

Tlou Energy Limited

ABN 79 136 739 967

Annual Report and Consolidated Financial Statements for the year ended 30 June 2018

Corporate Directory

ABN	79 136 739 967
Directors	Martin McIver Anthony Gilby Gabaake Gabaake Colm Cloonan Hugh Swire Linah Mohohlo
Company Secretary	Solomon Rowland
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Auditors	BDO Audit Pty Ltd Level 10 12 Creek Street Brisbane QLD 4000

Contents

Chairman's letter	4
Managing Director's Report	5
Directors' report	6
2018 Annual Reserves Statement	20
Auditor's independence declaration	23
Consolidated Statement of Comprehensive Income	24
Consolidated Statement of Financial Position	25
Consolidated Statement of Changes in Equity	26
Consolidated Statement of Cash Flows	27
Notes to the financial statements	28
Directors' declaration	54
Independent Auditor's Report	55
Corporate Governance Statement	59
Additional Information	70

Chairman's letter

Dear Shareholders,

We have made excellent progress towards establishing ourselves as a key power player in Botswana, culminating in being awarded our Mining Licence in August 2017 over a licence area of approximately 900Km². This was a key target as we work towards our goal of reducing the regional power deficit in Southern Africa through the development of our gas-to-power project via Coal Bed Methane ('CBM').

We are privileged to have the support of the forward-thinking Government of Botswana, which announced in 2016 that CBM, a relatively clean source of energy and more competitively priced than solar and diesel, is to be included as part of the country's forward plan to combat power deficiency. In September 2017, the Company submitted a proposal for up to 100MW of CBM power in response to the Request for Proposal ('RFP') issued by the Ministry of Mineral Resources, Green Technology and Energy Security in January 2017. Despite the submission being extensive, the Ministry of Mineral Resources, Green Technology and Energy Security did not approve the submission on the basis that it did not satisfy some requirements. The Ministry of Mineral Resources, Green Technology and Energy Security has since reissued an amended RFP for up to 100MW. The Company has met with Government officials to discuss the requirements of the reissued RFP and is confident that Tlou's resubmission due in September 2018 will be comprehensive. As 100% owners of the most advanced CBM project in Botswana we believe we are in an excellent position to deliver the project outlined in our response to the RFP.

During the last 12 months, Tlou has completed a work program including a 2D seismic survey and core drilling. The seismic survey acquired data over approximately 250km of the Company's Lesedi and Mamba project areas providing excellent quality data that has been integrated with the existing resource models. To further verify the seismic data, Tlou completed a 3-core hole drilling program in January 2018, including the first core hole drilled in the Mamba project area. The work program has provided important data that will be used to optimise future development activities and resulted in an increase in gas reserves.

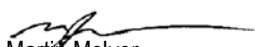
Further field development is being planned for later in 2018 and into 2019. The Company has purchased a core drilling rig to undertake an expanded core drilling program to further expand gas reserves. The purchase of the core rig will reduce the cost of future core drilling programs and provide increased control over the operations. The Company is also planning to drill new pilot production wells close to the proposed central processing facility.

Tlou's Lesedi project has Botswana's first independently-certified CBM reserves. The results of the recent work program have significantly increased the gas reserves, upgrading 2P (Proved and Probable) gas reserves by 944% to 40.8 billion cubic feet ('BCF') and 3P (Proved, Probable and Possible) gas reserves by 63% to 426.6 BCF. We believe there is significant further upside to these figures which will come to fruition through further de-risking of both the Lesedi and Mamba project areas.

During the year, we were delighted to complete a listing on the Botswana Stock Exchange as part of the Company's strategy to access local investors focused upon the development of Botswana based projects. As part of this listing we secured African Alliance Botswana Limited, a leading asset manager in Botswana, as a cornerstone investor raising P33 million (approximately £2.4 million or A\$4.1 million). We were also delighted to complete an equity entitlement offer and placings to raise ~A\$8 million which was well supported by new investors and existing shareholders. This cash will enable us to undertake additional field development work.

This has been a highly active year for Tlou. With the Lesedi Mining Licence now in hand which is an important prerequisite to developing the first commercial gas-to-power project in the Botswana, we have a range of milestones ahead that are set to be pivotal in shaping our future and we believe we are very well placed to achieve our objectives. I would like to take this opportunity to thank the Tlou Board, Management Team, Advisers and most importantly our shareholders for their continued support during this exciting time for Tlou.

Yours faithfully,



Martin McIver
Chairman

Managing Director's Report

Dear Shareholders,

The Company made significant advancements over the previous twelve months however, this was unfortunately not reflected in the share price at year end. Nonetheless, we are now in a much stronger position to advance our gas-to-power project in Botswana in the near term.

Notable achievements over the previous period include producing the first on-site electrical power from Tlou's gas, being awarded the first Mining Licence for CBM gas in the country, having a Botswana entity as our largest shareholder, for the first time acquiring excellent quality seismic data to form the basis of future technical evaluation and the drilling of a number of wells including the first core-hole in our Mamba project area. A significant increase in independently certified gas reserves was also achieved on the back of the technical work undertaken during the year with the Company flowing gas from the Selemo pilot production pod for over 2 years.

We unfortunately fell short on delivering a successful outcome for a gas-to-power tender which effectively negated our share price momentum. A positive to come out of the tender process was a much more detailed understanding of what we need to do to connect our project to the electricity grid and the economic parameters of doing so.

As a result of the achievements of the previous twelve months, we are in a good position to make further significant advancements in the year ahead. Our cash position is strong, and we are therefore financially well placed to proceed with a series of value adding field operations, the most significant of which will be drilling a number of gas production well pods scheduled to begin in the third quarter of 2018. These pods have been positioned in the best technical location and orientation to potentially result in enhanced gas flows compared to what has already been achieved. The results of the recent seismic data coupled with an extensive geological review of our area by our independent geological consultants has determined the optimum positioning for the upcoming drilling campaign.

Furthermore, we purchased our own coring rig and associated testing equipment so that future core-hole drilling campaigns are much more flexible and cost effective for us as we continue to evaluate our 100% owned circa 8,300Km² of acreage over 10 individual permits.

In terms of gaining access to the power grid to ultimately monetise our gas via electricity, we have continued to run parallel processes of going down the path of the re-issued gas to power tender (recognising its challenges) as well as going it alone by gaining all of the necessary approvals to independently connect to the grid in any event. The Company notes that the Southern African Power Pool region continues to suffer from inadequate investment in the electrical power infrastructure and sooner rather than later will again experience significant electrical energy shortages. The Tlou project offers cost effective and relatively clean energy for Botswana coupled with providing energy security and much needed jobs with successful implementation.

We look forward to the next phase of growth and barring encountering any currently unforeseen circumstances, we are set for a promising year ahead.

Yours faithfully,



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 'parent entity') and the entities it controlled at 30 June 2018.

General Information

Directors

The following persons were directors of Tlou Energy Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Martin McIver	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

Dividends

There were no Dividends recommended or paid during the financial year.

Principal activities

The principal activity of the consolidated entity is the exploration and evaluation of assets in Botswana to identify and develop Coalbed Methane (CBM) natural gas resources suitable for gas-to-power generation. No revenue from this activity has been earned to date, as the consolidated entity is still in the exploration and evaluation stage.

Significant changes in the state of affairs

During the year ended 30 June 2018, there were no other significant changes to the state of affairs of the consolidated entity other than those disclosed in the financial report and notes thereof.

Review and results of operations

The loss for the year after income tax amounted to \$2,810,730 (30 June 2017: \$3,165,323). The loss for the year is in line with expectations.

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 ('the Ministry'). This milestone achievement gives the Company security of tenure over the Lesedi project area 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 and the holder of the PL is ready to commence commercial production. Mining licences are assessed in accordance with the prescribed statutory requirements of the Botswana 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.

