis Yang Luwu	Chairman, Executive Director & CEO	9 July 2014
Mr. Zhang Baoliang	Executive Director	13 April 2017
Ms. Zheng Lu	Executive Director	23 January 2018

#### **Louis Yang Luwu – 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 15 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 appointed as the Chairperson of the Company on 13 April 2017 and was re-elected as a Director of the Company through an annual general meeting which took place on 30 December 2020. 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 15 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 a 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 and was re-elected through an annual general meeting which took place on 30 December 2019. Mr. Zhang's appointment is subject to retirement by rotation and re-election 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.

#### **Zheng Lu – Executive Director**

Ms. Zheng has over 10 years of experience in the field of finance management, focusing in the oil and gas industry. Ms. Zheng was previously employed as a finance manager at China United CBM Corporation, Ltd and was part of the finance team under RG Petro-Machinery Group Co., Ltd. Ms. Zheng graduated with a bachelor's degree from the China University of Petroleum specializing in Financial Management. Prior to

## DIRECTORS' REPORT

Ms. Zheng's appointment as executive director of the Company, Ms. Zheng has taken the position of Chief Financial Officer of PEI LLC, a wholly-owned subsidiary of the Company which holds the Kyrgyzstan projects.

Ms. Zheng'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 Ms. Zheng's appointment other than in accordance with the Bye-Laws of the Company. Mr. Zheng was appointed as Executive Director of the Company on 23 January 2018 and was re-elected through an annual general meeting which took place on 31 December 2021. There is currently no termination payment under the terms of Ms. Zheng's appointment.

Ms. Zheng 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 Accrued in 2022 <sup>(Note 1)</sup>	Annual Remuneration Accrued in 2021	Annual Remuneration Received in 2022 <sup>(Note 1)</sup>	Annual Remuneration Received in 2021
Dr. Louis Yang Luwu	US\$ 250,000	US\$ 250,000	US\$ -	US\$ -
Mr. Zhang Baoliang	US\$ 26,291	US\$ 29,097	US\$ 7,811	US\$ 10,617
Ms. Zheng Lu	US\$ 12,960	US\$ 21,269	US\$ -	US\$ 8,309

Notes:

1. The directors' remuneration should be read in conjunction with note 18 of the Financial Statements. Fees owed to Directors in 2022 have been accrued, but have not been fully paid as at period end due to cash restraints.

## 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 2022		As at 30 June 2021	
	Number of ordinary shares	Number of options over ordinary shares	Number of ordinary shares	Number of options over ordinary shares
Dr. Louis Yang Luwu	70,100,000*	–	70,100,000*	–
Mr. Zhang Baoliang	–	–	–	–
Ms. Zheng Lu	–	–	–	–

Notes\*: 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

### Wayne Rossiter - Company Secretary

Mr. Wayne Rossiter, a mining engineer and chartered accountant, has over twenty-five years' experience in the resources and energy sector and has strong experience in all aspects of public company operations, with specialised focus on compliance and fund raising, asset acquisitions and business growth. Mr. Rossiter

## **DIRECTORS' REPORT**

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previously Negotiated \$20 million debt facility from a key stakeholder in support of business turn-around funding during period of financial stress for WPG Resources.

Mr. Rossiter joined the Company in November 2020. There is currently no termination payment under the terms of Mr. Rossiter's appointment.

### **DIVIDEND**

No dividends were paid or declared for future payment during the financial year (2021: 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 Group currently has an interest in three oil exploration and development projects in the 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\$216 thousand for the period ended 30 June 2022.

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 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 with its minimal work program by December 2016.

The Company has communicated with Kyrgyzneftegaz OJSC (KNG) on the clarification of the potential breaches and was granted an unofficial go-ahead for the past three years, during which a 2D seismic survey was conducted and the Company has fulfilled the conditions under the second three-year work program. A new three-year working plan had been prepared by the end of year 2019, covering calendar year 2020 to 2022.

According to the legal opinion obtained from a reputable Kyrgyzstan legal counsel concerning the Company's right under the Co-Investment Agreement, it was opined that in the event that the potential breaches of the Company's obligation under the initial three-year work program were to be disputed, the Company would be able to retain its rights to develop all wells that have been drilled by the Company prior to the time of the declaration of breaches by KNG. To-date, there has been no dispute nor declaration of breaches under the Co-Investment Agreement. The Company has drilled 12 wells and that have been continuously producing. Product sharing arrangement has been ongoing as agreed to between the Company and KNG under the Co-Investment Agreement.

Net cash received from operations and net cash used for investing activities over the period amounted to US\$192 thousand and US\$56 thousand respectively. Cash and cash equivalent is US\$477 thousand as at 30 June 2022. Net current liabilities as at 30 June 2022 was US\$8.34 million (30 June 2021: US\$8.13 million).

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. Meanwhile, the Company has observed a significant increase in the global oil price as affected by the Russia-Ukraine conflict and the recovery of global demand. The Directors have taken steps to promote production. The Directors remain cautiously optimistic on the development of the Company.



## DIRECTORS' REPORT

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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 continues to adopt the going concern basis in preparing the financial statements.

### Review of Operations

Set out below is a review of significant activity for Sagalio Energy Limited for the year ended 30 June 2022.

#### KYRGYZ REPUBLIC PROJECTS

During the year, the Company focused on the production of oil from the existing development wells drilled. The oil extracted was sold to oil refineries in Kyrgyzstan under sale agreements. The Company has also performed perforation optimisation on existing wells in order to enhance production in light of the recovering oil price.

During the period under review, the Company has produced and transported an aggregate of 2,876 tonnes of oil to KNG, of which 60% is appropriated to the Company in accordance with the Co-Investment Agreement entered into between the Company and KNG.

The Company continues to face its own challenges. The Directors will continue to evaluate financing opportunities and determine the appropriate time and terms for any fund raising activity. The Directors will also 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

The 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 under the initial 3-years work program, the economic value of the projects may be significantly affected. The Company has made continuous efforts in remedying the situation, and has fulfilled the requirement under the second 3-years work program as agreed to between the Company and KNG for the development of the projects during 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 7 of the Notes to the Financial Statements.

