

A black and white photograph of a large drilling rig mounted on a truck. The rig is tall and complex, with various pipes and mechanical parts. Several workers in hard hats and safety gear are standing around the rig, observing it. The background shows a cloudy sky and some distant trees. The text "Tlou Energy Limited" is overlaid in orange on the right side of the image.

# Tlou Energy Limited

A.B.N. 79 136 739 967

## Consolidated Financial Statements for the Half-year ended 31 December 2014

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## Directors' report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Tlou Energy Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at 31 December 2014.

### Directors

The names of the directors who held office at any time during the half-year and up to the date of this report are:

Nathan Mitchell	Non-Executive Chairman
Anthony Gilby	Managing Director & Chief Executive Officer
Martin McIver	Non-Executive Director
Christopher Pieters	Non-Executive Director – Resigned; 11 March 2015
Gabaake Gabaake	Executive Director – Appointed; 11 March 2015

Directors have been in office since the start of the half-year to the date of this report unless otherwise stated.

### Principal Activities

The principal activity of the consolidated entity is the exploration and evaluation of assets in southern Africa to identify and develop coalbed methane (CBM) resources. No revenue from this activity has been earned to date, as the consolidated entity is still in the exploration and evaluation stage.

There have been no significant changes in the nature of the group's principal activities during the half-year.

### Review and results of operations

The loss for the half-year after income tax amounted to \$1,142,049 (December 2013: loss \$4,141,847). Expenditure was in line with projections. Net spend on exploration activities during the period amounted to ~\$1.9m. There has been very little change in the level of total liabilities over the reporting period as expected.

In early July 2014, Tlou was awarded five new CBM permits in Botswana (designated the 'Mamba' project area), covering an area of approximately 4,500 km<sup>2</sup>. The Mamba permits are considered to be highly prospective as they are situated adjacent to Tlou's Lesedi CBM Project and are on-trend with the encouraging results observed to date at the Selemo and Lesedi Pilot Pods. In the event of a gas field development, the acquisition of the Mamba area provides the Company with considerable flexibility and optionality.

Production testing operations on the Lesedi and Selemo Pilot Pods were temporarily suspended during the reporting period to complete remediation works. The Selemo Pod was suspended in order to rectify a previously identified casing integrity issue. Remedial work to fix this issue was completed in September 2014, enabling production testing to recommence. Shortly thereafter, the Selemo Pod was dewatered and reached critical desorption pressure (CDP). Gas commenced flaring in November 2014. A decision was made in early December 2014 to determine the gas flow potential of the well by conducting short term tests. These tests recorded a peak gas flow of approximately 400,000 cubic feet per day (cfd) with an average gas flow of approximately 200,000 cfd. The Selemo Pilot was then shut-in to allow pressure build-up data to be accumulated and assessed prior to the recommencement of longer term production testing. Results to date suggest that the economic threshold for a potential development has been met when all key factors are taken into consideration.

The Company began work-over and production testing operations on the vertical pilot well Mopani 2P (originally drilled in 2011). The work-over was completed in early September 2014 and since this time, the well has been steadily dewatering and CDP has been reached.

At the Lesedi Pilot Pod, Tlou temporarily discontinued pumping the well in order to investigate the source of an anomalous water influx. During the quarter, a remediation plan was completed to isolate the likely source of the water. During the period, Tlou made a decision to drill and complete for production testing a new single vertical pilot well called 'Lesedi 2P'. This decision was based on the encouraging results at Mopani 2P. The drilling was completed in late October 2014 and testing operations began in November 2014.

Tlou is currently focused on demonstrating a commercial gas rate from the Lesedi CBM Project. The objective of the vertical pilot wells Lesedi 2P and Mopani 2P is to provide flow rate comparisons to the Selemo and Lesedi lateral pilots.

Tlou is continuing discussions with relevant stakeholders in Mozambique in an effort to secure prospective CBM acreage in the Zambezi Basin area over time.

Tlou has received notification that the application for a large CBM exploration area in the Lengwe and Mwabvi coal fields basin located in southern Malawi has been successful. The company is awaiting the licence documentation from the relevant government department and payment of the application fee prior to commencement of operations in this area. As a result, no expenditure has been incurred in relation to this area to date.

## **Directors' report continued**

### **Significant changes in the state of affairs**

During the half-year ended 31 December 2014, there were no other significant changes to the state of affairs of the consolidated entity other than those stated above and disclosed in the financial report and notes thereof.

### **Matters subsequent to the end of the half-year**

There has not been any matter or circumstance, other than that referred to above and in the financial statements or notes thereto, that has arisen since the end of the period, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of these operations, or the state of affairs of the consolidated entity in future financial years.