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, an area covering approximately 900Km². Project development can commence at any time with no minimum expenditure commitments 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 data over approximately 250Km of the Company's Lesedi and Mamba projects including over part of the Mining Licence area in late 2017. The survey 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 areas that had already been mapped in Tlou's 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 lead to expanded gas reserves and/or contingent resources.

The seismic data acquired is of excellent quality and provides a more accurate picture of the subsurface target coal horizon. SRK Consulting (Australasia) Pty Ltd ('SRK'), Tlou's geological consultants and independent reserve certifiers, carried out the seismic interpretation with data integrated with existing well and aeromagnetic data sets.

Core-hole operations

The Company conducted a core-hole drilling program following the seismic survey. In consultation with SRK, the Company identified a series of locations using the seismic data, for further evaluation by drilling of new core-holes. Two new core-holes were completed in the Lesedi project area and one in the Mamba project.

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. Thereafter, the physical samples were sent to Weatherford for further analysis. Results of the desorption testing were taken into account by SRK for expansion of the Company's gas reserves and contingent resources.

Increase in Independently Certified Gas Reserves

The Company achieved a significant upgrade in Gas Reserves across the Lesedi and Mamba projects, following the seismic survey and core-hole drilling campaign. 2P (Proved and Probable) Gas Reserves increased 944% to 40.8 billion cubic feet ('BCF') and 3P (Proved, Probable and Possible) Gas Reserves increased by 63% to 426.6 BCF. Further details are available in the 2018 Reserves statement on page 20.

The Lesedi and Mamba projects potentially represent an extremely valuable resource for Tlou's shareholders. This Reserves upgrade provides continued confidence for the Company to invest in additional appraisal activities aimed at further increasing certified Gas Reserves. Adding Reserves, and planning for grid connection, reinforces the Company's objective to become the first company to sell power generated by CBM gas in Botswana.

Government of Botswana CBM tender

Early in 2017, the Company received a detailed Request for Proposal ('RFP') for the development of up to 100MW of CBM fuelled pilot power plants in Botswana. This was issued by the Ministry of Mineral Resources Green Technology and Energy Security ('the Ministry') in Botswana. Tlou Energy submitted a response to the RFP in September 2017. Subsequently the RFP was cancelled and reissued in July 2018 with a closing date for submission of 12 September 2018.

The RFP assists in the development of a CBM gas industry in the country and can create a new market for Tlou's independently-certified gas reserves and contingent resources. The RFP submission will be assessed based on conditions including eligibility, technical and funding criteria. Tlou's submission will outline a staged development commencing with up to 10MW of generation as well as project feasibility, proposed field development, installation of power generation facilities and supply of power into the grid in Botswana. Following successful implementation of the initial project, the Company will look at expansion. While the Company will submit a very comprehensive bid, the RFP is a very detailed and regulated process so there is no guarantee of success. The Company will continue to push other objectives including negotiating directly with potential off-takers and becoming a member of the Southern African Power Pool (SAPP).

Environmental and Social Impact Assessment

In 2016 Tlou Energy received environmental approval for the development of a CBM wellfield, the central processing unit (which is to house the gas and water processing and power generators) and the development of a new base camp to accommodate staff for field drilling, infrastructure construction, and on-going operation and maintenance.

This year the Company commenced work on an Environmental and Social Impact Assessment (ESIA) for proposed transmission lines and power generation facilities to tie the wellfield to the regional power grid. This ESIA will cover 1-20 MW of CBM power generation, 1-20 MW photovoltaic (PV) solar array and a 66 kV transmission line. A separate EIA process would be conducted later for larger projects up to and above 100MW. The Company is planning to build the necessary infrastructure to connect to the existing electricity grid and sell power into the Botswana market under either a power purchase agreement or on an "as required" basis. Power could also be sold to neighbouring countries by 'wheeling' electricity through the existing SAPP transmission network.

Botswana Stock Exchange listing and capital raisings

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.

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 project.

The Company also successfully raised approximately A\$8m in June and July 2018 through placements and an entitlement offer to existing shareholders. Directors of the Company also participated in the entitlement offer. The net proceeds of these capital raisings will be mainly applied towards the drilling operations, regulatory approvals and working capital.

Matters subsequent to the end of the financial year

There has not been any matter or circumstance, other than that referred to in this report and disclosed 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

Pilot production wells are planned to be drilled in the Lesedi project area, commencing in September 2018. The wells will be drilled in areas identified as being potentially highly suited for initial project development, where quality seismic and core-hole data exists. In addition, Tlou's reserve certifiers have indicated that drilling of production pods in a different orientation to existing wells has the potential to enhance gas production rates. A key objective of the program is to achieve enhanced gas flow rates in the area proposed for initial project development. In addition, and if successful, the work program could further de-risk the project and add to the Company's independently certified gas reserves at the Lesedi CBM project. The results of these operations are vitally important to assess the viability of the Lesedi CBM project. There is no indication as to the success or otherwise of this drilling campaign.

A successful result from the RFP process would provide an ideal path to market for Tlou's gas. The Company will submit a very comprehensive bid; however, the process is highly regulated so there is no guarantee of success. While the RFP is important it is not the only option for the Company, hence Tlou will continue to investigate other objectives including negotiating directly with potential off-takers and becoming a member of the SAPP.

No guarantee can be given in relation to the expected results for the consolidated entity. However, the electricity market in Southern Africa continues to suffer from chronic shortage of supply, so development of gas and gas fired power in the region remains a very attractive commercial option.

Environmental regulation

The Directors are satisfied that adequate systems are in place for the management of its environmental responsibilities and compliance with its various licence requirements and regulations. The Directors are not aware of any breaches of these requirements and to the best of their knowledge, all activities have been undertaken in compliance with environmental regulations.

Information on Directors

Martin McIver MBA

Special Responsibilities

Non-Executive Chairman
Member of the Audit Committee
Member of the Risk Committee
Chairman of the Nomination & Remuneration Committee

Interest in Shares and options

812,102 Ordinary Shares
250,000 Performance Rights

Experience

Martin holds an MBA (International) from the American Graduate School of International Management, a Graduate Diploma in Applied Finance and Valuations (FINSIA/Kaplan) and a Bachelor of Business (Marketing) from the Queensland University of Technology.

Martin has over 15 years' experience as General Manager for mining services companies including bulk and dangerous goods logistics, and drilling services. Martin was the Executive General Manager of the Mitchell Group, a vertically integrated coal and coal seam gas company with investments and operations across Australia, Asia and Africa. Prior to joining the Mitchell Group, Martin was a Director in Mergers and Acquisitions with PricewaterhouseCoopers.

Martin was appointed Non-Executive Director in September 2010 and is currently the Chief Financial Officer of the Workpac group. During the past three years, Martin has not served as a Director of any other ASX listed companies.

Anthony Gilby B.Sc. (First Class Honours)

Special Responsibilities

Managing Director and Chief Executive Officer
Member of the Audit Committee
Member of the Nomination & Remuneration Committee

Interest in Shares and options

21,701,789 Ordinary Shares
250,000 Performance Rights

Experience

Tony was appointed Managing Director and Chief Executive Officer in March 2012 and has over 30 years' experience in the oil and gas industry. He is a founding director of Tlou Energy Limited.

Tony was awarded a Bachelor of Science (First Class Honours) degree in Geology from the University of Adelaide in 1984, and also won the University Medal in Geology (Tate Memorial Medal). Tony began his career working as a well-site geologist for Delhi Petroleum in the Cooper Basin. He subsequently joined ESSO Australia. His roles with ESSO included exploration geology, geophysics, petrophysics and a period of time working in the Exxon Production Research Centre in Houston studying the seismic application of sequence stratigraphy.