#### 4. Risks relating to the COVID-19 pandemic outbreak

Staff safety and corporate responsibility continues to be a major focus of the Company. Under the current environment concerning the COVID-19 pandemic outbreak, the Company noted that there may be costs associated with the safeguarding of its staff. The Company also noted that an outbreak may affect the

## **DIRECTORS' REPORT**

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production schedule of its project. The Company will endeavor to provide sufficient protective supplies to its staff while minimising the impact of the outbreak on the Company's on-going development.

### **5. Capital Requirement for future development**

The Company acknowledges that it may not have sufficient capital that is required for the Company's projects, and it may be required to raise funds by way 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. Capital Requirement for working capital**

The Company acknowledges that it is currently operating in a challenging environment and that it may not have sufficient capital required for the Company's daily operations, and it may be required to raise funds by way 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).

### **7. Other Risks**

In addition to the risk factors identified above, the Board is aware that there may be additional risk factors associated with the business, including, but not limited to sovereign and title risks, corporate governance risk, legal and counter-party risks, staffing risks and others. The Company views risk management as an essential factor in its goal of maximizing shareholder value and continues to actively identify risks and implement risk management measures. The Board regularly reviews its risk profile and is responsible for implementing risk management strategy and policies, internal compliance and internal control.

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

Other than the activities described in this report, there were no other significant changes in the state of affairs of the Company for the year ended 30 June 2022.

## **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**

Redevelopment of abandoned oil wells is being pursued as the next phase of the project development. The Company will also explore other means of production enhancement in view of oil price recovery. New business partners are being considered with the aim of bringing in external engineering services and/or funding support in order to achieve additional production. The Company will also focus on the identifying of potential investment 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**

Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an auditor of the Company.

## **MEETINGS OF DIRECTORS**

The number of meetings of directors (including meetings of committees of directors) held during the financial

## DIRECTORS' REPORT

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year ended 30 June 2022 and the number of meetings attended by each director was as follows:

	Directors' Meetings	
	Number eligible to attend	Number attended
Dr. Louis Yang Luwu	1	1
Mr. Zhang Baoliang	1	1
Ms. Zheng Lu	1	1

The Directors confirm 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 is in the process of arranging insurance cover for 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.

### 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.

### AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the period ended 30 June 2022 has been received and can be found on page 45 of the Financial Statements.

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

On behalf of the Board



\_\_\_\_\_  
Louis Yang  
Executive Director & CEO  
Sagelio Energy Limited  
Dated this 30<sup>th</sup> day of September, 2022

## **CORPORATE GOVERNANCE STATEMENT**

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The Company is required to provide a statement disclosing the extent to which it will follow, the Corporate Governance Principles and Recommendations (4th 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 three 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 Company's constitution document.

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 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. The Board monitors the Company's progress under its diversity policy.

As at 30 June 2022, 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	5 out of 17 (29.4%)
Board	1 out of 3 (33.3%)
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 Chairperson 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 program 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 evaluations undertaken during the 2022 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 BE EFFECTIVE AND 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 three Executive Directors (Dr. Louis Yang, Mr. Zhang Baoliang and Ms. Zheng Lu). Dr. Louis Yang is a substantial shareholder of the Company and Mr. Zhang Baoliang and Ms. Zheng Lu act as Executive Directors. Dr. Louis Yang, Mr. Zhang Baoliang and Ms. Zheng Lu are not considered to be Independent Directors in terms of the ASX Corporate Governance Council's discussion of independent status. Despite this relationship, the Board believes that Dr. Louis Yang, Mr. Zhang Baoliang and Ms. Zheng Lu are able, and will make quality and independent judgements in the best interests of the Company on all relevant issues before the Board. 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.

## **CORPORATE GOVERNANCE STATEMENT**

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### **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 – INSTIL A CULTURE OF ACTING LAWFULLY, ETHICALLY AND RESPONSIBLY**

### **Corporate Value – Recommendation 3.1**

The Company is committed to ensure sustainable of supply and efficient distribution of petroleum products and services. As a player in a developing country, the Company is strategically positioned to assist in the enhancement of Kyrgyzstan through the development of its state-owned oil fields.

While Kyrgyzstan lacks the technical-know-how to effectively utilise its assets, the Company aims to create a bridge in the promotion of product to the market and to ensure continuous national fuel supplies.

The Company's core value encapsulate the continuous improvement in our organization, delivering the best results through effective team work and integrity. We encourage open communication and mutual respect within the organization. The Company strive to achieve commercial excellence while maintaining a high standard of social responsibility.

### **Code of Conduct – Recommendation 3.2**

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.

### **Whistleblower Protection – Recommendation 3.3**

The Board has adopted a formal Whistleblower Policy to promote integrity, ethics and encourages reporting of suspicious activities. Suspected activities are investigated and material incidents are reported to the Board. The Whistleblower Policy is available on the Company's website.

### **Anti-bribery and Anti-corruption – Recommendation 3.4**

The Company does not tolerate any form of bribery or corruption activities. An Anti-bribery and Anti-corruption Policy details the measures the Company takes in ensuring its compliance. The Board is informed of any material breaches. The Anti-bribery and Anti-corruption Policy is available on the Company's website.

## **PRINCIPLE 4 – SAFEGUARD THE INTEGRITY OF CORPORATE REPORTS**

### **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.

## **CORPORATE GOVERNANCE STATEMENT**

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### **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 fairly present the Company's financial condition and operational results. This statement is required annually.

### **Periodic Corporate Reports – Recommendation 4.3**

In circumstances where periodic corporate reports which are not required to be audited, the Company adopts an internal review process and obtain external advice where necessarily to ensure that such reports are materially accurate and in compliance with the relevant regulations or industry practices. Statements and contents of the reports are reviewed and approved by the Board prior to their release to the market.