### **Likely developments and expected results of operations**

Given the success of the Selema pilot, Tlou plans to recommence flow testing on a longer-term basis and to develop an expanded drilling plan for the area. The majority of Tlou's resources will therefore be focused on the Selema area in the near term. Tlou will continue to monitor and assess the Mopani and Lesedi areas during this next phase. The results to date of these pilots are very encouraging but not yet as definitive as Selema and correspondingly may be shut-in and revisited when resources allow at a later date.

The Company is actively advancing gas sales agreement negotiations which are a pre-cursor for reserve certification. This will serve to underpin Tlou Energy's planned field development objectives at the Lesedi CBM Project in Botswana.

### **Auditor's Independence Declaration**

The auditor's independence declaration for the half-year ended 31 December 2014 has been received and is attached to this report.

Signed in accordance with a resolution of the Board of Directors.



Anthony Gilby  
Managing Director

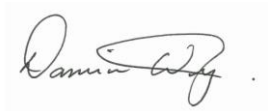
Brisbane  
11<sup>th</sup> March 2015

## DECLARATION OF INDEPENDENCE BY D P WRIGHT TO THE DIRECTORS OF TLOU ENERGY LIMITED

As lead auditor for the review of Tlou Energy Limited for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Tlou Energy Limited and the entities it controlled during the period.



**D P Wright**

Director

**BDO Audit Pty Ltd**

Brisbane, 11 March 2015

## Consolidated statement of comprehensive income for the half-year ended 31 December 2014

	Note	December 2014 \$	December 2013 \$
<b>Revenue and other income</b>			
Interest received	3	78,955	59,391
<b>Expenses</b>			
Employee benefits expense		(626,200)	(546,418)
Depreciation		(168,210)	(163,015)
Impairment - exploration and evaluation assets	5	-	(2,946,127)
Currency exchange gain/(loss)		95,650	(5,389)
Professional fees		(58,097)	(80,899)
Corporate expenses		(8,458)	(527)
Occupancy costs		(90,226)	(96,472)
Other expenses	4	(365,463)	(362,391)
<b>PROFIT (LOSS) BEFORE INCOME TAX</b>		(1,142,049)	(4,141,847)
Income tax (expense)/credit		-	-
<b>PROFIT (LOSS) FOR THE PERIOD</b>		(1,142,049)	(4,141,847)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<b>Items that may be reclassified to profit or loss</b>			
Exchange differences on translation		1,659,231	(25,841)
Tax effect		-	-
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>		1,659,231	(25,841)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		517,182	(4,167,688)
<b>Profit (loss) attributable to:</b>			
Owners of Tlou Energy Limited		(1,142,049)	(4,126,076)
Non-controlling interests		-	(15,771)
		(1,142,049)	(4,141,847)
<b>Total comprehensive income (loss) attributable to:</b>			
Owners of Tlou Energy Limited		517,182	(4,143,862)
Non-controlling interests		-	(23,826)
		517,182	(4,167,688)
<b>Earnings per share</b>			
		Cents	Cents
Basic loss per share		(0.01)	(0.04)
Diluted loss per share		(0.01)	(0.04)

Notes to the consolidated financial statements are attached.

**Consolidated statement of financial position  
as at 31 December 2014**

	Note	December 2014 \$	June 2014 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		5,819,010	9,123,260
Trade and other receivables		309,779	93,944
Other assets		633,888	722,013
<b>TOTAL CURRENT ASSETS</b>		<b>6,762,677</b>	<b>9,939,217</b>
<b>NON-CURRENT ASSETS</b>			
Exploration and evaluation expenditure	5	40,905,168	37,344,231
Property, plant and equipment		574,294	443,724
<b>TOTAL NON-CURRENT ASSETS</b>		<b>41,479,462</b>	<b>37,787,955</b>
<b>TOTAL ASSETS</b>		<b>48,242,139</b>	<b>47,727,172</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		285,166	299,473
Provisions		239,612	233,520
<b>TOTAL CURRENT LIABILITIES</b>		<b>524,778</b>	<b>532,993</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		369,353	369,353
Provisions		72,000	66,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>441,353</b>	<b>435,353</b>
<b>TOTAL LIABILITIES</b>		<b>966,131</b>	<b>968,346</b>
<b>NET ASSETS</b>		<b>47,276,008</b>	<b>46,758,826</b>
<b>EQUITY</b>			
Contributed equity	8	66,532,786	66,532,786
Share options reserve		4,225,291	4,225,291
Foreign currency reserve		(2,923,132)	(4,582,363)
Accumulated losses		(20,558,937)	(19,416,888)
Equity attributable to the owners of Tlou Energy Limited		47,276,008	46,758,826
Non-controlling interest		-	-
<b>TOTAL EQUITY</b>		<b>47,276,008</b>	<b>46,758,826</b>

Notes to the consolidated financial statements are attached.