On his return to Australia, he continued to work with ESSO in a New Ventures capacity working on a variety of projects prior to relocating to Brisbane where he worked for MIM Petroleum and the Louisiana Land and Exploration Company (LL&E). In 1996, he left LL&E to take on a consulting role as well as the acquisition of prospective Queensland acreage in a private capacity. This work culminated with the founding of Sunshine Gas Limited where he remained Managing Director until its sale in late 2008. He is a former Non-Executive director of ASX listed Comet Ridge Limited.

Gabaake Gabaake M.Sc.

Special Responsibilities

Executive Director
Member of the Risk Committee
Member of the Nomination & Remuneration Committee

Interest in Shares and options

330,857 Ordinary Shares
250,000 Performance Rights

Experience

Gabaake graduated with a Bachelor of Science degree in Geology from the University of Botswana in 1986 followed by a Masters degree in groundwater hydrology from the University College of London in 1989.

Gabaake is a Botswana citizen based in Gaborone. He is a former Botswana Government senior public servant having worked as Permanent Secretary at the Ministry of Minerals, Energy and Water Resources. Prior to that, he served at the Ministry of Local Government.

Gabaake has served on various private company boards including De Beers Group, Debswana Diamond Company (Pty) Limited and Diamond Trading Company Botswana. During the past three years, Gabaake has not served as a Director of any other ASX listed companies.

Colm Cloonan FCCA

Special Responsibilities

Finance Director
Member of the Audit Committee
Member of the Nomination & Remuneration Committee

Interest in Shares and options

1,081,112 Ordinary Shares
250,000 Performance Rights

Experience

Colm Cloonan is the Company's Finance Director. Colm is a Fellow of the Association of Chartered Certified Accountants (FCCA) with 20 years' experience in various finance roles.

Colm joined Tlou in 2009 at the very early stages of the Company's activities and has been with the Company through all phases of its operations and development to date. Colm has worked in Europe and Australia in a range of finance roles including audit and business services, as well as providing financial and management accounting services to clients in various industries including power generation in Australia.

Colm studied accountancy at the Galway-Mayo Institute of Technology in Ireland. During the past three years, Colm has not served as a Director of any other ASX listed companies.

Hugh Swire BA (Hons)

Special Responsibilities

Non-Executive Director
Chair of the Risk Committee
Member of the Nomination & Remuneration Committee
4,560,092 Ordinary Shares

Interest in Shares and options

Experience

Hugh started his career working with Mahon China, an established investment management and advisory partnership based in Beijing. Active in China since 1985, Mahon China have over 3 decades of experience advising foreign companies with investments and corporate activities in China. Hugh has remained a Partner of the firm and now supports UK / EU companies from London looking to expand and find partners in China or increasingly support Chinese companies looking to make investments internationally.

After leaving Mahon China, Hugh spent a decade working for Investment funds and International banks in Hong Kong and Tokyo where he worked for Nomura as well as in London for JP Morgan where he was Vice President.

Since 2010, Hugh has been focused on supporting fast growing UK companies in the low carbon and technology sectors by investing growth capital in Water Powered Technologies Ltd, a leading innovator in zero energy water management systems as well as MWF Ltd, one of the largest suppliers of renewable heat in the UK, which has since been sold to Aggregated Micro Power Holdings plc. Hugh also helped found a leading technology education company Black Country Atelier Ltd, which provides specialist training courses to students globally in 3D printing (CAM) digital electronics and CAD.

Hugh still travels to China regularly after studying Chinese at Oxford University graduating with a BA Hons. During the past three years, Hugh has not served as a Director of any other ASX listed companies.

Linah Mohohlo

MA Finance & Investments, BA Economics

Special Responsibilities

Non-Executive Director; appointed 12 July 2017
Chair of the Audit Committee
Member of the Nomination & Remuneration Committee
Nil

Interest in Shares and options

Experience

Ms Linah Kelebogile 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, and served in several capacities including Board Secretary, Deputy Director of Research, Director of the Financial Markets and Deputy Governor, before being appointed Governor.

Ms Mohohlo was 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. Along with her contacts and expertise in the banking and finance sectors, Ms Mohohlo brings to Tlou Energy significant experience from the mining industry in Botswana having been a board member of both Debswana Diamond Company and Diamond Trading Company Botswana.

Ms Mohohlo holds a Bachelors Degree in Economics from The George Washington University (Washington DC), a Masters Degree in Finance and Investments from the University of Exeter (UK) and a Diploma in Accounting and Business Studies from the University of Botswana.

During the past three years, Ms Mohohlo has not served as a Director of any other ASX listed companies.

Remuneration Report - audited

This report outlines the remuneration arrangements in place for the key management personnel of the consolidated entity.

Remuneration policy

Ensuring that the level of Director and Executive remuneration is sufficient and reasonable is dealt with by the full Board. The Remuneration Policy of Tlou Energy Limited has been designed to align the objectives of key management personnel with shareholder and business objectives. The Board of Tlou Energy Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated entity, as well as create shared goals between key management personnel and shareholders.

The Board's policy for determining the nature and amount of remuneration for the executive Directors and senior executives of the consolidated entity is as follows:

- The remuneration policy is developed by the Board after seeking, if appropriate, professional advice from independent external consultants.
- Executives employed by the consolidated entity receive a base salary (which is based on factors such as length of service and experience), inclusive of superannuation, fringe benefits, options and performance incentives where appropriate. Performance incentives are generally only paid once predetermined key performance indicators have been met.
- Executives engaged through professional service entities are paid fees based on an agreed market based hourly rate for the services provided and may also be entitled to options and performance based incentives. Performance incentives are generally only paid once predetermined key performance indicators have been met.
- Incentives paid in the form of options or performance rights are intended to align the interests of management, the Directors and Company with those of the shareholders. In this regard, executives are prohibited from limiting risk attached to those instruments by use of derivatives or other means.

The Board reviews executive remuneration arrangements annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors.

Key management personnel including Non-executive Directors and employed executives receive the superannuation guarantee contribution required by the Commonwealth Government, which is currently 9.5% and do not receive any other retirement benefits. Individuals, however, can choose to sacrifice part of their salary to increase payments towards superannuation.

Non-Executive Director Remuneration

The Board's policy is to remunerate Non-Executive Directors for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is \$500,000 per year. This was approved by shareholders at a general meeting held on 10 July 2012.

Fees for Non-Executive Directors are not linked to the performance of the consolidated entity, however, to align Directors interests with shareholder interests, where possible the Directors are encouraged to hold shares in the Company. There is no minimum holding prescribed in the Constitution.

Performance conditions linked to remuneration

The Board provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and Non-Executive Directors. The aim is to ensure that reward for performance is competitive and appropriate for the results delivered.

Remuneration and the terms and conditions of employment for executive Directors and Company executives are reviewed annually having regard to performance and relative comparative information and are approved by the Board following independent professional advice, as required. In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility.

Key management personnel during the financial year ended 30 June 2018**Directors**

Martin Mclver	Non-Executive Chairman
Anthony Gilby	Managing Director and 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

Executives

Solomon Rowland	Company Secretary
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There were no other key management personnel of the consolidated entity during the financial year ended 30 June 2018.

Details of remuneration

Details of remuneration of each of the Directors and executives of the consolidated entity during the financial year are set out in the following table:

Benefits and Payments for the year ended 30 June 2018

	Short-term benefits		Post Employment benefits	Long term benefits			Share based payments	
	Salary & Fees	Cash Bonus	Superannuation	Leave Benefits	Total Cash Remuneration	Performance Rights	Performance Rights as a % of Total Remuneration	Total
Directors	\$	\$	\$	\$	\$	\$		\$
M Mclver	48,000	-	4,560	-	52,560	21,937	29%	74,497
A Gilby	331,915	-	14,365	18,083	364,363	21,937	6%	386,300
G Gabaake	134,668	-	12,243	10,359	157,270	21,937	12%	179,207
C Cloonan	200,000	-	19,000	8,974	227,974	21,937	9%	249,911
H Swire	24,000	-	-	-	24,000	-	-	24,000
L Mohohlo*	23,812	-	1,082	-	24,894	-	-	24,894
Total Directors	762,395	-	51,250	37,416	851,061	87,748		938,809
Executives								
S Rowland	182,649	-	17,352	8,196	208,197	21,937	10%	230,134
Total Executives	182,649	-	17,352	8,196	208,197	21,937		230,134
Total	945,044	-	68,602	45,612	1,059,258	109,685		1,168,943

* Appointed 12 July 2017

During the 2018 year, no proportion of the remuneration of any key management personnel was performance based. No key management personnel received cash bonuses, performance related bonuses, termination benefits or non-cash benefits during the year.