## **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.

### **Notification to the Board of Market Announcements - Recommendation 5.2**

All market announcements are reviewed by the CEO and are circulated to the Board for approval prior to their release.

### **Presentation Material to New and Substantive Investors - Recommendation 5.3**

All presentations containing non-public information given to any potential investors are reviewed and approved by the Board, and is released to the market prior to their distribution to any potential investors.

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

### **Corporate Information and Governance – Recommendation 6.1**

Material information concerning the Company and its governance can be found on the Company's website and market announcement on the website of ASX. All governance policies are also contained on the Company's website.

### **Communications Policy – Recommendation 6.2**

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 6.3, 6.4 and 6.5**

The Board is responsible for the communication strategy to promote effective communications with investors and to encourage effective participation at general meetings, and ensures that all substantive resolutions passed during the Company's shareholding meetings are decided by poll. The Company adheres to best

## **CORPORATE GOVERNANCE STATEMENT**

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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 Directors' 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.

### **PRINCIPLE 9 – ADDITIONAL RECOMMENDATIONS THAT APPLY ONLY IN CERTAIN CASES**

#### **Language Proficiency of Directors – Recommendations 9.1**

All Directors are all English literate. While not all Directors are fluent English speaker, translators who are fluent in both languages will participate in all shareholders' meetings to facilitate the effective communication, and translate all material corporate documents where necessary to ensure the Board can effectively discharge its obligation in relation to those documents.

#### **Shareholders' Meeting and Participation of External Auditors – Recommendations 9.2 and 9.3**

The time and location of all shareholders' meeting are released on the website of ASX, and a copy of such notices are mailed to shareholders prior to the meeting in accordance with the constitution of the Company, providing sufficient time for shareholders to make arrangement for their attendance. The Company has in



## **CORPORATE GOVERNANCE STATEMENT**

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place communication channels to facilitate travel arrangement of shareholders who wishes to participate the meeting.

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 2001. As the Company is established outside Australia, it is not subject to the provisions of the Corporations Act 2001 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.

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## ANNUAL FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

	Note	30-Jun-22 US\$'000	30-Jun-21 US\$'000
Sales	10	637	
Cost of sales	10	(383)	-
Gross profit		<u>254</u>	<u>-</u>
General and administrative expenses	11	(455)	(453)
Exchange gain/(loss)		-	(14)
Depreciation	6	(10)	(8)
Finance costs		(5)	(5)
Total operating expenses		<u>(470)</u>	<u>(480)</u>
Loss before income tax from continuing operations		(216)	(480)
Income tax expense	12	-	-
Loss from continuing operations		<u>(216)</u>	<u>(480)</u>
Items that may be reclassified subsequently to profit or loss		-	-
Total comprehensive loss		<u>(216)</u>	<u>(480)</u>
Total comprehensive loss attributable to: Members of the parent entity		<u>(216)</u>	<u>(480)</u>
Loss per share from continuing operations Basic and diluted loss per share (US cents per share)	3	(0.11)	(0.23)

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

## ANNUAL FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Note	30-Jun-22 US\$'000	30-Jun-21 US\$'000
<b>Current assets</b>			
Cash and cash equivalents	4	477	352
Other receivable	5	9	37
<b>Total current assets</b>		<u>486</u>	<u>389</u>
<b>Non-current assets</b>			
Property, plant and equipment	6	4	14
<b>Total non-current assets</b>		<u>4</u>	<u>14</u>
<b>Total assets</b>		<u>490</u>	<u>403</u>
<b>Current liabilities</b>			
Trade and other payables	8	8,820	8,509
Lease liabilities	9	3	8
<b>Total current liabilities</b>		<u>8,823</u>	<u>8,517</u>
<b>Non-Current liabilities</b>			
Lease liabilities	9	-	3
<b>Total non-current liabilities</b>		<u>-</u>	<u>3</u>
<b>Total liabilities</b>		<u>8,823</u>	<u>8,520</u>
<b>Net liabilities</b>		<u>(8,333)</u>	<u>(8,117)</u>
<b>Equity</b>			
Contributed equity	13	26,563	26,563
Reserves	14	867	867
Accumulated losses		(35,763)	(35,547)
<b>Total deficit</b>		<u>(8,333)</u>	<u>(8,117)</u>

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

## ANNUAL FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

	Note	30-Jun-22 US\$'000	30-Jun-21 US\$'000
<b>CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>			
Receipts from customers		639	-
Payments to suppliers and employees		(447)	(100)
Interest expense paid		-	(1)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	20	<u>192</u>	<u>(101)</u>
<b>CASHFLOWS RELATED TO INVESTING ACTIVITIES</b>			
Payments for exploration and evaluation activities	15	(56)	(10)
Precommissioning sales		-	173
<b>NET CASH INFLOW FROM/OUTFLOW USED IN INVESTING ACTIVITIES</b>		<u>(56)</u>	<u>163</u>
<b>CASH FLOWS RELATED TO FINANCING ACTIVITIES</b>			
Repayment of external loans		-	(39)
Repayment of related party loans		-	(15)
Repayment of lease liabilities		(9)	(5)
<b>NET CASH OUTFLOW USED IN FINANCING ACTIVITIES</b>		<u>(9)</u>	<u>(59)</u>
<b>NET INCREASE IN CASH HELD</b>		127	3
Foreign Currency Translation		(2)	(1)
Cash and cash equivalents at beginning of period		352	350
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<u>477</u>	<u>352</u>

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

## ANNUAL FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

	Issued Capital US\$'000	Accumulated losses US\$'000	Foreign currency translation reserve US\$'000	Capital Reserve US\$'000	Total US\$'000
<b>Balance at 30 June 2020</b>	<b>26,563</b>	<b>(35,067)</b>	<b>91</b>	<b>776</b>	<b>(7,637)</b>
Loss for the period	-	(480)	-	-	(480)
Other comprehensive Income	-	-	-	-	-
Total Comprehensive loss for the period	-	(480)	-	-	(480)
<b>Balance at 30 June 2021</b>	<b>26,563</b>	<b>(35,547)</b>	<b>91</b>	<b>776</b>	<b>(8,117)</b>
Loss for the period	-	(216)	-	-	(216)
Other comprehensive Income	-	-	-	-	-
Total Comprehensive loss for the period	-	(216)	-	-	(216)
<b>Balance at 30 June 2022</b>	<b>26,563</b>	<b>(35,763)</b>	<b>91</b>	<b>776</b>	<b>(8,333)</b>

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

### NOTES TO THE FINANCIAL INFORMATION

#### General Information

Sagalio Energy 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 2022 were authorised for issue in accordance with a resolution of the Directors on 30 September 2022. The Company was listed on the Australian Securities 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 2021 to 30 June 2022.

