Tlou Energy Limited

A.B.N. 79 136 739 967

Consolidated Financial Statements for the half-year ended 31 December 2015

Contents

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 "Tlou") and the entities it controlled at 31 December 2015.

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:

Anthony Gilby	Managing Director & Chief Executive Officer
Martin McIver	Non-Executive Chairman: appointed 11 February 2016, formerly Non-Executive Director
Gabaake Gabaake	Executive Director
Colm Cloonan	Finance Director; appointed 11 February 2016
Nathan Mitchell	Non-Executive Chairman; resigned 11 February 2016

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 to provide gas-to-power solutions for southern Africa through the exploration and evaluation of assets in the region to identify and develop coalbed methane ("CBM") gas resources suitable for power generation. No revenue from this activity has been earned to date. The consolidated entity is in the appraisal or pre-development stage of its operations.

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 Company was very active during the half-year. Operationally, further expansion of the Lesedi project was completed to enable gas flow testing to commence, advances have been made in relation to environmental approvals and at a corporate level the Company successfully listed on the AIM market of the London stock exchange ("AIM Market" or "AIM").

The loss for the half-year after income tax amounted to $1,993,250 (December 2014: loss $1,142,049). A substantial portion of the loss results from expenditure incurred in relation to the Company's admission to trading on the AIM Market. Excluding this amount the expenditure was in line with projections and lower than the comparative half-year. Given the current oil price environment and equity market conditions, the Company has been actively striving to reduce corporate and operating costs where possible, without affecting performance. Net spend on exploration activities during the period amounted to approximately $4 million, mainly on operations to expand the Selemo production area. The decrease in total liabilities compared to the end of the previous reporting period is primarily due to the reduced level of operations at December 2015 as compared to June 2015.

Field operations continue to focus on the Lesedi CBM project, where the lateral production pod Selemo 1, which first flared gas in 2014, has had two new lateral pods drilled either side of it (Selemo 2 and 4). These pods will assist with dewatering of the area and ultimately enhance gas deliverability. Following the successful drilling program, the new vertical production wells were completed with down-hole equipment to enable water level reduction and allow the gas to begin to be liberated from the coal. Dewatering operations commenced in mid-September 2015 and continued through to the end of the half-year. The dewatering progressed in a controlled manner with all wells reaching critical desorption pressure ("CDP") and steadily building wellhead pressure.

Information to date is extremely encouraging and in line with what was anticipated prior to commencement of the testing process, with well behaviour and water production consistent with expectations. The current phase of operations is the step rate gas testing program. The aim of this testing program is to provide evidence of the sustainable gas production rate achievable from the field and to assist in the booking of independently certified gas reserves. This process will also provide vital data on well performance which can then be incorporated into future field development plans. The gas testing program is underway and the results of this testing will be progressively released to the market.

Tlou has made significant progress on its downstream plans for the development of gas-to-power projects in Botswana. During the period, Tlou has had discussions with a number of power development, investor and lender groups with a strong appetite for African based energy projects. There is considerable interest from these groups to partner with Tlou to initially develop a 10 MW gas-to-power project in Botswana and thereafter, further expand to cover the chronic energy supply shortfalls being experienced in Botswana and throughout southern Africa.

Concurrently, the Company is making progress in its discussions with the Botswana government with regard to the agreements, authorisations and permits required for operation of gas-to-power projects in the country.

The Company has continued to progress its application for an Environmental Impact Statement ("EIS") for project development. Tlou has submitted an environmental project brief, held public consultations, completed specialist environmental studies and submitted a scoping report. During the half-year the Scoping Report was approved by the Department of Environmental Affairs ("DEA"). Following this approval, Tlou then submitted its final EIS for field development of the Lesedi CBM project. Review and approval of the EIS by the DEA is the final stage in the process. Tlou is expecting to receive EIS approval in the first half of 2016. The EIS for the Lesedi CBM Project is a full development EIS comprising of up to 200 production pods and a processing facility to process the gas and water produced from the wells. Further EIS's will be required for transport of gas or power and the construction of a power station. These applications are expected to be made later in 2016 following results of the ongoing gas testing program.

Tlou Energy Limited was admitted to the AIM Market and trading commenced on 30 November 2015. Tlou is now dual listed on the Australian Securities Exchange (trading code: TOU) and AIM Market (trading code: TLOU). In conjunction with the AIM admission, Tlou completed an equity placement of 18,462,973 ordinary shares (largely to professional and sophisticated investors), raising approximately $2.6 million. These funds are being used to fund the current gas flow testing at Selemo, book reserves in 2016 and secure field development EIS approval. Tlou's dual listing on AIM widens the appeal of the Company, particularly in the UK market where there is considerable interest in African focused projects. In the longer term the listing may also enhance stock liquidity and facilitate access to a deeper pool of funding for its future power generation plans aimed at helping the Southern African Development Community (SADC) cope with the current power crisis.