See the table on the following page for schedule of performance rights exercised during the year.

Benefits and Payments for the year ended 30 June 2017

	Short-term benefits		Post Employment benefits	Long term benefits		Share based payments		Total
	Salary & Fees	Cash Bonus	Superannuation	Leave Benefits	Total Cash Remuneration	Performance Rights**	Performance Rights as a % of Total Remuneration	
Directors	\$	\$	\$	\$	\$	\$		\$
M McIver	33,000	-	3,135	-	36,135	46,538	56%	82,673
A Gilby	139,418	-	6,499	5,016	150,933	46,538	24%	197,471
G Gabaake	136,269	-	12,388	11,356	160,013	46,538	23%	206,551
C Cloonan	200,326	-	19,031	3,846	223,203	46,538	17%	269,741
H Swire*	-	-	-	-	-	-	-	-
Total Directors	509,013	-	41,053	20,218	570,284	186,152		756,436
Executives								
S Rowland	144,662	-	13,743	3,512	161,917	46,538	22%	208,455
Total Executives	144,662	-	13,743	3,512	161,917	46,538		208,455
Total	653,675	-	54,796	23,730	732,201	232,690		964,891

* Appointed 22 June 2017

** In the 30 June 2017 financial statements, the amount shown in the table above related to Performance Rights showed the full value of the rights issued rather than the expense related to the 2017 financial year. This column has been updated to show the expense related to the 2017 financial year. The remaining amount reflecting the expense for the 2018 year is shown in the 2018 table.

During the 2017 year, performance rights were issued to key management personnel as outlined in the table below. No key management personnel received other performance related bonuses, cash bonuses, termination benefits or non-cash benefits during the year.

Performance Rights issued during 2017 were linked to the share price performance of the Company, ensuring alignment with the interests of the Company's shareholders. The Performance Rights issued to key management personnel were split into two equal Tranches of 250,000 shares in each tranche. For the Performance Rights to vest and, therefore, become exercisable by a participant, certain performance conditions are required to be met as set out below. On vesting, holders of Performance Rights will be entitled to acquire Tlou Energy Limited ordinary shares at nil cost.

During 2018, all directors exercised tranche 1 of the performance rights.

30 June 2018		Issue Date	Opening Balance	Value	Exercised	Lapsed	Balance at Year End	Unvested
M McIver	Tranche 1	31-Jan-17	250,000	34,475	250,000	-	-	-
	Tranche 2	31-Jan-17	250,000	34,000	-	-	250,000	-
A Gilby	Tranche 1	31-Jan-17	250,000	34,475	250,000	-	-	-
	Tranche 2	31-Jan-17	250,000	34,000	-	-	250,000	-
G Gabaake	Tranche 1	31-Jan-17	250,000	34,475	250,000	-	-	-
	Tranche 2	31-Jan-17	250,000	34,000	-	-	250,000	-
C Cloonan	Tranche 1	31-Jan-17	250,000	34,475	250,000	-	-	-
	Tranche 2	31-Jan-17	250,000	34,000	-	-	250,000	-
S Rowland	Tranche 1	31-Jan-17	250,000	34,475	250,000	-	-	-
	Tranche 2	31-Jan-17	250,000	34,000	-	-	250,000	-
Total			2,500,000	342,375	1,250,000	-	1,250,000	-

Tranche	Performance Condition
Tranche 1	The closing price of Shares being 50% or more above the price at the date of shareholder approval for a period of 10 consecutive trading days.
Tranche 2	The closing price of Shares being 100% or more above the price at the date of shareholder approval for a period of 10 consecutive trading days.

Notes:

- The date of shareholder approval was 10 November 2016
- The share price on 10 November 2016 was AUD \$0.14
- For Tranche 1 to vest the share price needs to be AUD \$0.21 per share or greater for a period of 10 consecutive trading days
- For Tranche 2 to vest the share price needs to be AUD \$0.28 or greater for a period of 10 consecutive trading days

Service agreements

The following outlines the remuneration and other terms of employment for the following personnel which are formalised in employment contracts for services.

Anthony Gilby	Managing Director and Chief Executive Officer
Term of Agreement:	Mr Gilby's services are provided in a personal capacity. The agreement has no fixed term. Based on the agreed rate the estimated contracted annual cost to the Company is approximately \$578,000. Mr Gilby has agreed to waive 25% of his current contracted rate, so the current estimated cost is approximately \$433,000.
Termination Benefit:	No termination benefit is payable if terminated for cause.
Termination Notice:	The Company may give Mr Gilby three months' notice or pay 1.5 times his contracted salary in lieu of notice to terminate the Agreement.
Solomon Rowland	Company Secretary
Term of Agreement:	Mr Rowland's services are provided in a personal capacity. The agreement has no fixed term.
Base Fee:	Based on the contracted rate the estimated annual cost to the Company is approximately \$200,000.
Termination Benefit:	No termination benefit is payable if terminated for cause.
Termination Notice:	The Company may give the Company Secretary two months' notice of its intention to terminate the Agreement.
Gabaake Gabaake	Executive Director
Term of Agreement:	Mr Gabaake's services are provided in a personal capacity. The agreement has no fixed term.
Base Fee:	Based on the contracted rate the estimated annual cost to the consolidated entity is approximately \$143,000.
Termination Benefit:	No termination benefit is payable if terminated for cause.
Termination Notice:	The Company may give the Executive Director two months' notice of its intention to terminate the Agreement.
Colm Cloonan	Finance Director
Term of Agreement:	Mr Cloonan's services are provided in a personal capacity. The agreement has no fixed term.
Base Fee:	Based on the contracted rate the estimated annual cost to the Company is approximately \$240,000.
Termination Benefit:	No termination benefit is payable if terminated for cause.
Termination Notice:	The Company may give the Finance Director two months' notice of its intention to terminate the Agreement.

Key management personnel shareholdings

The number of ordinary shares in Tlou Energy Limited held by each key management person of the consolidated entity during the financial year is as follows:

30 June 2018	Balance at beginning of year	Granted as remuneration during the year	Additions	Disposals	Balance at date of resignation / appointment	Balance at end of year
M McIver	446,088	-	250,000	-	-	696,088
A Gilby	17,946,487	-	250,000	-	-	18,196,487
G Gabaake	80,857	-	250,000	-	-	330,857
C Cloonan	419,525	-	250,000	-	-	669,525
H Swire	3,064,366	-	-	-	-	3,064,366
L Mohohlo	-	-	-	-	-	-
S Rowland	-	-	250,000	-	-	250,000
	21,957,323	-	1,250,000	-	-	23,207,323

Performance rights

The number of performance rights held by each key management person of the consolidated entity during the financial year is as follows:

30 June 2018	Balance at beginning of year	Granted as remuneration	Exercised during the year	Expired during the year	Balance at end of year	Vested	Unvested
M McIver	500,000	-	250,000	-	250,000	-	250,000
A Gilby	500,000	-	250,000	-	250,000	-	250,000
G Gabaake	500,000	-	250,000	-	250,000	-	250,000
C Cloonan	500,000	-	250,000	-	250,000	-	250,000
H Swire	-	-	-	-	-	-	-
L Mohohlo	-	-	-	-	-	-	-
S Rowland	500,000	-	250,000	-	250,000	-	250,000
Total	2,500,000	-	1,250,000	-	1,250,000	-	1,250,000

Shares issued on exercise of performance rights

Other than as shown in the table above, no other shares were issued on exercise of performance rights up to the date of this report.