#### 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).

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.

##### 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, and all values are rounded to the nearest thousand (US\$'000), except where otherwise indicated.

###### *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.

### NOTES TO THE FINANCIAL INFORMATION

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

##### (a) Basis of Preparation (continued)

###### Foreign Currency Translation (continued)

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.

###### Going Concern

These consolidated financial statements have 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 2022 of US\$216 thousand (2021: loss US\$480 thousand) and experienced net cash inflows from operating activities of US\$192 thousand (2021: net cash outflows of US\$101 thousand). As at 30 June 2022 the Group has US\$477 thousand cash and cash equivalents (2021: US\$352 thousand) and negative working capital of US\$8,337 thousand (2021: negative US\$8,128 thousand).

The Directors believe that the Group will continue as a going concern and will either secure external loans or continue to receive financial support from the major shareholder and related party creditors. The oil price has been increasing significantly which has improved the Group's operating and investing cash flow results as a whole for this reporting period. The balance of cash has also increased slightly at the end of the period. Despite the COVID-19 pandemic situation in Kyrgyzstan, the Group has managed to maintain a steady operation during the challenging period, and has commenced communication with service providers, and aims to promote oil production in light of the recovering economic environment. Meanwhile, the Group will continuously adopt a conservative expenditure approach in order to minimize cash outflows whilst continuing to meet its business objectives. As a result, the financial statements have been prepared on a going concern basis.

However, the conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and to be able to pay its debts as and when they fall due, and therefore the Group may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the consolidated financial statements.

##### (b) New Accounting Standards and Interpretations

###### Standards and Interpretations issued but not yet effective

AASB 2020-3 Annual Improvements 2018-2020 (applicable to annual reporting periods beginning on or after 1 January 2022).

AASB 2020-3 amends AASB 116 *Property, Plant and Equipment* to require an entity to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related cost in profit or loss, instead of deducting the amounts received from the cost of the asset. The Group currently recognises sales proceeds from its oil wells against exploration and evaluation assets, this will be changed to recognise these pre commissioning sales and an appropriate cost of goods sold from the date of implementation of this amendment.

###### Other Amending Accounting Standards and Interpretations

The other relevant accounting amendments and interpretations effective for the current reporting period are:

### NOTES TO THE FINANCIAL INFORMATION

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

##### (b) New Accounting Standards and Interpretations (continued)

###### Other Amending Accounting Standards and Interpretations (continued)

AASB 2020-8 Amendments to Australia Accounting Standards – Interest Rate Benchmark Reform – Phase 2.

The adoption of the amendments and interpretations have not resulted in any changes to the Group's accounting policies and has not effect on the amounts reported for the current or prior periods.

##### (c) Basis of Consolidation

The Group financial statements consolidate those of the Company and all of its subsidiaries as of 30 June 2022. The Company controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

##### (d) 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 9 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.



### NOTES TO THE FINANCIAL INFORMATION

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

##### (d) Business Combinations(continued)

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.

##### (e) 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.

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.

### NOTES TO THE FINANCIAL INFORMATION

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

##### (e) Taxes (continued)

###### (i) Income taxes (continued)

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.

##### (f) Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

### NOTES TO THE FINANCIAL INFORMATION

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

##### (f) Leases (continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The Group has elected to account for short term leases and leases of low value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment.

##### (g) 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.

##### (h) Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at their transaction price (unless there is a significant financing component) less lifetime expected credit losses and subsequently measured at amortised cost using the effective interest method.

Trade receivables are written off if there is objective evidence regarding bankruptcy or insolvency of the debtor and no guarantees are otherwise available from any third party on behalf of the debtor. This is the approach even if enforcement activities have already been initiated.

Refer to Note 1(l) for further discussion on the determination of impairment losses on financial assets.

##### (i) 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.

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

The useful life used for each class of depreciable assets are:

<u>Class of Fixed Asset</u>	
Furniture, Fixtures and Fittings	10
Equipment	5
Vehicles	5
Right-of-use assets	2

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.

**(j) 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(m).

**(k) 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.

### NOTES TO THE FINANCIAL INFORMATION

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

##### (l) Financial Instruments

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

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

##### *Financial liabilities*

Financial instruments are subsequently measured at:

- amortised cost; or
- fair value through profit or loss.

A financial liability is measured at fair value through profit and loss if the financial liability is:

- contingent consideration of an acquirer in a business combination to which AASB 3: *Business Combinations* applies;
- held for trading; or
- initially designated as at fair value through profit or loss.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

##### *Financial assets*

Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

##### Financial assets measured at amortised cost

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

##### *Impairment of financial assets*

Impairment of financial assets is recognised in the form of a loss allowance for expected credit losses. The loss allowance is measured as a lifetime expected credit loss if, at the reporting date, the credit risk on that financial instrument has increased significantly since initial recognition. The loss allowance is measured at an amount equal to the 12-month expected credit losses if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition.

The Group determines whether there has been a significant increase in credit risk since initial recognition by comparing the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition using reasonable and supportable information, unless the financial instrument is determined to have low credit risk at the reporting date.

