

Tlou Energy Limited

A.B.N. 79 136 739 967

Consolidated Financial Statements for the half-year ended 31 December 2017

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Managing Directors' report

Dear Shareholders,

It has been a very productive time for the Company and it gives me great pleasure to provide you with an update of ongoing operations as well as outlining our forward plans and strategy.

The past year has witnessed a period of considerable growth for the Company. Tlou is now the most advanced gas-to-power developer in Botswana. This has come about by a disciplined approach designed to incrementally reduce risk. Things have not always gone our way, however the achievements that we have made of late are very significant indeed.

Recent achievements for the Company include:

- A 25-year CBM Mining Licence secured - the only one in Botswana;
- Independently certified gas Reserves – the only CBM gas Reserves in Botswana;
- Approved Environmental Impact Statement (EIS) in place for field development – the only one in Botswana;
- Gas being produced from the Selemo pilot for over 18 months;
- CBM gas has been used to power a field generator – proof that power can be generated from Tlou's CBM.

These achievements have been the result of some very hard work and I would like to thank all the Tlou team for their efforts and perseverance over the years to get us to this position. I'd also like to thank our shareholders for their continued support and patience. My experience in the industry suggests that these types of projects can take some time to come to fruition and I'm confident that we can make this project a great success both for our shareholders and the people of Botswana.

Tlou is committed to advancing the Company and increasing shareholder wealth by adhering to the following strategy:

1. Increasing Gas Reserves

The Company has a valuable asset base comprising its vast CBM acreage position in Botswana and its associated independently certified gas Reserves and Contingent Resources.

Tlou's core business comprises the ongoing conversion of its significant Contingent Resources into Reserves. These Reserves can then be developed to help satisfy the high power demand in the southern African region.

The conversion process requires a systematic approach involving:

- Seismic surveys to gain increased confidence in target coal distribution within the project areas;
- Core-hole drilling and evaluation to confirm coal quality, thickness and gas content, and;
- Production pod drilling and testing to confirm commercial gas volumes.

The geological data collected in the last six months of 2017 included a seismic survey and core-hole drilling campaign. This new data has resulted in a very significant increase in certified gas Reserves, as recently announced. A 944% increase in 2P reserves and a 63% increase in 3P Reserves was an excellent result. This has served to reinforce the value of undertaking the field work in the past year. We believe that the Lesedi and Mamba Projects will continue to develop into a valuable resource for Tlou shareholders as we work towards increasing the certified gas Reserves in both areas.

Along with increased Reserves, the seismic survey and core-holes have provided additional geological data, including the identification of an area of high potential by the Company's independent geological consultants. This area was identified as an optimum location for new lateral gas production pods to be drilled.

As part of the strategy of expanding gas Reserves and Contingent Resources, additional drilling is planned for 2018. Future additional core-holes in Tlou's Mamba permit area will particularly assist in expanding Tlou's development optionality.

2. Selling gas via electricity into the grid

In order for Tlou to effectively monetise its gas resources through electricity generation, Tlou needs to maximise its certified gas Reserves and connect to the regional electricity grid in Botswana. The grid connection process is already well advanced and involves various government and environmental approvals being granted, which Tlou is confident of achieving. Increasing gas Reserves leads to reduced project risk and generally a more favourable cost of capital.

The Company is planning on building the necessary infrastructure to connect to the existing electricity grid and then selling power into the Botswana market under either a power purchase agreement or on an "as required" basis. We could also sell power to neighbouring countries by 'wheeling' electricity through the existing Southern African Power Pool (SAPP) transmission network. Entry to the grid is planned at the town of Serowe, a relatively short distance away from the proposed Lesedi gas processing and power generation facility.

In addition, the Company is assessing the possibility of installing solar power generation at the proposed Lesedi gas processing and power generation facility. Solar can work very efficiently in combination with baseload power such as gas. This could also serve to attract wider investor interest to the project.

Managing Directors' report continued

The coming 12 months will be a busy period. Subject to results in the field, rig availability and funding, the Company's targets include:

- Commencement of initial development drilling in mid-2018;
- Potential purchase of drilling rigs to provide more operational control;
- Additional core-holes and a new seismic survey;
- Further gas Reserves upgrades;
- Agreeing a power purchase agreement with either the Botswana Government or a third party;
- Approvals for commencement of transmission line and central processing facility construction.

Building on the current Reserve position and accessing the market via the Botswana grid are key objectives that will de-risk the project even further and add value.

I thank you for your continued support and look forward to updating you as the year progresses.