Relationship between remuneration and Company performance

The factors that are considered to affect shareholder return during the last five years is summarised below:

	2018	2017	2016	2015	2014
Share price at end of financial year (\$)	0.10	0.11	0.07	0.13	0.30
Market capitalisation at end of financial year (\$M)	35	33	14	24	44
Loss for the financial year (\$)	(2,810,730)	(3,165,323)	(3,065,583)	(2,730,900)	(2,289,366)
Cash spend on exploration programs (\$)	(3,330,951)	(1,852,642)	(5,783,800)	(4,529,184)	(8,670,411)
Director and Key Management Personnel remuneration (\$)	1,168,943	964,891	968,640	1,441,785	1,168,396

Given that the remuneration is commercially reasonable, the link between remuneration, Company performance and shareholder wealth generation is tenuous, particularly in the exploration and development stage. Share prices are subject to market sentiment towards the sector and increases or decreases may occur independently of executive performance or remuneration.

The Company may issue options or performance rights to provide an incentive for key management personnel which, it is believed, is in line with industry standards and practice and is also believed to align the interests of key management personnel with those of the Company's shareholders.

No remuneration consultants were used in the 2018 financial year.

Other transactions with key management personnel

	2018 \$	2017 \$
<u>Payment for goods and services:</u>		
Office rent paid to The Gilby McKay Alice Street Partnership, a director-related entity of Anthony Gilby.	21,000	21,000

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

Current payables:

Trade payables to The Gilby McKay Alice Street Partnership, a director-related entity of Anthony Gilby	-	1,925
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Loans to/from related parties

There were no loans to or from related parties at the reporting date or during the year.

Terms and conditions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(End of Remuneration Report)

Company secretary

Mr Solomon Rowland was appointed Company Secretary on 19 August 2015 and continues in office at the date of this report. Mr Rowland was Assistant Company Secretary and Legal Counsel since March 2013.

Mr Rowland is a commercial lawyer with over 18 years' experience in various private, government and in-house legal roles. Solomon holds a Juris Doctor from the University of Queensland.

Prior to joining Tlou Energy Limited as Legal Counsel in February 2013, Solomon worked for Crown Law representing various Queensland government departments in a range of legal matters. During his time in government, Solomon was involved in advising government departments on commercial, corporate governance and policy matters as well as representing the state in various courts, tribunals and commissions of Inquiry. Solomon brings many years of experience in commercial, advocacy, administrative and planning and environment law.

Meetings of directors

The number of meetings of the consolidated entity's Board of Directors and committees held during the year ended 30 June 2018, and the number of meetings attended by each Director are listed below. The Nomination & Remuneration committee comprises the full board.

	Board / Nomination & Remuneration Committee		Audit Committee		Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
M McIver	8	8	2	2	3	3
A Gilby	8	8	2	2	-	-
G Gabaake	6	8	-	-	2	3
C Cloonan	8	8	2	2	-	-
H Swire	7	8	-	-	3	3
L Mohohlo	4	8	1	2	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Shares under option

There were no unissued ordinary shares of Tlou Energy Limited under option at the date of this report.

Issued performance rights at the date of this report are as follows:

Vesting Date	Exercise Price	01/07/2017	Issued	Exercised	Expired	30/06/2018
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

Shares issued on the exercise of options

Other than those disclosed in the table above there were no ordinary shares of Tlou Energy Limited issued during the year ended 30 June 2018 on the exercise of options granted or up to the date of this report.

Indemnity and insurance of officers

The consolidated entity has indemnified the Directors and executives of the consolidated entity for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the consolidated entity paid a premium in respect of a contract to insure the Directors and executives of the consolidated entity against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Indemnity and insurance of auditor

The consolidated entity has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the consolidated entity or any related entity against a liability incurred by the auditor.

During the financial year, the consolidated entity has not paid a premium in respect of a contract to insure the auditor of the consolidated entity or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Currency and rounding

The financial report is presented in Australian dollars and amounts are rounded to the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* can be found on page 23.

Auditor

BDO Audit Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year are set out below.

	2018	2017
	\$	\$
Non-audit services - BDO Australia		
Tax consulting and compliance services	11,810	10,172
BSE listing	4,500	-
Corporate finance services	30,000	-
Total	<u>46,310</u>	<u>10,172</u>

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors



Anthony Gilby
Director
Brisbane, 30 August 2018

2018 Annual Reserves Statement

Tlou Energy Limited is pleased to present its Annual Reserves Statement for the period ending 30 June 2018. As detailed in the Director's Report SRK Consulting (Australasia) Pty Ltd ('SRK') has upgraded the Company's reserves during the reporting period. There has been no adjustment to the net gas reserves and contingent resources of the Company since the upgraded reserves were announced on 20 February 2018. Please refer to the ASX announcement on 20 February 2018 for full details of the consolidated entity's gas reserves and contingent resources.

Having conducted a review of its gas reserves and resources position during the reporting period and satisfying itself that there was no new data that might materially increase the reserves or resources estimates reported during the reporting period, the Company hereby presents the net gas reserves and contingent resources on a combined basis as well as for each of its individual tenements as at 30 June 2018:

Location	Project	Tlou Interest	Gas Reserves (BCF)					
			30/06/2018	30/06/2017	30/06/2018	30/06/2017	30/06/2018	30/06/2017
			1P*	1P	2P*	2P	3P	3P
Karoo Basin Botswana	Lesedi CBM (all coal seams) PL001/2004, ML 2017/18L	100%	0.34	0.15	25.2	3.5	252	117
Karoo Basin Botswana	Mamba CBM (Lower Morupule coal) PL238/2014 – PL241/2014	100%	0.01	0.02	15.5	0.4	175	144
Karoo Basin Botswana	PL003/2004, PL035/2000, PL037/2000	100%	-	-	-	-	-	-
Total			0.35	0.17	40.7	3.9	427	261

Location	Project	Tlou Interest	Gas Contingent Resource (BCF)					
			30/06/2018	30/06/2017	30/06/2018	30/06/2017	30/06/2018	30/06/2017
			1C	1C	2C**	2C**	3C	3C
Karoo Basin Botswana	Lesedi CBM (all coal seams) PL001/2004, ML 2017/18L	100%	4.6	4.3	214	235	3,043	3183
Karoo Basin Botswana	Mamba CBM (Lower Morupule coal) PL238/2014 – PL241/2014	100%	-	-	-	-	-	-
Karoo Basin Botswana	PL003/2004, PL035/2000, PL037/2000	100%	-	-	-	-	-	-
Total			4.6	4.3	214	235	3043	3183

ASX Listing Rules Annual Report Requirements

*Listing Rule 5.39.1:

- All 1P and 2P petroleum reserves recorded in the table are undeveloped and are attributable to unconventional gas.
- 100% of all 1P and 2P petroleum reserves are located in the Karoo Basin in Botswana.

*Listing Rule 5.39.2:

- All 1P and 2P petroleum reserves reported are based on unconventional petroleum resources.

Listing Rule 5.39.3:

- The table shows the 2P and 3P petroleum reserves as at 30 June 2018 and comparative petroleum reserves certified at 30 June 2017.

