

TLOU ENERGY LIMITED**29 July 2016**

OPERATIONAL REPORT - QUARTER ENDING 30 JUNE 2016**Highlights**

- Production testing at Lesedi Coal Bed Methane Project expanded successfully to include Selemo 2 and Selemo 4 wells to add to positive testing at Selemo 1
 - Sustained gas flow achieved at Selemo 4 with the well exceeding expectations and potentially acting as a key second gas producer alongside Selemo 1
 - Approval granted by Botswana's Government for a 50MW CBM power project – five times larger than the 10MW project originally applied for
 - Considerable interest from a number of larger third-parties to partner with Tlou for the proposed 50MW plant in addition to future projects. Positive discussions are on-going with these potential strategic partners
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TLOU ENERGY LIMITED PROJECTS**Lesedi CBM Project Area, Botswana**

PLs 001-003/2004 and PLs 35 & 37/2000

Tlou Energy Limited 100%

Operations

The Company is focused on delivering power in Botswana and Southern Africa through the development of coal bed methane ('CBM') projects. The Lesedi CBM Project ('Lesedi') is the most advanced CBM project in Botswana and the Selemo production wells are now in the advanced stage of testing for commercial gas production with rates expected to grow.

The current focus at Lesedi is the Selemo production wells, also referred to as pods, namely Selemo 1, 2 and 4. Each of these three pods consist of a vertical well and an intersecting horizontal well. Selemo 1 is the central pod with Selemo 2 and 4 drilled to the south and north of Selemo 1 to shield water from the central area around Selemo 1,

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assist with dewatering and ultimately, enhance gas deliverability. The aim of the gas testing program is to provide evidence of a sustainable gas production rate achievable from the field and to develop the first wells flowing commercial rates of gas in Botswana.

Production testing is centered on establishing a consistent gas flow from the production pilot pods. Long term testing on Selemo 1 commenced in the prior quarter with Selemo 2 and 4 wells initially maintaining static fluid levels. The Company proceeded to draw down all the Selemo wells including the Selemo 2 and 4 shielding wells in April 2016.



Gas flaring at Selemo 1 - Q2 2016

A sustained gas flow was reached at Selemo 1 prior to this quarter and an additional sustained gas flow was achieved at Selemo 4 as reported on 29 June 2016. Sustained gas flows are a significant milestone and a key step in the process of achieving an economic flow rate.

A workover was conducted at Selemo 1 at the end of the quarter to clear coal fines at the intersection of the vertical and lateral wells, which can cause reduced communication between the well pair.

Following the workover, pumping and metering equipment was installed on the lateral end of the Selemo 1 pilot pod. This facilitates production of gas from both the vertical producer and also the lateral end of the pod if necessary.

Gas rates are expected to grow as the coal seam continues to be dewatered and especially if gas is contributed from the lateral sections of the wells.

Along with providing evidence of gas production achievable from the field, the data being recorded will be incorporated into future field development plans and for independent reserve certification.

TLOU ENERGY LIMITED**Downstream activities and partnership options**

Post the end of the quarter, Tlou was delighted to receive confirmation from Botswana's Public Procurement and Asset Disposal Board ('PPADB') that it has been selected to develop a 50MW CBM power plant at the Company's 100% owned Lesedi CBM Project.

This project is five times larger than the 10MW power plant originally applied for, demonstrating the strength of the government's support for the development of domestic sources of gas and power. This approval followed the decision by the Government of Botswana to incorporate 100MW of CBM power into its future generation supply plans from 2018.

The 50MW project approval creates a ready market as the first step to develop Tlou's independently certified contingent gas resources of ~3.3 trillion cubic feet (TCF) (3C).

The Company will now enter into further discussions with the relevant government department to agree the terms of an off-take agreement. This is another key parameter in the steps towards booking independently certified gas reserves.

There is considerable interest from a number of larger organizations to partner with Tlou to initially develop a gas-to-power pilot project in Botswana and thereafter expand to supply this power deficient region. The larger 50MW project is attractive to such organizations as it provides more options regarding project development as well as potential benefits from economies of scale.

The Company has had positive discussions with potential strategic partners in relation to co-operating on future gas-to-power projects. Based on these discussions Tlou is confident that a strategic relationship with one or more of these potential partners can be agreed in the near term.

TLOU ENERGY LIMITED**Mamba Project Area, Botswana**

PLs 237-241/2014

Tlou Energy Limited 100%

The Mamba project consists of five CBM permits in Botswana covering an area of approximately 4,500 km². 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. No operations were conducted in the tenement during the quarter. In the event of a gas field development by Tlou, the Mamba area provides the Company with considerable flexibility and optionality.

New Ventures

While Tlou is focussed on the Lesedi CBM project, the Company will continue looking at potential areas of expansion should the possibility arise.

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Tlou- Key Statistics (as at 30 June 2016)

- ASX Code – TOU
- AIM Code – TLOU
- Shares on issue ~ 206 million
- Fully diluted ~ 208 million
- Cash balance ~ \$1.2 million (AUD)
- Debt – Nil
- Primary Focus is the Lesedi CBM Project in Botswana

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