Anthony (Tony) Gilby
Managing Director

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 2017.

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:

Martin Mclver	Non-Executive Chairman
Anthony Gilby	Managing Director & Chief Executive Officer
Gabaake Gabaake	Executive Director
Colm Cloonan	Finance Director
Hugh Swire	Non-Executive Director
Linah Mohohlo	Non-Executive Director; appointed 12 July 2017

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 loss for the half-year after income tax amounted to \$1,676,624 (December 2016: loss \$1,153,668). Information on operations and results during the period are set out below.

The loss for the half-year is higher than the comparative period in the previous year. Part of this increase is attributed to work conducted in relation to the Company's response to a proposal for a CBM power project submitted to the Government of Botswana during the period. Additional details about this proposal are outlined later in this report. Costs relating to the proposal response include engineering expenses, technical assessments, and a project feasibility report. Other increased costs this period included performance rights issued to key personnel during the reporting period amounting to \$199,624, a non-cash item representing the valuation of the performance rights issued.

Also included this half-year are share issue costs of \$176,685, relating to the capital raisings conducted by the Company during the period. These have been expensed as they relate to the listing of existing shares. The gross amount of capital raised amounted to approximately \$4.4m. Employee benefits expense (salaries and Directors' fees) are also higher this period as the comparative period included temporary salary cuts that were agreed with some staff and Directors. The Company has continued its focus on reducing corporate, administrative, and operating costs wherever possible, where this can be done without any adverse effect on performance.

Net spend on exploration activities during the period amounted to approximately \$2m. This relates to the seismic survey and core-hole drilling that occurred during the period. These operations are outlined in more detail later in this report.

Lesedi CBM Project Area, Botswana

The Lesedi project in Botswana covers an area of approximately 3,800km² and consists of four Coal and CBM Prospecting Licences (“PL”) and a Mining Licence. The Mining Licence area is currently the focal point for the Company's operations and includes the Selemo pilot project where the Company has been producing gas since 2016.

The status of the Lesedi area licences is as follows:

Licence	Expiry	Status
Mining Licence 2017/18L	August 2042	Current
PL 001/2004	March 2019	Current
PL 003/2004	March 2019	Current
PL 035/2000	September 2018	Current
PL 037/2000	September 2018	Current

Reserves Upgrade

In February 2018, the Company received a reserves upgrade from SRK Consulting (Australasia) Pty Ltd (“SRK”), Tlou's geological consultants and independent reserve certifiers. The increase in reserves showed a 944% increase in 2P (proved and probable) gas reserves and a 63% increase in 3P (proved, probable and possible) gas reserves. The increases are attributable to additional certified reserves in the Lesedi project area (ML 2017/18L) based on the results of Tlou's recent exploration activities carried out in the Lesedi project area. The final gas and coal analysis of three recently drilled core-holes have not yet been incorporated in this Reserves assessment whilst the samples continue to be analysed.

The increase in certified reserves does not include an updated review and assessment of Contingent Resources in the Lesedi or Mamba Project areas, which will be the subject of a later review.

Directors' report continued

Proposal for a CBM Power Project submitted to Government of Botswana

Early in 2017, the Company received a detailed Request for Proposal ("RFP") from Botswana's Ministry of Mineral Resources Green Technology and Energy Security ("the Ministry") for the development of up to 100MW of CBM fuelled pilot power plants in Botswana. Tlou Energy submitted its RFP response to the Ministry in September 2017. Tlou's submission outlined a staged development commencing with up to 10MW of generation as well as outlining project feasibility, proposed field development, installation of power generation facilities and supply of power into the grid in Botswana.

The Company received correspondence from the Ministry in February 2018 confirming that all bids submitted were not deemed to be compliant with their requirements and as a result they plan to re-tender the proposal to the same two bidders, including Tlou Energy Limited.

The Company met with the Ministry following the decision and will continue to work collaboratively with the Ministry to agree a proposal that will allow a tender response that adheres to the requirements of both Tlou and the Ministry. Following this consultation, the Company will make a final decision regarding the proposed re-tender process.

Mining Licence

In August 2017, Tlou was granted its Mining Licence by Botswana's Department of Mines in the Ministry of Mineral Resources, Green Technology and Energy Security. This milestone achievement gives the Company security of tenure over this area of the Lesedi project and progresses Tlou's activities from CBM exploration and appraisal to development.