Governance Arrangements and Internal Controls Listing Rule 5.39.5:

- Tlou Energy has obtained all its gas reserves and resources reported as at 30 June 2018 from external independent consultants who are qualified petroleum reserves and resource evaluators as prescribed by the ASX Listing Rules.
- Tlou Energy estimates and reports its petroleum reserves and resources in accordance with the definitions and guidelines of the Petroleum Resources Management System 2007, published by the Society of Petroleum Engineers (SPE PRMS).
- To ensure the integrity and reliability of data used in the reserves estimation process, the raw data is reviewed by senior reservoir and geological staff and consultants at Tlou Energy before being provided to the independent reserve certifiers. Tlou Energy has not and does not currently intend to conduct internal reviews of petroleum reserves preferring to appoint independent external experts prior to reporting any updated estimates of reserves or resources so as to ensure an independent and rigorous review of its data.
- Tlou Energy reviews and updates its gas reserves and resources position on an annual basis to ensure that if there is any new data that might affect the reserves or resources estimates of the Company steps can be taken to ensure that the estimates are adjusted accordingly.

** Listing Rule 5.40.1:

- All 2C contingent resources recorded in the table are undeveloped. 100% of the reported 2C contingent resource is attributable to unconventional gas.
- The geographical areas where the 2C contingent resources are located is the Karoo Basin in Botswana.

Listing Rule 5.40.2:

- The table shows the 2C and 3C contingent resources as at 30 June 2018 as against the previous year. The net 2C and 3C contingent resources did not increase from the 2017 year to the 2018 year.
- 2C and 3C contingent resources decreased during the period as a result of converting 2C and 3C contingent resources to gas reserves. There were no other changes to the 2C and 3C contingent resources since the announcement on 20 February 2018.

Listing Rule 5.44:

- The estimates of Reserves and Contingent Resources appearing in the 2018 Annual Reserves Statement for Tlou Energy Limited and its subsidiaries are based on, and fairly represent, information and supporting documentation determined by the various qualified petroleum reserves and resource evaluators listed below.
- The gas reserves and resource estimates for the Lesedi CBM Project provided in this report were released to the Market on 20 February 2018 ('Announcement'). Tlou Energy confirms that it is not aware of any new information or data that materially affects the information included in the Announcement and that all of the material assumptions and technical parameters underpinning the estimates in the Announcement continue to apply and have not materially changed. The gas reserve and resource estimates are based on and fairly represents, information and supporting documentation and were determined by Dr. Bruce Alan McConachie of SRK Consulting (Australasia) Pty Ltd, in accordance with Petroleum Resource Management System guidelines. Dr. McConachie is considered to be a qualified person as defined under the ASX Listing Rule 5.42 and has given his consent to the use of the resource figures in the form and context in which they appear in this report.

Notes to Net Reserves and Resources Table:

- 1) Gas Reserve and Resource numbers have been rounded to the nearest whole number.
- 2) Gas Resource numbers have been rounded to the nearest tenth for amounts less than 100 BCF, otherwise to the nearest whole number.
- 3) Tlou's Gas Reserves have not been adjusted for fuel or shrinkage and have been calculated at the wellhead (which is the reference point for the purposes of Listing Rule 5.26.5).
- 4) Contingent Gas Resources are (100%) Unrisked Gross and are derived from the SRK certification at 31 March 2015 for all coal seams (as previously announced by Tlou on 9 April 2015) with adjustment for the gas volumes which have now been certified by SRK in the Gas Reserves category.
- 5) ASX Listing Rule 5.28.2 Statement relating to Prospective Resources:
The estimated quantities of petroleum gas that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.
- 6) Prospective Gas Resources are (100%) Unrisked Gross and are derived from a report to Tlou from Netherland, Sewell and Associates Inc (NSAI) dated 16th February 2012 regarding certification for all coal seams located in the remaining prospecting licences (as previously announced by Tlou in its prospectus dated 20 February 2013).

Auditor's independence declaration



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

As lead auditor of Tlou Energy Limited for the year ended 30 June 2018, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in dark ink, appearing to read 'T R Mann', with a long horizontal flourish extending to the right.

T R Mann
Director

BDO Audit Pty Ltd

Brisbane, 30 August 2018

Consolidated Statement of Comprehensive Income for the year ended 30 June 2018

	Note	Consolidated	
		June 2018	June 2017
		\$	\$
Interest income		883	2,365
Expenses			
Employee benefits expense	3	(998,700)	(617,581)
Depreciation and amortisation expense		(204,788)	(240,961)
Foreign exchange gain/(loss)		194,706	(37,181)
Share issue costs		(176,685)	(356,732)
Performance rights expense	3	(199,624)	(423,499)
Professional fees		(218,862)	(177,121)
Corporate expenses		(17,510)	(48,437)
Occupancy costs	3	(53,524)	(47,817)
Other expenses	3	(1,136,626)	(1,218,359)
LOSS BEFORE INCOME TAX		(2,810,730)	(3,165,323)
Income tax	4	-	-
LOSS FOR THE PERIOD		(2,810,730)	(3,165,323)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		413,563	1,210,182
Tax effect		-	-
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)		413,563	1,210,182
TOTAL COMPREHENSIVE INCOME/(LOSS)		(2,397,167)	(1,955,141)
Earnings per share			
		Cents	Cents
Basic loss per share	5	(0.9)	(1.3)
Diluted loss per share	5	(0.9)	(1.3)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position as at 30 June 2018

	Note	Consolidated	
		June 2018	June 2017
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	6	7,019,345	6,727,424
Trade and other receivables		194,814	100,674
Other current assets		364,956	8,650
TOTAL CURRENT ASSETS		7,579,115	6,836,748
NON-CURRENT ASSETS			
Exploration and evaluation assets	8	52,861,961	49,328,038
Other non-current assets	9	652,522	694,402
Property, plant and equipment	7	440,683	320,739
TOTAL NON-CURRENT ASSETS		53,955,166	50,343,179
TOTAL ASSETS		61,534,281	57,179,927
CURRENT LIABILITIES			
Trade and other payables	10	258,024	431,032
Provisions	11	215,183	166,193
TOTAL CURRENT LIABILITIES		473,207	597,225
NON-CURRENT LIABILITIES			
Deferred tax liabilities	4	369,353	369,353
Provisions	11	97,000	94,000
TOTAL NON-CURRENT LIABILITIES		466,353	463,353
TOTAL LIABILITIES		939,560	1,060,578
NET ASSETS		60,594,721	56,119,349
EQUITY			
Contributed equity	12	90,463,822	83,380,184
Reserves		(2,904,968)	(3,107,432)
Accumulated losses		(26,964,133)	(24,153,403)
TOTAL EQUITY		60,594,721	56,119,349

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity for the year ended 30 June 2018

	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	-	-	-	(3,165,323)	(3,165,323)
Other comprehensive income	-	-	1,210,182	-	1,210,182
Total comprehensive income	-	-	1,210,182	(3,165,323)	(1,955,141)
Transactions with owners in their capacity as owners					
Share based payments	-	423,499	-	-	423,499
Shares issued, net of costs	9,448,615	-	-	-	9,448,615
	9,448,615	423,499	-	-	9,872,114
Balance at 30 June 2017	83,380,184	520,500	(3,627,932)	(24,153,403)	56,119,349
Balance at 1 July 2017	83,380,184	520,500	(3,627,932)	(24,153,403)	56,119,349
Loss for the period	-	-	-	(2,810,730)	(2,810,730)
Other comprehensive income	-	-	413,563	-	413,563
Total comprehensive income	-	-	413,563	(2,810,730)	(2,397,167)
Transactions with owners in their capacity as owners					
Share based payments	-	199,624	-	-	199,624
Transfers - Options exercised	410,723	(410,723)	-	-	-
Shares issued, net of costs	6,672,915	-	-	-	6,672,915
	7,083,638	(211,099)	-	-	6,872,539
Balance at 30 June 2018	90,463,822	309,401	(3,214,369)	(26,964,133)	60,594,721

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows for the year ended 30 June 2018

		Consolidated June 2018 \$	June 2017 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees (inclusive of GST and VAT)		(2,845,889)	(2,446,145)
Interest received		883	2,365
GST and VAT received		262,111	98,911
NET CASH USED IN OPERATING ACTIVITIES	22	<u>(2,582,895)</u>	<u>(2,344,869)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration and evaluation assets		(3,330,951)	(1,852,642)
Payment for property, plant and equipment		(562,062)	(100,764)
NET CASH USED IN INVESTING ACTIVITIES		<u>(3,893,013)</u>	<u>(1,953,406)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		6,894,517	9,938,787
Share issue costs		(237,767)	(162,317)
NET CASH PROVIDED BY FINANCING ACTIVITIES		<u>6,656,750</u>	<u>9,776,470</u>
Net increase in cash held		180,842	5,478,195
Cash at the beginning of the period		6,727,424	1,224,404
Effects of exchange rate changes on cash		111,079	24,825
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	6	<u>7,019,345</u>	<u>6,727,424</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

Note 1. Significant accounting policies

Introduction

This financial report includes the consolidated financial statements of Tlou Energy Limited (the “Company”) and its controlled entities (together referred to as the “consolidated entity” or the “group”).