Directors' report continued

Significant changes in the state of affairs

During the half-year ended 31 December 2015, 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

Subject to results of the gas flow testing operations on the Selemo pods, the Company expects to book independently certified gas reserves in the near term. The Company is also advancing gas sales agreement negotiations with potential off-takers. These items will underpin Tlou's planned field development objectives at the Lesedi CBM Project and allow the Company to proceed with applications for the required approvals including EIS and conversion of some licence areas from prospecting licences to a mining development licence signifying the progress being made in moving the project from appraisal to development stage.

Auditor's Independence Declaration

The auditor's independence declaration for the half-year ended 31 December 2015 has been received and is attached to this report.

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

Gabaake Gabaake
Executive Director

Gaborone, Botswana
10 March 2016

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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 2015, 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, 10 March 2016

Consolidated statement of comprehensive income for the half-year ended 31 December 2015

	Note	Dec 2015 $	Dec 2014 $
Revenue	3	**19,849**	78,955
Expenses			
Employee benefits expense		**(350,516)**	(626,200)
Depreciation and amortisation expense		**(130,206)**	(168,210)
Foreign exchange loss		**(83,791)**	95,650
Share issue costs		**(779,310)**	
Professional fees		**(68,420)**	(58,097)
Corporate expenses		**(52)**	(8,458)
Occupancy costs		**(42,025)**	(90,226)
Other expenses	4	**(558,779)**	(365,463)
PROFIT/(LOSS) BEFORE INCOME TAX		**(1,993,250)**	(1,142,049)
Income tax		**-**	-
PROFIT/(LOSS) FOR THE PERIOD		**(1,993,250)**	(1,142,049)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(2,422,898)**	1,659,231
Tax effect		**-**	-
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)		**(2,422,898)**	1,659,231
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(4,416,148)**	517,182
Loss for the year is attributable to:			
Owners of Tlou Energy Limited		**(1,993,250)**	(1,142,049)
		(1,993,250)	(1,142,049)
Total comprehensive income/(loss) attributable to:			
Owners of Tlou Energy Limited		**(4,416,148)**	517,182
		(4,416,148)	517,182
Earnings per share			
		Cents	Cents
Basic loss per share		(1.05)	(0.01)
Diluted loss per share		(1.05)	(0.01)

Notes to the consolidated financial statements are attached.

Consolidated statement of financial position
as at 31 December 2015

	Note	Dec 2015	June 2015
		$	**$**
CURRENT ASSETS			
Cash and cash equivalents		**2,915,086**	7,197,813
Trade and other receivables	5	**443,931**	221,944
Other current assets	6	**14,750**	214,291
TOTAL CURRENT ASSETS		**3,373,767**	7,634,048
NON-CURRENT ASSETS			
Exploration and evaluation assets	7	**45,407,097**	43,559,315
Other non-current assets	8	**925,449**	1,378,017
Property, plant and equipment		**573,229**	724,334
TOTAL NON-CURRENT ASSETS		**46,905,775**	45,661,666
TOTAL ASSETS		**50,279,542**	53,295,714
CURRENT LIABILITIES			
Trade and other payables		**396,337**	1,321,234
Provisions		**189,816**	274,094
TOTAL CURRENT LIABILITIES		**586,153**	1,595,328
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**369,353**	369,353
Provisions		**94,000**	90,000
TOTAL NON-CURRENT LIABILITIES		**463,353**	459,353
TOTAL LIABILITIES		**1,049,506**	2,054,681
NET ASSETS		**49,230,036**	51,241,033
EQUITY			
Contributed equity	11	**73,931,569**	71,606,519
Reserves		**(2,723,041)**	(380,244)
Accumulated losses		**(21,978,492)**	(19,985,242)
Equity attributable to the owners of Tlou Energy Limited		**49,230,036**	51,241,033
Non-controlling interests		**-**	-
TOTAL EQUITY		**49,230,036**	51,241,033

Notes to the consolidated financial statements are attached.

Consolidated statement of changes in equity
for the half-year ended 31 December 2015

	Contributed Equity $	Share Based Payments Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total $
Balance at 1 July 2014	66,532,786	4,225,291	(4,582,363)	(19,416,888)	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	-	-	1,659,231	(1,142,049)	517,182
Transactions with owners in their capacity as owners					
Shares issued, net of costs	-	-	-	-	-
	-	-	-	-	-
Balance at 31 December 2014	66,532,786	4,225,291	(2,923,132)	(20,558,937)	47,276,008
Balance at 1 July 2015	**71,606,519**	**2,062,745**	**(2,442,989)**	**(19,985,242)**	**51,241,033**
Loss for the period	**-**	**-**	**-**	**(1,993,250)**	**(1,993,250)**
Other comprehensive income	**-**	**-**	**(2,422,898)**	**-**	**(2,422,898)**
Total comprehensive income	**-**	**-**	**(2,422,898)**	**(1,993,250)**	**(4,416,148)**
Transactions with owners in their capacity as owners					
Share based payments	**-**	**80,101**	**-**	**-**	**80,101**
Shares issued, net of costs	**2,325,050**	**-**	**-**	**-**	**2,325,050**
	2,325,050	**80,101**	**-**	**-**	**2,405,151**
Balance at 31 December 2015	**73,931,569**	**2,142,846**	**(4,865,887)**	**(21,978,492)**	**49,230,036**

Notes to the consolidated financial statements are attached.