In Botswana, holders of Prospecting Licences ("PL") are issued Mining Licences once exploration on a relevant PL has been concluded. Mining licences are assessed in accordance with the prescribed statutory requirements of Botswana's Mines and Minerals Act. Two major components of a Mining Licence application are an approved Environmental Impact Statement (granted for the Lesedi Project in September 2016) and a feasibility study for the relevant project.

Key terms and information included in the Mining Licence are:

- The Mining Licence has been issued in terms of Section 41 of the Mines and Minerals Act of Botswana;
- The licence grants the holder the right to produce CBM natural gas in the approved Mining Licence area for a term of 25 years commencing on 21 August 2017 and ending on 20 August 2042;
- The Mining Licence was granted in full across the area applied for, which was previously known as Prospecting Licence PL002/2004;
- The licence area is approximately 900Km²;
- An annual licence fee is payable to the office of the Director of Mines of approximately USD\$9,000;
- Project development can commence at any time with no minimum spend stipulated;
- Royalties are payable to the Government of Botswana in accordance with Section 66 of the Mines and Minerals Act. Royalties are currently payable at a rate of 3% of gross market value. Gross market value is defined as the sale value receivable at the mine gate in an arm's length transaction without discounts, commissions or deductions for the mineral or mineral product on disposal.

Seismic Survey

A seismic survey acquired approximately 250km of data over the Company's Lesedi and Mamba projects including over part of the Mining Licence area. It was conducted by Velseis Pty Ltd, an experienced Australian seismic acquisition and processing company that provides a fully integrated range of seismic services.

The Company identified potential gas reservoir compartments outside the currently mapped gas reserve areas. These compartments had relatively sparse geological control other than Tlou's existing aeromagnetic data so new seismic data could demonstrate that continuity of gassy coal exists, and this could lead to expanded gas reserves and/or contingent resources.

The seismic lines were inspected and cleared, and equipment and safety checks completed in advance of commencement of the acquisition of the 2D data. The acquisition involved specially designed tractors that are fitted with a vibrating plate which transmits a frequency into the ground at specified locations. The reverberating frequency is recorded via highly sensitive geophones placed along the seismic line and this is interpreted by specialised software to identify the underlying structure.

The new seismic data is of excellent quality and will serve to provide a more accurate picture of the subsurface target coal horizon. SRK, Tlou's geological consultants and independent reserve certifiers, carried out the seismic interpretation. This included integration of the new seismic data with existing well and aeromagnetic data sets, to support the reserves upgrade received by the Company in February 2018.

Core-hole operations

The Company planned a core-hole drilling program to follow the seismic survey over the Company's Lesedi and Mamba projects. In consultation with SRK, the Company identified a series of locations, using the newly acquired seismic data, for further evaluation by drilling of new core-holes. Two new core-holes were completed in the Lesedi project area during the period. This work was completed safely within the terms of the Company's approved Environmental Impact Statement. Following coring, desorption samples were taken and placed into desorption baths in the field with readings being taken and sent to Weatherford laboratories in Brisbane.

Once that analysis was complete, physical samples were sent to Weatherford for further analysis. This data has not yet been taken into account by SRK as part of their recent gas reserves upgrade, so will form part of a later reserves assessment. An initial dual lateral development pod is planned in mid-2018 with the location to be determined following consultation with SRK.

Directors' report continued

Key benefits of the core-hole drilling program include:

1. Confirming coal quality, thickness, and gas content in a previously un-drilled area of the Lesedi project;
2. Providing new information to expand the Company's gas reserves and contingent resources;
3. The additional data will be used to determine the optimum location for initial project development as well as high-grading additional areas for further development both within the Lesedi and Mamba project areas.

Mamba Project Area, Botswana

The Mamba project consists of five Coal and CBM prospecting licences in Botswana covering an area of approximately 4,500km². The Mamba area is considered highly prospective being situated adjacent to Tlou's Lesedi CBM Project and being on-trend with the encouraging results observed to date. In the event of a gas field development by Tlou, the Mamba area provides the Company with considerable flexibility and optionality.

The status of the Mamba area Prospecting Licences is as follows:

Licence	Expiry	Status
PL 237/2014	June 2019	Current
PL 238/2014	June 2019	Current
PL 239/2014	June 2019	Current
PL 240/2014	June 2019	Current
PL 241/2014	June 2019	Current

Core-hole operations

During the half-year, operations at a core-hole in the Mamba project area commenced with the work completed in January 2018. This is the first core-hole drilled by the Company in the Mamba area. Similar to the core-holes in the Lesedi area, the data obtained can be used to expand the Company's gas reserves in the Mamba project. Core-hole data from this well has not been taken into account by SRK in the reserves upgrade issued in February 2018 and will be used as part of a further assessment at a later date. Confirmation of further reserves and contingent resources in the Mamba area could allow the Company the option to proceed with development projects in this area in addition to the Lesedi area.