The separate financial statements of the parent entity, Tlou Energy Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*. Supplementary information about the parent entity is disclosed in note 25.

Tlou Energy Limited is a public company, incorporated and domiciled in Australia. Its registered office and principal place of business is 210 Alice St, Brisbane, QLD 4000, Australia.

The following is a summary of the material and principal accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied to all the years presented, unless otherwise stated.

Operations and principal activities

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

Currency

The financial report is presented in Australian dollars, rounded to the nearest dollar, which is the functional currency of the parent entity.

Authorisation of financial report

The financial report was authorised for issue on 30 August 2018.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Tlou Energy Limited is a for-profit entity for the purposes of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of Tlou Energy Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The consolidated financial statements have been prepared on an accruals basis and are based on historical costs.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Notes to the financial statements (continued)

Note 1 Significant accounting policies (continued)

Going Concern

The consolidated financial statements have been prepared on a going concern basis which contemplates that the consolidated entity 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 for future exploration activity and meet other necessary corporate expenditure. The Company has recently completed a capital raising which is expected to fund ongoing operations and working capital requirements for the next 12 months. Subject to the results of these operations the consolidated entity may need to raise additional capital to expand and develop the project further. Accordingly, the consolidated entity 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 consolidated entity's and the Company's ability to continue as a going concern and therefore the consolidated entity 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 consolidated entity 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 financial report does not include adjustments relating to the recoverability or classification of recorded assets amounts or to the amounts or classification of liabilities that might be necessary should the consolidated entity not be able to continue as a going concern.

Accounting Policies**(a) Principles of consolidation**

Subsidiaries are all entities (including structured entities) over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the consolidated entity.

Intercompany transactions, balances and unrealised gains on transactions between consolidated entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

(b) Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Notes to the financial statements (continued)

Note 1 Significant accounting policies (continued)

(c) Investments and other financial assets

Investments and other financial assets are measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or (ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets, principally equity securities that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in the available-for-sale reserve.

(d) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs.

Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Notes to the financial statements (continued)

Note 1 Significant accounting policies (continued)

(e) Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

(f) Comparative figures

When required by accounting standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(g) New Accounting Standards and Interpretations

The consolidated entity has adopted all new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2018. The consolidated entity did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Notes to the financial statements (continued)

Note 1 Significant accounting policies (continued)

(h) New Standards and Interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods. The consolidated entity has decided against early adoption of these standards. The consolidated entity's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 Financial Instruments

This standard and its consequential amendments are currently applicable to annual reporting periods beginning on or after 1 January 2018. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. This standard will not have a significant impact on the financial instruments held by the consolidated entity.

AASB 16: Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application. The only item considered to be an operating lease is the lease of office space. The amount of this lease is not considered material, so no change has been recognised in the financial statements in relation to this standard.

Notes to the financial statements (continued)

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Exploration & evaluation assets

The consolidated entity performs regular reviews on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. These reviews are based on detailed surveys and analysis of drilling results performed to reporting date.

Deferred Tax assets

The Company is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity estimates its tax liabilities based on the consolidated entity's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In addition, the consolidated entity has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity, which is not part of the tax consolidated group, to satisfy certain tests at the time the losses are recouped. Due to the parent entity acquiring the entity that holds the losses it is expected that the entity will fail to satisfy the continuity of ownership test and therefore has to rely on the same business test. As at 30 June 2018 the consolidated entity has not received advice that the losses are unavailable, however should this change in the future the consolidated entity may be required to derecognise these losses.

Notes to the financial statements (continued)

Note 3. Expenses

	Consolidated	
	June 2018	June 2017
	\$	\$
Loss before income tax includes the following specific expenses:		
Employee benefits expense		
• Defined contribution superannuation expense	57,616	42,408
• Performance rights	199,624	423,499
• Other employee benefits expense	941,084	575,173
	<u>1,198,324</u>	<u>1,041,080</u>
Occupancy costs		
• Rental expense relating to operating leases - minimum lease rentals	53,524	47,817
	<u>53,524</u>	<u>47,817</u>
Other expenses include the following specific items:		
• Travel and accommodation costs	198,056	225,735
• Consultants	327,238	277,184
• Stock exchange, advisory, secretarial fees	264,438	355,848
• Insurance	55,694	68,254

Note 4. Income Tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and under and over provision in prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Notes to the financial statements (continued)

Note 4 Income tax (continued)

	Consolidated	
	June 2018	June 2017
	\$	\$
Loss before income tax	(2,810,730)	(3,165,323)
Tax at the domestic tax rates applicable to profits in the country concerned*	(772,951)	(949,597)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Other non-deductible items	578,713	216,360
Difference in overseas tax rates	56,833	(218,335)
Previously unrecognised tax losses used to reduce deferred tax expense	-	-
Deferred tax asset not recognised	137,404	951,572
Income tax benefit	-	-
Recognised deferred tax assets		
Unused tax losses	7,223,446	7,551,526
	7,223,446	7,551,526
Recognised deferred tax liabilities		
Assessable temporary differences	7,592,799	7,920,879
	7,592,799	7,920,879
Net deferred tax liability recognised	369,353	369,353
Unrecognised temporary differences and tax losses		
Unused tax losses and temporary differences for which no deferred tax asset has been recognised	34,834,624	29,026,473

*Australia 27.5% (2017: 30%), Botswana 22% (2017: 22%).

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise these benefits.

Note 5. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Tlou Energy Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

	Consolidated	
	June 2018	June 2017
	\$	\$
Reconciliation of earnings used in calculating basic and diluted loss per share:		
Loss for the year attributable to owners of Tlou Energy Limited	(2,810,730)	(3,165,323)
Loss used in the calculation of the basic and dilutive loss per share	(2,810,730)	(3,165,323)
Weighted average number of ordinary shares used as the denominator		
Number used in calculating basic and diluted loss per share	Number 319,100,085	Number 245,694,059

Options and performance rights are considered to be "potential ordinary shares" but were anti-dilutive in nature and therefore the diluted loss per share is the same as the basic loss per share.

Notes to the financial statements (continued)

Note 6. Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the consolidated statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the consolidated statement of financial position.