**Consolidated statement of changes in equity  
for the half-year ended 31 December 2014**

	Contributed equity \$	Accumulated losses \$	Share options reserve \$	Foreign currency reserve \$	Non-controlling interest \$	Total \$
<b>Balance at 1 July 2013</b>	53,957,271	(17,622,954)	4,669,085	(2,817,087)	4,903	38,191,218
Profit for the period	-	(4,126,076)	-	-	(15,771)	(4,141,847)
Other comprehensive income for the period	-	-	-	(17,786)	(8,055)	(25,841)
Total comprehensive income for the period	-	(4,126,076)	-	(17,786)	(23,826)	(4,167,688)
<b>Transactions with owners in their capacity as owners</b>						
Shares issued, net of costs	12,580,234	-	-	-	-	12,580,234
	12,580,234	-	-	-	-	12,580,234
<b>Balance at 31 December 2013</b>	66,537,505	(21,749,030)	4,669,085	(2,834,873)	(18,923)	46,603,764
<b>Balance at 1 July 2014</b>	66,532,786	(19,416,888)	4,225,291	(4,582,363)	-	46,758,826
Profit for the period	-	(1,142,049)	-	-	-	(1,142,049)
Other comprehensive income for the period	-	-	-	1,659,231	-	1,659,231
Total comprehensive income for the period	-	(1,142,049)	-	1,659,231	-	517,182
<b>Transactions with owners in their capacity as owners</b>						
Shares issued, net of costs	-	-	-	-	-	-
	-	-	-	-	-	-
<b>Balance at 31 December 2014</b>	66,532,786	(20,558,937)	4,225,291	(2,923,132)	-	47,276,008

*Notes to the consolidated financial statements are attached.*



**Consolidated statement of cash flows  
for the half-year ended 31 December 2014**

	<b>December 2014</b>	<b>December 2013</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	78,955	59,391
Payments to suppliers and employees	(986,168)	(1,616,823)
GST & VAT received/(paid)	37,270	551,706
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(869,942)</b>	<b>(1,005,726)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for exploration and evaluation assets	(2,064,222)	(5,397,863)
Payments for property, plant & equipment	(257,799)	(8,066)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(2,322,021)</b>	<b>(5,405,929)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	-	13,425,327
Share issue costs	-	(933,059)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>-</b>	<b>12,492,268</b>
Net increase/(decrease) in cash held	(3,191,963)	6,080,613
Cash at the beginning of the period	9,123,260	7,460,746
Effects of exchange rate changes on cash	(112,287)	(1,693)
<b>CASH AT THE END OF THE PERIOD</b>	<b>5,819,010</b>	<b>13,539,666</b>

*Notes to the consolidated financial statements are attached.*

## **Notes to the consolidated financial statements for the half-year ended 31 December 2014**

### **Note 1 - Significant accounting policies**

#### **Introduction**

Tlou Energy Limited (Tlou) is a company domiciled and incorporated in Australia. The Financial Report for the half-year ended 31 December 2014 consists of the Financial Statements of Tlou Energy Limited and the entities it controlled during the period ('Consolidated Entity').

#### **Compliance with accounting standards**

The half-year financial report is a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting.

The half-year financial report does not include all of the notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report of the group.

#### **Basis of preparation**

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The financial report is presented in Australian dollars.

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the impact of the Standards and Interpretations described below. Where required by Accounting Standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

#### **New or revised accounting standards and interpretations that are first effective in the current reporting period**

The group have adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and effective for the current reporting period. This adoption has not resulted in any changes to the group's accounting policies and has no effect on the amounts reported in the current and prior periods.

#### **Going Concern**

The consolidated financial statements have been prepared on a going concern basis which contemplates that the group will continue to meet its commitments and can therefore continue normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Because of the nature of the operations, exploration companies, such as Tlou Energy Limited, find it necessary on a regular basis to raise additional cash funds to fund future exploration activity and meet other necessary corporate expenditure. At the date of this financial report, the ability of the group to execute its currently planned exploration and evaluation activities requires the group to raise additional capital within the next 12 months. Accordingly, the group is in the process of investigating various options for the raising of additional funds which may include but is not limited to an issue of shares or the sale of exploration assets where increased value has been created through previous exploration activity.