### NOTES TO THE FINANCIAL INFORMATION

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

##### (l) Financial Instruments (continued)

Changes in expected credit losses from the previous reporting period are recognised in profit or loss as an impairment gain or loss.

Expected credit losses are measured with reference to the maximum contractual period and reflect:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

##### (m) 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.

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.

##### (n) 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

### NOTES TO THE FINANCIAL INFORMATION

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

##### (n) Employee Benefits (continued)

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.

##### (o) Trade and Other Payables

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.

##### (p) Revenue and Other Income

###### *Revenue from contracts with customers*

Revenue from contracts with customers is recognised based on the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled to.

Revenue is recognised in accordance with the following five-step process:

1. Identifying the contract with the customer.
2. Identifying the performance obligations in the contract.
3. Determining the transaction price.
4. Allocating the transaction price to the performance obligations in the contract.
5. Recognising revenue as and when the performance obligations are satisfied.

The Group often enters into transactions involving a range of the Group's products and services. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

###### *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 VAT or GST.

##### (q) 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)

##### (r) 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/reversal of impairment exists. Where an indicator of impairment/reversal 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.

##### (s) 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.

##### (t) Operating Segments

The Group has performed an analysis of our operating segments and based on operations have concluded we have only one segment to report. As management reporting is performed on a single segment basis and all activities are happening in Kyrgyz Republic. Hence, the financial results of this segment are equivalent to those of the consolidated financial statements.

The Group has performed an analysis of our operating segments and based on operations have concluded we have only one segment to report. As management reporting is performed on a single



### NOTES TO THE FINANCIAL INFORMATION

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

##### (t) Operating Segments (continued)

segment basis and all activities are happening in Kyrgyz Republic. Hence, the financial results of this segment are equivalent to those of the consolidated financial statements.

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

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

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

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

##### (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 1(j) 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.

##### (u) 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.

##### (v) 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.

## ANNUAL FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL INFORMATION

#### Note 2 – Auditors' Remuneration

	2022 US\$	2021 US\$
Remuneration of the auditor of the Group for:		
- auditing and reviewing the financial statements	36,570	40,769
- non-audit services	-	-
Total	<u>36,570</u>	<u>40,769</u>

#### Note 3 – Loss Per Share

	2022 US\$'000	2021 US\$'000
Reconciliation of earnings to profit or loss		
Loss for the period	(216)	(480)
Loss attributable to the owners of the Company	(216)	(480)
Basic and diluted loss per share (US cent per share)	<u>(0.11)</u>	<u>(0.23)</u>

The weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted loss per share: 204,660,130 (2021: 204,660,130).

#### Note 4 – Cash and Cash Equivalents

	30-Jun 2022 US\$'000	30-Jun 2021 US\$'000
Cash on hand	4	38
Cash at banks	473	314
Total	<u>477</u>	<u>352</u>

#### Note 5 – Other Receivable

	30-Jun 2022 US\$'000	30-Jun 2021 US\$'000
Sales receivable	3	37
Other receivable	6	-
Total other receivable	<u>9</u>	<u>37</u>

## ANNUAL FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL INFORMATION

#### Note 6 – Property, Plant & Equipment

	Furniture, fixture and fittings	Equipment	Right-of-use assets	Total property, plant & equipment
	US\$'000	US\$'000	US\$'000	US\$'000
As at 30 June 2021				
At cost	3	15	16	34
Accumulated depreciation	(2)	(13)	(5)	(20)
<b>Total</b>	<b>1</b>	<b>2</b>	<b>11</b>	<b>14</b>
As at 30 June 2022				
At cost	3	15	16	34
Accumulated depreciation	(3)	(14)	(13)	(30)
<b>Total</b>	<b>-</b>	<b>1</b>	<b>3</b>	<b>4</b>

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	Equipment	Right-of-use assets	Total property, plant & equipment
	US\$'000	US\$'000	US\$'000	US\$'000
Closing balance at 30 June 2020	2	4	-	6
Additions	-	-	16	16
Disposals	-	-	-	-
Depreciation	(1)	(2)	(5)	(8)
Foreign Exchange	-	-	-	-
Closing balance at 30 June 2021	1	2	11	14
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation	(1)	(1)	(8)	(10)
Foreign Exchange	-	-	-	-
Closing balance at 30 June 2022	-	1	3	4

#### Note 7 – Deferred Exploration and Evaluation Assets

	30-Jun 2022 US\$'000	30-Jun 2021 US\$'000
Carrying value at the end of the year	-	-

### NOTES TO THE FINANCIAL INFORMATION

#### Note 7 – Deferred Exploration and Evaluation Assets (continued)

The Company's economic interest through its subsidiary, PEI LLC, includes Marleysu-East Yizbaskent, Yibaskent Arash and Susamur tenements for exploration of oil under a Co-investment agreement with Kyrgyzneftgaz OJSC (KNG), a state-owned enterprise in Kyrgyz.

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. In prior years, 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 have been offset against the exploration and evaluation expenditure of the field as reported in the Statement of Financial Position. The carrying amount of exploration and evaluation expenditure has been fully offset as at 30 June 2021. US\$637,000 sales and US\$358,000 cost of goods sold have been recognized in the Statement of Comprehensive Income for the reporting period.

The Group'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 2022, 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 Group attributable to its failure to meet the initial three-year minimal work program by December 2016. Efforts were made to communicate with KNG on the waiver of breaches and the Company has completed its second three-year work program (Jan 2017- Dec 2019) as agreed to between the Company and KNG. In addition, the Group has obtained a legal opinion from a reputable Kyrgyzstan legal counsel, concerning the Company's right under the Co-Investment Agreement.

In order to fulfill the obligation under the second three-year work program, a 2D seismic survey has been conducted in the calendar year 2019. A new three-year working plan had been prepared by the end of year 2019, covering calendar year 2020 to 2022. With the outbreak of COVID-19, the Company discussed with KNG and agreed that the Company is to maintain steady operation and to increase oil production during this challenging period.