Consolidated statement of cash flows
for the half-year ended 31 December 2015

	Dec 2015 $	Dec 2014 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees (inclusive of GST)	**(1,959,245)**	(986,168)
Interest received	**19,849**	78,955
GST and VAT received	**410,946**	37,270
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	**(1,528,450)**	(869,943)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration and evaluation assets	**(4,839,853)**	(2,064,222)
Payment for property, plant and equipment	**(24,009)**	(257,799)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	**(4,863,862)**	(2,322,021)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	**2,292,540**	-
Share issue costs	**(192,979)**	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	**2,099,561**	-
Net increase/(decrease) in cash held	**(4,292,751)**	(3,191,963)
Cash at the beginning of the period	**7,197,813**	9,123,260
Effects of exchange rate changes on cash	**10,024**	(112,287)
CASH AT THE END OF THE PERIOD	**2,915,086**	5,819,010

Notes to the consolidated financial statements are attached.

Notes to the consolidated financial statements
for the half-year ended 31 December 2015

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 2015 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 2015 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 2015 no revenue has been derived from its operations (2014: $nil).

Segment assets

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

	Dec 2015 $	June 2015 $
Botswana	**46,904,769**	44,281,700
Australia	**1,006**	1,949

Note 3. Revenue

	Dec 2015 $	Dec 2014 $
Interest	**19,849**	78,955
	19,849	**78,955**

Note 4. Expenses

Loss before income tax includes the following specific expenses:

	Dec 2015 $	Dec 2014 $
Other expenses		
• Stock exchange and secretarial fees	**73,157**	46,319
• Insurance	**33,708**	33,725
• Travel and accommodation	**111,857**	128,508
	218,722	208,552

Note 5. Trade and other receivables

	Dec 2015 $	June 2015 $
Current		
Other receivables	**292,508**	239
GST/VAT receivable	**151,423**	221,705
	443,931	221,944

Other receivables include proceeds of shares issued on admission to the AIM market of the London Stock Exchange, held on behalf of the Company by the Company's joint broker Brandon Hill Capital Limited.

Note 6. Other assets

	Dec 2015 $	June 2015 $
Prepayments	**14,750**	214,291
	14,750	214,291

Notes to the consolidated financial statements for the half-year ended 31 December 2015 continued

Note 7. Exploration and evaluation expenditure

	Dec 2015 $	June 2015 $
Exploration and evaluation assets	**45,407,097**	43,559,315
	45,407,097	43,559,315

	Dec 2015 $	Dec 2014 $
Movements in exploration and evaluation phase		
Balance at the beginning of period	**43,559,315**	37,344,231
Exploration and evaluation expenditure during the half-year	**3,982,616**	1,913,420
Foreign currency translation	**(2,134,834)**	1,647,517
Balance at the end of period	**45,407,097**	40,905,168

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.

Note 8. Other non-current assets

	Dec 2015 $	June 2015 $
Inventory and well consumables	**925,449**	1,378,017
	925,449	1,378,017

Inventory and well consumables has been reclassified as a non-current asset. In prior periods it was reported under current assets.

Note 9. Contingent liabilities

The Directors are not aware of any contingent liabilities at 31 December 2015.

Note 10. 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

	Dec 2015 $	June 2015 $
• not later than 12 months	**10,143,760**	15,051,886
• between 12 months and 5 years	**16,199,644**	16,986,978
	26,343,404	32,038,864

Note 11. Contributed equity

	Dec 2015 Shares	Dec 2014 Shares	Dec 2015 $	Dec 2014 $
Opening balance	187,156,319	147,754,846	71,606,519	66,532,786
Issue of ordinary shares during the year	18,462,973	-	2,584,816	-
Share issue costs	-	-	(259,766)	-
Ordinary shares - fully paid	**205,619,292**	147,754,846	**73,931,569**	66,532,786

Note 12. 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 2015 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

Gabaake Gabaake
Executive Director

Dated at Gaborone, Botswana this 10th day of March 2016

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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 2015, the consolidated statement of profit or loss and other 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 2015 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 2015 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

BDO

Damian Wright

D P Wright

Director

Brisbane, 10 March 2016