Other items

Director appointment

Ms Linah Mohohlo was appointed as a Non-Executive Director of the Company on 12 July 2017. Ms Mohohlo is the former Governor of the Bank of Botswana, a position she held from 1999 to 2016. Ms Mohohlo joined the Bank of Botswana in 1976, where she served in several capacities prior to being appointed Governor, including Board Secretary, Deputy Director of Research, Director of the Financial Market Department and Deputy Governor. Ms Mohohlo is a member of the Commission for Africa, and the Africa Progress Panel, a group of ten distinguished individuals who advocate at the highest levels for equitable and sustainable development in Africa.

Ms Mohohlo's experience in the banking and finance sectors are extremely valuable to the Company as it moves towards development of the project and associated infrastructure. In addition, Ms Mohohlo brings significant experience from the mining industry in Botswana as a board member of both Debswana Diamond Company and Diamond Trading Company.

Ms Mohohlo holds a Bachelor Degree in Economics from The George Washington University, Washington DC, a Masters Degree in Finance and Investment from University of Exeter, UK and a Diploma in Accounting and Business Studies from the University of Botswana. Ms Mohohlo currently has no beneficial interest in the Company.

Botswana Stock Exchange listing and cornerstone investor

The Company listed on the main board of the Botswana Stock Exchange ("BSE") on 13 December 2017 and issued capital via a share subscription to new Botswana based investment funds managed by African Alliance Botswana Limited ("African Alliance"), a leading asset manager in Botswana.

African Alliance managed funds subscribed for approximately 21.2 million new ordinary shares at a subscription price of P1.56 (approximately £0.11 or A\$0.20) per share, raising P33 million (approximately £2.4 million or A\$4.1 million).

Listing on the BSE has a number of advantages for the Company. One of the key advantages is that, as a BSE listed entity, the Company has access to the significant investment funds which are available for development of Botswana based projects. This could prove to be valuable to the Company as it progresses discussions on financing options for its planned CBM gas-to-power projects.

Shares issued

Two million shares were issued during the half-year following the exercise of share options, with gross proceeds of approximately \$235k. The Company also issued 2,275,000 shares following satisfaction of conditions under the Company's performance rights plan.

Significant changes in the state of affairs

During the half-year ended 31 December 2017, 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.

Directors' report continued

Matters subsequent to the end of the half-year

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.

Likely developments and expected results of operations

The Company is pursuing options to secure an off-taker (purchaser) for Tlou's gas or power. This could be via the Government of Botswana's re-tender process outlined above or an agreement with one or more parties external to Botswana. The process to secure environmental approval for the construction of transmission lines and a central processing facility is also underway. The Company will require further funding to bring the project into development. Discussions are underway in this regard with providers of debt, mezzanine, and equity finance options. The results of these matters are not yet known. Commencement of planned gas-to-power projects may depend on the outcome of these negotiations and proposals.

In the event that an off-take agreement is not secured in the near-term, the Company may still pursue, subject to funding, development of the gas field, construction of transmission lines and installation of power generation assets, due to the confidence in the Company's gas assets and the anticipated and increasing demand for power regionally in southern Africa.

Auditor's Independence Declaration

The auditor's independence declaration for the half-year ended 31 December 2017 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
22 February 2018

DECLARATION OF INDEPENDENCE BY T R MANN TO THE DIRECTORS OF TLOU ENERGY LIMITED

As lead auditor for the review of Tlou Energy Limited for the half-year ended 31 December 2017, 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.



T R Mann
Director

BDO Audit Pty Ltd

Brisbane, 22 February 2018

**Consolidated statement of comprehensive income
for the half-year ended 31 December 2017**

	Note	Consolidated	
		Dec 2017 \$	Dec 2016 \$
Interest income		820	801
Expenses			
Employee benefits expense		(426,980)	(227,073)
Depreciation and amortisation expense		(88,289)	(133,147)
Foreign exchange gain/(loss)		90,736	(55,446)
Share issue costs		(176,685)	-
Performance rights expense		(199,624)	(93,097)
Professional fees		(89,936)	(69,871)
Corporate expenses		(16,237)	(6,031)
Occupancy costs		(21,490)	(23,177)
Other expenses	2	(748,939)	(546,627)
LOSS BEFORE INCOME TAX		(1,676,624)	(1,153,668)
Income tax		-	-
LOSS FOR THE PERIOD		(1,676,624)	(1,153,668)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		629,253	1,720,346
Tax effect		-	-
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)		629,253	1,720,346
TOTAL COMPREHENSIVE INCOME/(LOSS)		(1,047,371)	566,678
Earnings per share			
		Cents	Cents
Basic loss per share		(0.5)	(0.6)
Diluted loss per share		(0.5)	(0.6)

Notes to the consolidated financial statements are attached.

