



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

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ASX ANNOUNCEMENT

1 September 2015

2015 DRILLING UPDATE

Sagalio Energy Limited (the **Company**) is pleased to announce that MHA Petroleum Consultants (**MHA**) has completed a technical review of the Company's drilling results (see Appendix 1).

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

- END -

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Update Report of the Drilling Results in the Marleysu East Yizbaskent, Block in Kyrgyzstan

Prepared for

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21 August, 2015

MHA Petroleum Consultants LLC

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MHA Petroleum Consultants (MHA) has been engaged by Sagalio Energy Limited (SEL) to provide a preliminary report on the drilling results of the first eight development wells that have been drilled in the Marleysu East Yizbaskent Oilfield, Republic of Kyrgyzstan. This report is a supplement to the Resource Estimate Report that MHA prepared on the same license as of 30 September, 2014. This current evaluation is based on technical data supplied by SEL in the way of well completion summary reports, and well production records from 1 April, 2015 through 30 May, 2015.

MHA has prepared an update report, based solely on interpreted data supplied by SEL, and has not, to date, reviewed original well logs, field reports, nor raw data of any kind nor visited the field facilities. The data MHA has reviewed are consistent with past historical data, consistent with the anticipated drilling results and appear to be reported using best industry practices.

Development Permit Marleysu East Yizbaskent Oilfield

Development Interest: SEL PSC with Kyrgyzneftegaz (KNG)

New Production Well: KNG 40% \ SEL 60%

Rejuvenate a non-production well or abandoned well: KNG 35% \ SEL 65%

Enhancement of an existing Production well: KNG 60% \ SEL 40%

Exploration well: KNG 30% \ SEL 70%

New wells in high volume output block: KNG 20% for year 1, 55% thereafter \ SEL 80% for year 1 and 45% thereafter

Area: 33.8 Square Kilometers

Grant of Exploration Permit: 20 years from 2014

Term: Mandatory Work Program specified for 3 years

Work Program

Type	2014	2015	2016
Production well	Drilling of 4 wells	Drill 12 new wells	Drill 12 new wells

2015 Drilling Update

This report have been prepared for publication in Australia under the Australian Stock Exchange (ASX) reporting rules using an evaluation approach for conventional resources which is consistent with Society of Petroleum Engineers Petroleum Resources Management System (SPE PRMS) 2007 and the SPE 2011 PRMS guidelines. MHA is not, at this time, revising the



2014 Resource Estimate but providing a technical update on the first eight wells that SEL has drilled in the Marleysu East Yizbaskent Field.

