

TLOU ENERGY LIMITED**6 October 2015**

Operations Update**Key points:**

- The two new Selemo pods (Selemo 2 and 4) have been completed for production testing along with Selemo 1.
- It is expected to take a number of weeks before water levels are reduced to reach the critical gas desorption point.
- The Company is implementing an overhead reduction program.

Note: All times quoted are referenced to Australian Eastern Standard Time (AEST) unless otherwise stated

Update on the expanded lateral well program at Selemo

The original Selemo lateral production pod recently had two new lateral pods drilled either side of it to assist with dewatering and ultimately enhance gas deliverability. Following the successful drilling program, each new vertical production well was completed with down-hole equipment to enable water level reduction and allow the gas to begin to be liberated from the coal. This process of dewatering is anticipated to take a number of weeks.

The dewatering process includes:

- 1) gradually reducing the water level in each of the three vertical production wells;
- 2) reaching the critical gas desorption point;
- 3) gas pressure building up in each well; and
- 4) flowing and testing the gas production rates.

It is anticipated that the central pod (Selemo 1) will show sustained gas flow rate once the process culminates. Furthermore, the two flanking wells are expected to produce gas (with time). Due to the configuration of the wells they are likely to produce less gas and more water initially compared to the central well (Selemo 1).

Subject to results, the field could then be expanded with further operations on the back of a gas sales agreement and adequate development funding. It is noted that during the dewatering phase, various operational issues may be experienced that require routine remedial operations to be conducted.

The Company is reducing its overheads consistent with broader industry trends and now that the Selemo drilling phase has concluded. The Directors have agreed to reduce

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their fees by 50% for six months, with the option of extending this reduction further if necessary. In addition, restructuring of a number of other positions is in progress while being careful not to compromise operational capacity. The net result will be a significant reduction in on-going overheads, particularly going into 2016. Tlou considers that it is vitally important to conserve funds especially given the current market conditions and also taking into account Tlou's near term objectives of a potential AIM listing and converting gas to power next year.

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