**Consolidated statement of financial position
as at 31 December 2017**

	Note	Consolidated	
		Dec 2017	June 2017
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		7,463,200	6,727,424
Trade and other receivables		204,910	100,674
Other current assets		6,958	8,650
TOTAL CURRENT ASSETS		7,675,068	6,836,748
NON-CURRENT ASSETS			
Exploration and evaluation assets	3	52,043,898	49,328,038
Other non-current assets		666,982	694,402
Property, plant and equipment		258,181	320,739
TOTAL NON-CURRENT ASSETS		52,969,061	50,343,179
TOTAL ASSETS		60,644,129	57,179,927
CURRENT LIABILITIES			
Trade and other payables		336,626	431,032
Provisions		161,501	166,193
TOTAL CURRENT LIABILITIES		498,127	597,225
NON-CURRENT LIABILITIES			
Deferred tax liabilities		369,353	369,353
Provisions		98,000	94,000
TOTAL NON-CURRENT LIABILITIES		467,353	463,353
TOTAL LIABILITIES		965,480	1,060,578
NET ASSETS		59,678,649	56,119,349
EQUITY			
Contributed equity	5	87,787,231	83,380,184
Reserves		(2,278,555)	(3,107,432)
Accumulated losses		(25,830,027)	(24,153,403)
TOTAL EQUITY		59,678,649	56,119,349

Notes to the consolidated financial statements are attached.

**Consolidated statement of changes in equity
for the half-year ended 31 December 2017**

	Contributed Equity	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2016	73,931,569	97,001	(4,838,114)	(20,988,080)	48,202,376
Loss for the period	-	-	-	(1,153,668)	(1,153,668)
Other comprehensive income	-	-	1,720,346	-	1,720,346
Total comprehensive income	-	-	1,720,346	(1,153,668)	566,678
Transactions with owners in their capacity as owners					
Share based payments	-	93,097	-	-	93,097
Shares issued, net of costs	2,864,684	-	-	-	2,864,684
	2,864,684	93,097	-	-	2,957,781
Balance at 31 December 2016	76,796,253	190,098	(3,117,768)	(22,141,748)	51,726,835
Balance at 1 July 2017					
	83,380,184	520,500	(3,627,932)	(24,153,403)	56,119,349
Loss for the period	-	-	-	(1,676,624)	(1,676,624)
Other comprehensive income	-	-	629,253	-	629,253
Total comprehensive income	-	-	629,253	(1,676,624)	(1,047,371)
Transactions with owners in their capacity as owners					
Share based payments	-	199,624	-	-	199,624
Shares issued, net of costs	4,407,047	-	-	-	4,407,047
	4,407,047	199,624	-	-	4,606,671
Balance at 31 December 2017	87,787,231	720,124	(2,998,679)	(25,830,027)	59,678,649

Notes to the consolidated financial statements are attached.

**Consolidated statement of cash flows
for the half-year ended 31 December 2017**

	Consolidated	
	Dec 2017	Dec 2016
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees (inclusive of GST and VAT)	(1,796,542)	(1,057,500)
Interest received	820	801
GST and VAT received	117,549	48,331
NET CASH USED IN OPERATING ACTIVITIES	(1,678,173)	(1,008,368)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration and evaluation assets	(2,106,573)	(1,003,834)
Payment for property, plant and equipment	(20,741)	(4,058)
NET CASH USED IN INVESTING ACTIVITIES	(2,127,314)	(1,007,892)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	4,419,259	3,254,326
Share issue costs	(28,377)	(78,472)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,390,882	3,175,854
Net increase/(decrease) in cash held	585,395	1,159,594
Cash at the beginning of the period	6,727,424	1,224,404
Effects of exchange rate changes on cash	150,381	27,334
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	7,463,200	2,411,332

Notes to the consolidated financial statements are attached.

Notes to the consolidated financial statements for the half-year ended 31 December 2017

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 2017 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 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. 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 financial liabilities approximate their carrying values. No financial assets or financial 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.