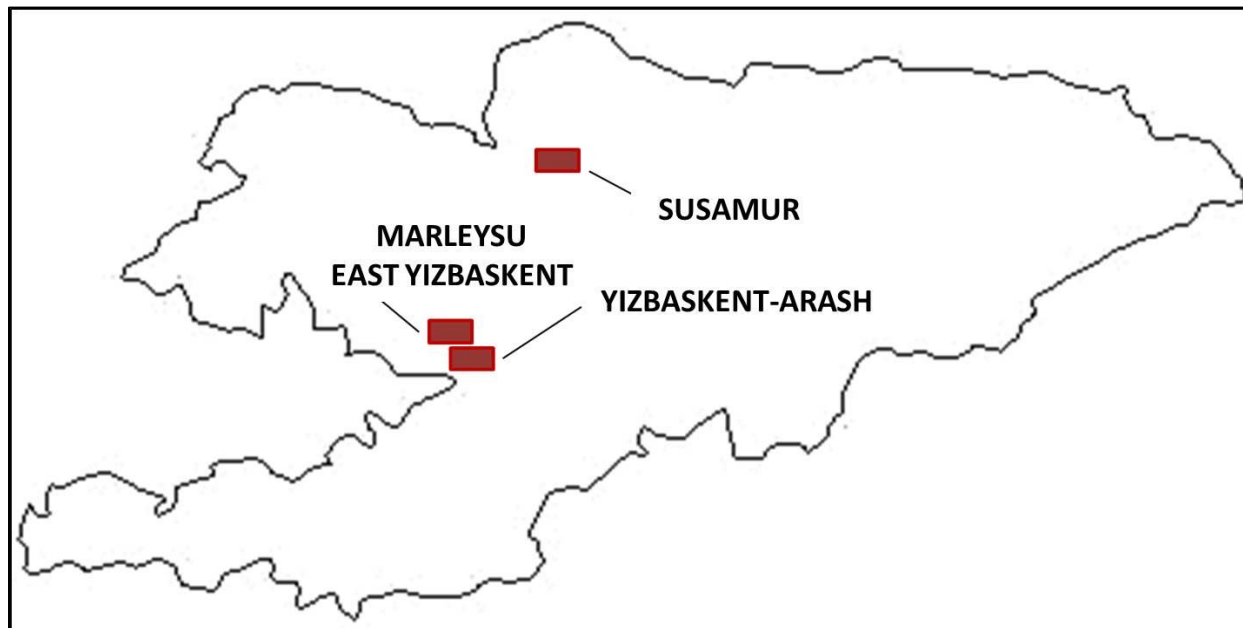


Figure 1: Location of the Three PEI Permits within Kyrgyzstan

Eight wells (Numbers 315,316, 534, 573, 574, 575, 576, 657) have been drilled within the existing development area of the Marleysu East Yizbaskent Field. The initial well program was designed to satisfy the government obligation of production wells and six wells are drilled as vertical production wells. Two wells (573 and 576) were drilled as deviated wells. A summary of the wells is found in Table 1 below.

Table 1: Drilling Results Through May 30th 2015

Well Name	Commissioning Date	Completion Date	Reservoir Evaluated	Net Reservoir	Initial oil production (m3)	Cumulative oil production (m3)	SEL WI	KNG WI
573	12/19/2014	5/26/2015	III	9.4	0.13	19.83	60%	40%
574	4/30/2015	5/21/2015	III	8.9	0.74	42.74	60%	40%
575	4/11/2015	5/25/2015	III	3	2.00	47.18	60%	40%
576	5/1/2015	5/31/2015	III	7.6	12.12	275.92	60%	40%
657	3/22/2015	5/31/2015	III	9.4	4.90	353.65	60%	40%
315			III	7.1			60%	40%
316			III	14.8			60%	40%
534			III				60%	40%