It was opined that as at 30 June 2022, the Group legally retained its rights to develop all wells that have been drilled by the Company prior to the time of the declaration of breaches by KNG. To-date, the Group has drilled 12 wells and has been continuously producing test production. The product sharing arrangement has been ongoing as agreed between the Company and KNG under the Co-Investment Agreement.

The Group has performed an analysis on the recoverable amount of the Deferred Exploration and Evaluation Assets as at 30 June 2022. The recoverable amount was determined by the fair value less costs of disposal (FVLCD) method based on the net present value of the future estimated cash flows. Only future cashflows for the wells drilled were included in the cash flow model. The model considered all significant factors including the legal concerns discussed above and concluded a negative net present value.

The accumulated impairment loss as at as at 30 June 2022 is US\$21,807 thousand for the Deferred Exploration and Evaluation Assets. Management may consider reversals of the impairment loss previously recognised if the cash flow model concludes a positive net present value in the future.

The determination of 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.

Costs of disposal are not expected to be material.

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

## ANNUAL FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL INFORMATION

#### Note 7 – Deferred Exploration and Evaluation Assets (continued)

Oil Price – Estimated oil price per barrel in USD is evaluated annually based on external sources.

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	Estimated Oil price per barrel	US\$75 - US\$56 through 2026, an estimate of US\$57 for the period after 2026
		Discount rate	15.81%

#### Note 8 – Trade and Other Payables

	Note	30-Jun 2022 US\$'000	30-Jun 2021 US\$'000
Exploration payables	15	5,900	5,859
Exploration other payables		636	660
Related party loan payable	15	35	35
Other payables		2,249	1,955
Total current payables		<u>8,820</u>	<u>8,509</u>

#### Note 9 – Lease Liabilities

Lease liabilities are presented in the statement of financial position as follows:

	30-Jun 2022 US\$'000	30-Jun 2021 US\$'000
Current	3	8
Non-current	-	3
Total	<u>3</u>	<u>11</u>

Reconciliation of lease liabilities

	30-Jun 2022 US\$'000	30-Jun 2021 US\$'000
<b>Balance at 1 July</b>	11	
Additions	-	16
Interest expenses	-	1
Lease payments	(8)	(6)
<b>Balance at 30 June</b>	<u>3</u>	<u>11</u>

## ANNUAL FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL INFORMATION

#### Note 9 – Lease Liabilities (continued)

The Group has leases for offices and operation sites. With the exception of short term leases and leases of low value underlying assets, each lease is reflected on the balance sheet as a right to use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group sales) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right of use assets in a consistent manner to its property, plant and equipment (see Note 6).

#### Note 10 – Sales and Cost of Sales

	2022 US\$'000	2021 US\$'000
Sale of oil	637	-
Total	<u>637</u>	<u>-</u>
Maintenance and repairs	225	-
Raw materials and consumables used	46	-
Site and tank truck rental	34	-
Employee benefit expenses	27	-
Other costs	51	-
Total	<u>383</u>	<u>-</u>

#### Note 11 – General and administration expenses

	2022 US\$'000	2021 US\$'000
Director remuneration	289	300
Professional fee	116	147
Kyrgyzstan local administrative expenses	48	5
Office related expenses	2	1
Total	<u>455</u>	<u>453</u>

#### Note 12 – Income Tax Expense

	30-Jun 2022 US\$'000	30-Jun 2021 US\$'000
Current tax expense	-	-
Deferred tax expense	-	-
	<u>-</u>	<u>-</u>

## ANNUAL FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL INFORMATION

#### Note 12 – Income Tax Expense (continued)

	30-Jun 2022 US\$'000	30-Jun 2021 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 tax rates for the Group		
- economic entity	(20)	(5)
Add / (less) tax effect of:		
- non-deductible expenses	-	-
- tax losses not recognised	20	5
Income tax attributable to Group	<u>-</u>	<u>-</u>

#### Note 13 – 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>		
Opening balance	204,660,130	26,563
Closing balance	<u>204,660,130</u>	<u>26,563</u>

#### Note 14 – Reserves

	30-Jun 2022 US\$'000	30-Jun 2021 US\$'000
Foreign Currency Translation Reserve		
Opening balance	91	91
Closing balance	<u>91</u>	<u>91</u>
Capital Reserve		
Opening balance	776	776
Closing balance	<u>776</u>	<u>776</u>
Total Reserves	<u>867</u>	<u>867</u>

## ANNUAL FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL INFORMATION

#### Note 15 – 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 22 % interest	30 Jun 21 % interest
Sagalio Energy Technologies Limited	Hong Kong	100%	100%
Wide Prestige Limited	BVI	100%	100%
Plenty Max Limited	BVI	100%	100%
Timely Ideal Limited	BVI	100%	100%
PEI LLC	Kyrgyzstan	100%	100%

The following disclosure provides the total amount of transactions that have been entered into with related parties during the year ended 30 June 2022 and 2021, as well as balances with related parties as at 30 June 2022 and 30 June 2021:

		Purchases from/(payment to) related parties US\$'000	Outstanding balance payable to related parties US\$'000
Entity related with key management personnel of the Group:			
Beijing Orion Energy Technology & Development Co. Ltd. (Orion Energy) and its controlled entity Orion Energy Technology Development Co., Ltd.	2022	(56) <sup>(1)</sup>	5,900 <sup>(2)</sup>
	2021	(10)	5,859

(1) US\$55,943 was paid for oil extraction services during the period. There was no new exploration agreements formed with related parties during the year.

(2) The full balance of technical service agreement on exportation and production research is US\$1.33 million as at 30 June 2022 (2021: US\$1.33 million).

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. US\$4.57 million was recognised as current payable as at 30 June 2022 (2021: US\$4.53 million).

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 major shareholder of the parent company, executive director and CEO of the Company provided a US\$150,000 unsecured loan to the Group as part of the directors' effort to support the working capital requirement of the Group. In 2020, interest of US\$43,831 was accrued. US\$158,740 was repaid in the prior periods. As at 30 June 2022, the total interest payable to Dr. Yang is \$35,091.