At the date of this financial report, none of the above fund raising options have been concluded and no guarantee can be given that a successful outcome will eventuate. The directors have concluded that as a result of the current circumstances there exists a material uncertainty that may cast significant doubt regarding the group's and the company's ability to continue as a going concern and therefore the group and company may be unable to realise their assets and discharge their liabilities in the normal course of business. Nevertheless, after taking into account the current status of the various funding options currently being investigated and making other enquiries regarding other sources of funding, the directors have a reasonable expectation that the group and the company will have adequate resources to fund its future operational requirements and for these reasons they continue to adopt the going concern basis in preparing the financial report.

The interim financial report does not include adjustments relating to the recoverability or classification of recorded assets amounts nor to the amounts or classification of liabilities that might be necessary should the group not be able to continue as a going concern.

#### **Fair values**

The fair values of Consolidated Entity's financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form.

#### **Accounting estimates and judgements**

Critical estimates and judgements are continually evaluated and are consistent with those disclosed in the previous annual report.

## Notes to the consolidated financial statements for the half-year ended 31 December 2014 continued

### Note 2 - Segment information

#### Identification of reportable segments

Operating segments are identified on the basis of internal reports that are regularly reviewed by the executive team in order to allocate resources to the segment and assess its performance. The Company currently operates in one segment, being the exploration, evaluation and development of coalbed methane resources in southern Africa.

#### Segment revenue

As at 31 December 2014 no revenue has been derived from its operations (2013: \$nil).

#### Segment assets

Segment non-current assets are allocated to countries based on where the assets are located as outlined below.

	December 2014 \$	June 2014 \$
Botswana	41,477,438	37,784,971
Australia	2,024	2,984

### Note 3 – Revenue

	December 2014 \$	December 2013 \$
Interest received	78,955	59,391
	78,955	59,391

### Note 4 – Expenses

	December 2014 \$	December 2013 \$
Profit before income tax includes the following specific expenses:		
Other expenses		
ASX and registry fees	46,319	89,420
Insurance	33,725	38,877
Travel and accommodation	128,508	106,897
	208,552	235,194

### Note 5 - Exploration and evaluation expenditure

	December 2014 \$	December 2013 \$
Exploration and evaluation expenditure	40,905,168	35,900,335
<b>Exploration and evaluation phase</b>	<b>\$</b>	<b>\$</b>
Balance at the beginning of period	37,344,231	33,528,392
Exploration and evaluation expenditure during the period	1,913,420	5,205,038
Impairment	-	(2,946,127)
Foreign currency translation	1,647,517	113,032
Balance at the end of period	40,905,168	35,900,335

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phase is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

## Notes to the consolidated financial statements for the half-year ended 31 December 2014 continued

### Note 6 - Contingent liabilities

The Directors are not aware of any contingent liabilities at 31 December 2014.

### Note 7 - Commitments

#### Exploration expenditure

In order to maintain an interest in the exploration tenements in which the group is involved, the group is committed to meet the conditions under the agreements. The timing and amount of exploration expenditure and obligations of the group are subject to the minimum work or expenditure requirements of the permit conditions and may vary significantly from the forecast based on the results of the work performed, which will determine the prospectivity of the relevant area of interest. The obligations are not provided for in the financial statements.

#### Minimum expenditure requirements

	December 2014 \$	December 2013 \$
- not later than 12 months	8,347,222	9,025,173
- between 12 months and 5 years	19,385,103	1,021,706
	<u>27,732,325</u>	<u>10,046,879</u>

### Note 8 - Contributed equity

	December 2014 Shares	December 2013 Shares	December 2014 \$	December 2013 \$
Opening Balance	147,754,846	103,003,758	66,532,786	53,957,271
Issue of ordinary shares during the year	-	44,751,088	-	13,425,326
Share issue costs	-	-	-	(845,092)
Ordinary shares - fully paid	<u>147,754,846</u>	<u>147,754,846</u>	<u>66,532,786</u>	<u>66,537,505</u>

### Note 9 - Events occurring after balance date

Other than the matters discussed in this report, there has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the group, the results of those operations or the state of affairs of the group in subsequent financial periods.

## Directors' declaration

In the directors' opinion:

- (a) the attached financial statements and notes are in accordance with the *Corporations Act 2001* including:
- (i) the attached financial statements and notes thereto comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
  - (ii) the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the financial half-year ended on that date; and
  - (iii) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the directors

  
Anthony Gilby  
Managing Director

Dated at Brisbane this 11<sup>th</sup> day of March 2015

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Tlou Energy Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Tlou Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Tlou Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Tlou Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

## Conclusion

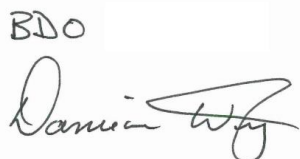
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Tlou Energy Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

## Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the consolidated entity's tenements, and/or sale of non-core assets. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

**BDO Audit Pty Ltd**



**D P Wright**  
**Director**

Brisbane, 11 March 2015