Map of Drilling Locations

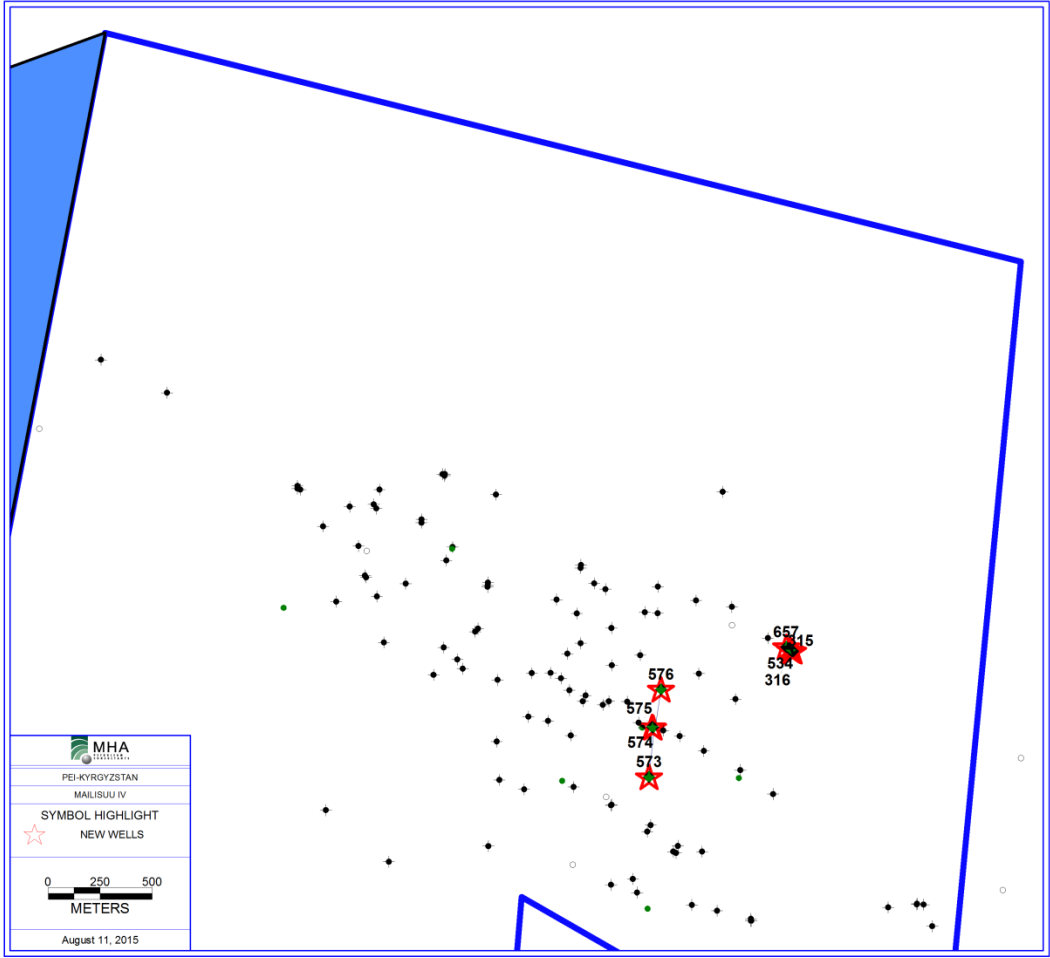


Figure 2: Marleysu East Yizbaskent Oilfield New Well Locations

Five of the eight drilled wells have been put on production by the time of this report and seven of the eight wells have reported detailed reservoir reports; demonstrating SEL’s ability to operate and produce oil in the Marleysu East Yizbaskanet Oilfield. All of those seven wells encountered oil bearing reservoirs in Layer III at approximately the predicted reservoir. Drilling has penetrated the strata in Layers V and VII which indicate that the thicknesses originally predicted are accurate but there have been no tests to date to verify the hydrocarbon content of these reservoirs.

Reservoir Geology

The Fergana Basin sits astride the borders of Uzbekistan, Tadjikistan and Kyrgyzstan and is approximately 300 kilometers long with a maximum extent of about 120 kilometers. It is an intermountain basin with over 55 discovered oil and gas fields in compressional traps generally along the southern margin in primarily Tertiary aged reservoirs. Exploration and oil discovery began as early as 1900, although bitumen deposits were known at least as early Marco Polo's journey through the "Silk Road". There are over 30 defined pay zones in the Fergana basin, all within the Paleozoic and Cenozoic section. They are designated Zone I through XXXII in order of increasing depth (DOE/EIA-0575(94)).

There have been three primary stages of tectonic development; An early Miogeoclinal stage of primarily clastic deposition from the Cambrian until the Permian then the second stage, a Platform Stage following the Hercynian Orogeny from the Late Permian until the Alpine Orogeny in the late Oligocene and the last stage, a Final Orogenic Stage where the Fergana Basin is one of several "West China" Tertiary Basins formed during the Alpine Orogeny. Marleysu East Yizbaskent Field consists of Pay Zones VII, V, and III.

Pay Zone VII is the middle Eocene Alay Formation which is a carbonate bed that can vary from 10-160m in thickness. It is generally bioclastic in nature and often fractured. It is bounded by claystone beds. The Upper Eocene contains the Turkestan Beds (50m), the Rishtan Beds (40m), and the Isafara Beds (30m). In general this is a gradational sequence from limestones and sandstones (Pay Zones VI, and V) upward to a gray dolomite (50m) that exists only in the eastern Fergana Basin (Pay Zone V). This dolomite is also a bioclastic carbonate that is heavily fractured. The Isafara beds are dominantly gray-green claystones. These grade into the lower Oligocene Khanabad Formation, a 30-40m green clay with no reservoir beds. After this time there is no evidence of any marine deposition in the Fergana Basin (Nalivkin, 1973).