Exploration & evaluation assets

During the reporting period the Consolidated Entity converted a prospecting licence into a mining licence. A mining licence allows the commencement of commercial development. Despite this management believe that it is not practical to commence amortisation of the exploration and evaluation assets held in relation to the mining licence as the Consolidated Entity has not yet entered into production of a commercially viable resource.

**Notes to the consolidated financial statements
for the half-year ended 31 December 2017 continued**

Note 2. Expenses

Loss before income tax includes the following specific expenses:

	Dec 2017	Dec 2016
	\$	\$
Other expenses		
• Stock exchange and secretarial fees	141,453	19,833
• Investor relations	79,283	45,045
• Travel and accommodation	110,857	119,259

Note 3. Exploration and evaluation expenditure

	Dec 2017	June 2017
	\$	\$
Exploration and evaluation assets	52,043,898	49,328,038
	52,043,898	49,328,038
	Dec 2017	Dec 2016
	\$	\$
Movements in exploration and evaluation phase		
Balance at the beginning of period	49,328,038	46,183,722
Exploration and evaluation expenditure during the half-year	2,081,971	1,848,143
Foreign currency translation	633,889	1,296,173
Balance at the end of period	52,043,898	49,328,038

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 4. Contingent liabilities

The Directors are not aware of any contingent liabilities at 31 December 2017.

**Notes to the consolidated financial statements
for the half-year ended 31 December 2017 continued**

Note 5. Contributed equity

	Dec 2017 Shares	June 2017 Shares	Dec 2017 \$	June 2017 \$
Opening balance	304,042,848	205,619,292	83,380,184	73,931,569
Issue of ordinary shares during the year	25,428,845	98,423,556	4,419,259	9,684,461
Share issue costs	-	-	(12,212)	(235,846)
Ordinary shares - fully paid	329,471,693	304,042,848	87,787,231	83,380,184

Options	<i>Grant Date</i>	<i>Expiry date</i>	<i>Exercise price</i>	Opening Balance July 2017	Exercised During the Year	Granted During the Year	Expired During the year	Closing Balance Dec 2017	Vested & Exercisable
	30/11/15	29/11/17	\$0.14	1,500,000	1,500,000	-	-	-	-
	14/01/16	14/01/18	\$0.14	500,000	500,000	-	-	-	-
Total				2,000,000	2,000,000	-	-	-	-

Performance shares

Details of performance shares issued, exercised, and expired during the financial year are set out below:

Vesting Date	Exercise Price	01/07/2017	Issued	Exercised	Expired	31/12/2017
31 January 2017	\$0.21	2,275,000	-	2,275,000	-	-
31 January 2017	\$0.28	2,275,000	-	-	-	2,275,000
		4,550,000	-	2,275,000	-	2,275,000

The outstanding performance shares have the following key terms and conditions:

Number	Performance condition
2,275,000	The shares will only vest once the share price of the Company's securities listed on the ASX reaches \$0.28 and closes at that price or above for a period of 10 consecutive trading days.
	The Performance Shares will lapse if: <ul style="list-style-type: none"> • None of the pricing conditions are met; or • the participant does not meet the service conditions.

Note 6. Commitments

Exploration expenditure

In order to maintain an interest in the exploration tenements (Prospecting Licences) 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 Prospecting Licence conditions and may vary significantly from the forecast based on the results of the work performed, which will determine the prospectivity of the relevant licence area. Subject to agreement with the appropriate government department, continued development of the area and renewal of the Prospecting Licences, expenditure and work program obligations may be carried forward and incurred in subsequent renewal periods. The obligations are not provided for in the financial statements.

Minimum expenditure requirements

	Dec 2017 \$	June 2017 \$
• not later than 12 months	3,744,078	1,637,420
• between 12 months and 5 years	813,999	2,637,363
	4,558,077	4,274,783

**Notes to the consolidated financial statements
for the half-year ended 31 December 2017 continued**

Note 7. 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 2017 no revenue has been derived from its operations (2016: \$nil).

Segment assets

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

	Dec 2017	June 2017
	\$	\$
Botswana	52,965,748	50,341,366
Australia	3,313	1,813
	52,969,061	50,343,179

Note 8. 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 2017 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 22nd day of February 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Tlou Energy Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Tlou Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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 the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

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 Group's financial position as at 31 December 2017 and its financial 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 the Group, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit Pty Ltd



T R Mann
Director

Brisbane, 22 February 2018