In December 2016, Dr. Yang provided a US\$14,130 non-interest-bearing unsecured loan to the Company as part of management's effort to support the working capital requirement of the Company. This loan was fully repaid during FY2021.

The total directors' fee owed is US\$1.98 million as at 30 June 2022 (2021: US\$1.70 million).



## ANNUAL FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL INFORMATION

#### Note 16 – Capital Commitments

##### Capital Expenditure Commitments

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

	2022 US\$'000	2021 US\$'000
Payable:		
Not later than 12 months	-	-
Between 12 months to 5 years	9,136	9,213
	<u>9,136</u>	<u>9,213</u>

#### Note 17 – 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 9 as detailed in the accounting policies to these financial statements, are as follows:

<b>Financial Assets (US\$'000)</b>	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	477	352
Trade and other receivables	9	37
Total Financial Assets	<u>486</u>	<u>389</u>
<b>Financial Liabilities (US\$'000)</b>	<b>2022</b>	<b>2021</b>
Trade and other payables	8,820	8,509
Lease liabilities	3	11
Total Financial Liabilities	<u>8,823</u>	<u>8,520</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.

## ANNUAL FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL INFORMATION

#### Note 17 – Financial Risk Management (continued)

##### Specific Financial Risk Exposures and Management (continued)

###### (a) Credit Risk (continued)

The credit quality of financial assets are neither past due nor impaired as it has assessed that to be highly probable to receive these balances.

###### (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;
- 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 financial liabilities will be settled at a date later than is required.

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

	2022	2021
<b>Financial liabilities due for payment (US\$'000)</b>		
Trade and other payables	8,820	8,509
Lease liabilities	3	8
Total contractual outflows	<u>8,823</u>	<u>8,517</u>
<b>Financial assets – cash flows realisable (US\$'000)</b>		
Cash and cash equivalents	477	352
Other receivable	9	37
Net outflow on financial instruments	<u>(8,337)</u>	<u>(8,128)</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.

## ANNUAL FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL INFORMATION

#### Note 17 – Financial Risk Management (continued)

##### Specific Financial Risk Exposures and Management (continued)

###### (c) Market Risk (continued)

###### Sensitivity Analysis

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

	Increase in interest rate by 1%		Decrease in interest rate by 1%	
	Profit US\$'000	Equity US\$'000	Profit US\$'000	Equity US\$'000
Year ended 30 June 2021				
Cash and cash equivalents	2	-	(2)	-
Year ended 30 June 2022				
Cash and cash equivalents	5	-	(5)	-

*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 2022 (US\$'000)	AUD	HKD	KGS
Cash and cash equivalents	2	-	176
Receivables	-	-	-
Payables	-	-	-
Gross statement of financial position exposure	2	-	176
As at 30 June 2021 (US\$'000)	AUD	HKD	KGS
Cash and cash equivalents	3	1	254
Receivables	-	-	-
Payables	-	-	-
Gross statement of financial position exposure	3	1	254

A 10% weakening of the following currencies against the US dollar at 30 June 2022 would have decreased profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

## ANNUAL FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL INFORMATION

#### Note 17 – Financial Risk Management (continued)

##### Specific Financial Risk Exposures and Management (continued)

(c) Market Risk (continued)

*Sensitivity Analysis (continued)*

Effect in US\$'000	Consolidated 2022	
	Equity	Profit
AUD	-	-
HKD	-	-
KGS	-	(18)

  

Effect in US\$'000	Consolidated 2021	
	Equity	Profit
AUD	-	-
HKD	-	-
KGS	-	(25)

A 10% strengthening of the above currencies against the US dollar at 30 June 2022 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:

	Spot rate as at the end of the year
AUD	0.6876
HKD	0.1274
KGS	0.0126

*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 limited exposure to commodity price risk as the wells that are producing are in the commissioning phase.

##### *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.

## ANNUAL FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL INFORMATION

#### Note 18 – Key Management Personnel Disclosures

<i>Compensation of Key Management Personnel</i>	<b>2022</b> <b>US\$'000</b>	<b>2021</b> <b>US\$'000</b>
Short-term employee benefits (Salary/fee)	289	300
	<u>289</u>	<u>300</u>

#### Note 19 – 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 Australian 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>2022</b> <b>US\$'000</b>	<b>2021</b> <b>US\$'000</b>
<b>Assets</b>		
Current Assets	5	15
Non-current assets	-	-
<b>Total Assets</b>	<u>5</u>	<u>15</u>
<b>Liabilities</b>		
Current liabilities	2,244	1,968
Loan from related party	35	35
<b>Total liabilities</b>	<u>2,279</u>	<u>2,003</u>
<b>Equity</b>		
Issued capital	26,563	26,563
Capital reserve	776	776
Accumulated losses	(29,613)	(29,327)
<b>Total deficit</b>	<u>(2,274)</u>	<u>(1,988)</u>

#### Statement of Comprehensive Income

Total loss for the period	(286)	(329)
<b>Total comprehensive income</b>	<u>(286)</u>	<u>(329)</u>

## ANNUAL FINANCIAL STATEMENTS

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### NOTES TO THE FINANCIAL INFORMATION

#### Note 20 – Reconciliation of Cash Flow to the Operating Loss

	30-Jun 2022 US\$'000	30-Jun 2021 US\$'000
Net (loss)/profit after tax	(216)	(480)
Depreciation	10	8
Foreign exchange differences	-	14
Changes in assets and liabilities:		
- decrease in receivables and other assets	30	75
- increase in creditors	368	282
	<u>192</u>	<u>(101)</u>

#### Note 21 – Dividends

No dividends were declared or paid during the year ended 30 June 2022 (2021: Nil)

#### Note 22 – Subsequent Events

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:

The financial statements and notes of the Group:

- (i) present fairly the Group's financial position as at 30 June 2022 and of its performance for the year ended on that date; and
- (ii) comply with Australian Accounting Standards;

On behalf of the Board



.....  
Louis Yang  
Executive Director & CEO  
Dated: 30 September 2022

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**AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF SAGALIO ENERGY LIMITED**

As lead auditor, I declare that, to the best of my knowledge and belief, during the year ended 30 June 2022 there have been:

- i. no contraventions of the auditor independence requirements of the Australian professional accounting bodies in relation to the audit, and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

*SW Audit*

SW Audit (formerly ShineWing Australia)  
Chartered Accountants

Richard Gregson  
Partner

Perth, 30 September 2022

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGALIO ENERGY LIMITED

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Sagalio Energy Limited (the Company) and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at 30 June 2022, and its financial performance and its cash flows for the year ended in accordance with the Australian Accounting Standards.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the auditor independence requirements and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial statements 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 opinion.

#### Material Uncertainty Related to Going Concern

We draw attention to Note 1(a) in the financial statements which indicates that the Group incurred a net loss of US\$216 thousand and had operating cash inflows of US\$192 thousand for the year ended 30 June 2022. The Group's current liabilities exceeded current assets by US\$8,337 thousand as at 30 June 2022. As stated in Note 1(a), these events or conditions, along with other matters as set forth in Note 1(a), indicate 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 judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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**1. Revenue Recognition**

**Key audit matter**

Note 10 *Revenue*

During the year the Group generated revenues from customers of \$637 thousand relating to pre commissioning sales that were no longer being offset against the exploration and evaluation assets.

Recognition of revenue under AASB 15 *Revenue from Contracts with Customers* requires significant judgement by management in identifying performance obligations, allocation of the transaction price and satisfaction of performance obligations over time or at a point in time.

This area is a key audit matter due to the significant judgement involved in revenue recognition.

**How our audit addressed the key audit matter**

Our audit procedures included the following:

- Documenting and assessing the internal control environment and performing tests of controls
- Assessing the revenue recognition policy for compliance with AASB 15 *Revenue from Contracts with Customers*
- Testing a sample of revenue transactions to supporting contracts to ensure revenue was recognized in line with the revenue recognition policy
- Assessing cut-off of revenue at year end and ensuring revenue has been recorded in the correct reporting period or deferred as unearned revenue, and
- Assessing the adequacy of revenue related disclosures in the financial statements..

**2. Exploration and evaluation**

**Key audit matter**

Note 7 *Deferred exploration and evaluation assets (E&E assets)*

The excess of sale of oil over the costs of testing and producing the oil was previously offset against the exploration and evaluation expenditure. The carrying amount of the E&E assets was fully offset in FY2021. There are risks associated with the potential breach of the Co-Investment Agreement, where the Group might have failed to meet the initial three-year minimum work program.

Disclosure of the E&E assets needs to be comprehensive for the users to understand the key facts and circumstances.

**How our audit addressed the key audit matter**

Our audit procedures included the following:

- Evaluating the Group's accounting policy to recognise and measure E&E expenditure using the criteria in the AASB 6 *Exploration for and Evaluation of Mineral Resources*
- Assessing the Group's ownership of the E&E assets and right to continue to explore by discussing with management, obtaining and assessing relevant documentation such as correspondence, contracts and legal opinions
- Understanding the Group's intention to continue the exploration and evaluation activity in the relevant exploration area which included assessment of the Group's cash-flow forecast and strategy
- Assessing independently if there are any facts and circumstances present which suggest that the recoverable amount of the Group's E&E assets may exceed its carrying amount in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources*, and as such whether any of the impairment provision previously recognised should be reversed

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- Testing the mathematical accuracy of the cash flow models used in testing the recoverable amount
- Assessing the basis of the Group's cash flow forecasts including comparison to historical results
- Assessing the discount rate, oil prices and other key assumptions to internal and external data, and
- Assessing the adequacy of the disclosures in relation to E&E assets.

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

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2022, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements 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 statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 Statements

The directors of the Company are responsible for the preparation of the financial statements in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that presents fairly and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related 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 has no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the financial Statements 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 Australian 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 these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, 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 statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period 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.

SW Audit

SW Audit (formerly ShineWing Australia)  
Chartered Accountants

Richard J Gregson

Richard Gregson  
Partner

Perth, 30 September 2022

## 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 14 September 2022.

### 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	28	685	0.00%
1,001 – 5,000	3	10,000	0.00%
5,001 – 10,000	26	208,988	0.10%
10,001 – 100,000	255	10,812,224	5.28%
100,001 – and over	57	193,628,233	94.61%
<b>Rounding</b>			<b>0.01%</b>
<b>Total</b>	<b>369</b>	<b>204,660,130</b>	<b>100%</b>

The number of shareholders held in less than marketable parcels is 99.

### 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 14 September 2022.

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%
3	Mr Kang Fu	16,000,000	7.82%
5	Century Elite Holdings Ltd	14,000,000	6.84%
5	Grand Step Global Limited	14,000,000	6.84%
7	Major Port Limited	10,000,000	4.89%
8	Frontere 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	Citicorp Nominees Pty Ltd	4,658,088	2.28%
12	Jing Xiaoping	2,100,000	1.03%
13	Ms Qiaorong Ma	1,848,286	0.90%
14	Ms Wei Zhang	1,649,145	0.81%
15	Omnioffices Pty Limited	1,115,000	0.54%
16	Sun Liyang	700,000	0.34%
17	Zhang Xiaonan	600,000	0.29%
18	Gunuq Limited	575,761	0.28%
19	Mr Kerim Abou-Sinna	421,146	0.21%
20	Miss Sharon Bennie	400,000	0.20%
	<b>Total</b>	<b>186,474,426</b>	<b>91.11%</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**

Wayne Rossiter

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### **SHARE REGISTRY**

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Level 3, 60 Carrington Street  
Sydney NSW 2000  
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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.

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