The Middle Oligocene contains the primary productive zone of the Fergana Basin, the Sumsar Formation and Pay Zone III. This is primarily continental sandstone that thickens to the west and splits into an upper and lower pay zone with the upper zone designated as Pay Zone II. Neogene orogenic events associated with the Alpine Orogeny created boundary high elevations on all sides of the Fergana Basin and shed debris into the basin to create what is known as the Cenozoic Molasse.



Statement of Risk

The accuracy of resource evaluations is always subject to uncertainty. The magnitude of this uncertainty is generally proportional to the quantity and quality of data available for analysis. As a prospect, project, or well matures and new information becomes available revisions may be required which may either increase or decrease the previous estimates. By definition, a Play is a Proven Hydrocarbon System that is defined by known limits to the generative source rock area and to the limits of the known reservoirs and traps. Contingent Resources are volumes to be potentially recoverable from known accumulations, but not yet mature enough for commercial development, and thereby have their own degree of geologic and commercial risk. Prospective Resources are undiscovered prospects that each has their own degree of geologic and commercial risk. It is MHA's opinion that the estimated resources and other information as specified in this report are reasonable, and have been prepared in accordance with generally accepted petroleum engineering and geological evaluation principles. Further pre-drill evaluation of the prospects is warranted, particularly as regards to additional seismic data. As there are no reserves evaluated for this report there are no estimates of economic valuation.

Neither MHA, nor any of our employees have any interest in the subject properties and neither the employment to do this work, nor the compensation, is contingent on our estimates of the resources for the properties in this report. No MHA employee or contractor has visited the SEL field facilities discussed in this report as this report is concerned with subsurface volumes only and uses data that was supplied by SEL. MHA has not verified the accuracy of the information provided to it during the course of this investigation. However, we have aimed to satisfy ourselves that all of the information provided has been prepared in accordance with proper industry standards and best practice, and is based on data that MHA considers to be of acceptable quality and reliability

This report was prepared for the exclusive use of SEL and will not be released by MHA to any other parties without SEL's written permission. MHA did not conduct a site visit to the licenses or any of the field offices, other than the SEL dataroom in Beijing, China. The data and work papers used in this preparation of this report are available for examination by authorized parties in our offices.

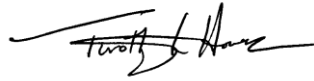
Thank you for this opportunity to be of service to SEL. If you have any questions or wish to discuss any aspect of the report further please feel free to contact me.



Kindest regards,



Jeffrey B. Aldrich
Vice President



Timothy L. Hower
Chief Executive Officer

Qualifications

Jeffrey B. Aldrich is a Certified Petroleum Geologist, #6254, by the American Association of Petroleum Geologists (AAPG), is an active member of the AAPG and the Society of Petroleum Engineers (SPE) and is a qualified person as defined under the ASX Listing Rule 5.42. He has over thirty-five years as a practicing petroleum geologist/geophysicist and over twenty years of experience in oil and gas reserve evaluations. He holds a Bachelor's of Science degree in Geology from Vanderbilt University and a Master's of Science degree in Geology from Texas A&M University.

Timothy L. Hower is the Chief Executive Officer, and a full-time employee of MHA, and is a qualified person as defined under the ASX Listing Rule 5.42. He is a Registered Professional Engineer, a member of the SPE, and holds Bachelor's of Science and Master's of Science degrees in Petroleum Engineering from Penn State University. Mr. Hower has over thirty years of experience as a practicing reservoir engineer working on reserves and resource evaluations. This resource evaluation was prepared under Mr. Hower's direct control and supervision in accordance with the SPE Petroleum Resource Management System guidelines.

MHA Petroleum Consultants LLC is a leading independent petroleum engineering and independent certification firm based in Denver, Colorado which has experience working in most of the significant petroleum provinces throughout the world. MHA has completed reserve and resource assessments for numerous clients in Australia and internationally including Shell, Petrochina, Conoco Phillips, Santos,



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