	Consolidated	
	June 2018	June 2017
	\$	\$
Cash at bank	7,019,345	6,727,424
	<u>7,019,345</u>	<u>6,727,424</u>

Note 7. Property, Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment 3-7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

	Consolidated	
	June 2018	June 2017
	\$	\$
Plant and equipment at cost	2,289,826	1,946,392
Accumulated depreciation	(1,849,143)	(1,625,653)
	<u>440,683</u>	<u>320,739</u>

Movements in Carrying Amounts

Movement in the carrying amount of plant and equipment between the beginning and the end of the current financial year:

Balance at the beginning of year	320,739	444,358
Additions	320,928	100,664
Disposals	-	(788)
Depreciation	(204,788)	(240,961)
Foreign exchange movements	3,804	17,466
Carrying amount at the end of year	<u>440,683</u>	<u>320,739</u>

Notes to the financial statements (continued)

Note 8. Exploration and Evaluation Assets

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but do not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

Accumulated costs in relation to an area no longer considered viable are written off in full in the year the decision is made. Regular reviews are undertaken on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

	Consolidated	
	June 2018	June 2017
	\$	\$
Exploration and evaluation assets	52,861,961	49,328,038
	<u>52,861,961</u>	<u>49,328,038</u>
Movements in exploration and evaluation assets		
Balance at the beginning of period	49,328,038	46,183,722
Exploration and evaluation expenditure during the year	3,109,241	1,848,143
Foreign currency translation	424,682	1,296,173
Balance at the end of period	<u>52,861,961</u>	<u>49,328,038</u>

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.

There is a risk that one or more of the exploration licences will not be extended, or that the terms of the extension are not favourable to Tlou. This could have an adverse impact on the performance of Tlou. The consolidated entity is not aware of any reasons why the licences will not be renewed.

Note 9. Other non-current assets

Inventory and well consumables are valued at lower of cost or net realisable value. Inventory and well consumables are allocated to exploration and evaluation expenditure when the assets are used in operations.

	Consolidated	
	June 2018	June 2017
	\$	\$
Inventory and well consumables	652,522	694,402
	<u>652,522</u>	<u>694,402</u>

Notes to the financial statements (continued)

Note 10. Trade and Other Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

	Consolidated	
	June 2018	June 2017
	\$	\$
Current		
Trade payables	152,737	131,161
Accruals	105,249	278,552
Other payables	38	21,319
	<u>258,024</u>	<u>431,032</u>

The carrying values of trade and other payables approximate fair values due to short-term nature of the amounts. These are non-interest bearing.

Note 11. Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Restoration

Both for close down and restoration and for environmental clean-up costs, a provision is made in the accounting period when the related disturbance occurs, based on the net present value of estimated future costs. The amortisation or 'unwinding' of the discount applied in establishing the net present value of provision is charged as a finance cost to the consolidated statement of comprehensive income in each accounting period.

For close down and restoration costs, which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas, movements in provision other than the amortisation of the discount, such as those resulting from changes in the cost estimates, lives of operations or discount rates, are capitalised into the carrying amount of development and amortised against future production.

Rehabilitation

The provision represents the estimated costs to rehabilitate wells in licences held by the consolidated entity. This provision has been calculated based on the number of wells which require rehabilitation and the expected costs to rehabilitate each well, taking into consideration the type of well and its location.

Employee benefits
Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Notes to the financial statements (continued)

Note 11 Provisions (continued)

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Severance pay

As per the Botswana Labour a provision is calculated for each Botswana based employee of one day per month of service, which can be paid out after 60 months or when employment ends. The benefit rises to two days per month after the first 60 months.

	Consolidated	
	June 2018	June 2017
Current	\$	\$
Employee benefits	59,214	42,322
Employee benefits - Botswana severance	155,969	123,871
	<u>215,183</u>	<u>166,193</u>
 Non-current		
Rehabilitation	97,000	94,000
	<u>97,000</u>	<u>94,000</u>
 Movements in rehabilitation provision during the year		
Balance at the beginning of the year	94,000	94,000
Rehabilitation required on wells drilled during the year	3,000	-
Carrying amount at the end of the year	<u>97,000</u>	<u>94,000</u>

Employee benefits – Botswana Severance

A provision has been recognised for employee benefits relating to severance pay payable in Botswana.

Notes to the financial statements (continued)

Note 12. Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the consolidated entity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	June 2018	June 2017	Consolidated June 2018	Consolidated June 2017
	Shares	Shares	\$	\$
Opening balance	304,042,848	205,619,292	83,380,184	73,931,569
Issue of ordinary shares during the year*	50,181,427	98,423,556	6,894,517	9,684,461
Share issue costs	-	-	(221,602)	(235,846)
Transfer from share based payment reserve	-	-	410,723	-
Ordinary shares - fully paid	354,224,275	304,042,848	90,463,822	83,380,184

*Shares issued during the year and the issue price of each issue is as follows:

	Issue Date	No. of Shares	Issue Price (AUD)
Exercise of Options	10-Nov-17	1,500,000	\$0.111
Exercise of Options	27-Nov-17	500,000	\$0.140
Placement	13-Dec-17	21,153,845	\$0.198
Performance Rights	18-Dec-17	2,275,000	\$0.000
Placement	20-Jun-18	24,752,582	\$0.100

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of, and amounts paid on, the shares held. The fully paid ordinary shares have no par value. On a show of hands every member present at a meeting, in person or by proxy, shall have one vote and upon a poll, each share shall have one vote. The Company does not have authorised capital or par value in respect of its issued shares.

Options and performance rights

At 30 June 2018, the following options for ordinary shares in Tlou Energy Limited and performance rights were on issue:

Options:

	Number
2018	2017
-	1,500,000
-	500,000
-	2,000,000

Performance rights:

Vesting Date	Exercise Price	01/07/2017	Issued	Exercised	Expired	30/06/2018
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

Notes to the financial statements (continued)

Note 12 Contributed Equity (continued)

Capital risk management

The capital structure of the consolidated entity consists of equity attributable to equity holders of the parent entity, comprising issued capital and reserves as disclosed in the Consolidated Statement of Changes in Equity.

When managing capital, management's objective is to ensure the parent entity continues as a going concern and to maintain a structure that ensures the lowest cost of capital available and to ensure adequate capital is available for exploration and evaluation of tenements. In order to maintain or adjust the capital structure, the consolidated entity may seek to issue new shares. Consistent with other exploration companies, the consolidated entity, including the parent entity monitors capital on the basis of forecast exploration and development expenditure required to reach a stage which permits a reasonable assessment of the existence or otherwise of an economically recoverable reserve.

There were no changes in the consolidated entity's approach to capital management during the year.

The consolidated entity is not subject to externally imposed capital requirements.

Note 13. Reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled entities.

The financial report is presented in Australian dollars rounded to the nearest dollar, which is Tlou Energy Limited's functional and presentation currency.

Foreign operations

The assets and liabilities of foreign operations are translated into functional currency using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into functional currency using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in the foreign currency translation reserve in equity. The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Share Based Payments Reserve

The share based payments reserve is used to record the share based payment associated with options granted to employees and others under equity-settled share based payment arrangements.

Notes to the financial statements (continued)

Note 14. Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Employee Share Options and Performance Rights

Share Options and Performance Rights may be granted to certain personnel of the Company on terms determined by the directors or otherwise approved by the Company at a general meeting.

The options are granted for no consideration. Options and entitlements to the options are vested on a time basis and/or on specific performance based criteria such as share price increases or reserves certification. Options granted as described above carry no dividend or voting rights. When exercisable, each option is convertible to one ordinary share.

Performance Rights are linked to the share price performance of the Company, ensuring alignment with the interests of the Company's shareholders. For the Performance Rights that are issued but not yet exercised at the date of this report to vest and, therefore, become exercisable by a participant, certain performance conditions are required to be met as set out below. On vesting, holders of Performance Rights will be entitled to acquire Tlou Energy Limited ordinary shares at nil cost.

Performance Condition
The closing price of Shares being 100% or more above the price at the date of shareholder approval for a period of 10 consecutive trading days.

Notes:

- The date of shareholder approval was 10 November 2016
- The share price on 10 November 2016 was AUD \$0.14
- To vest the share price needs to be AUD \$0.28 or greater for a period of 10 consecutive trading days

The expense recognised in the consolidated statement of comprehensive income in relation to share based payments amounts to \$199,624 (2017: \$423,499). The amount assessed as fair value at the grant date is allocated equally over the period from grant date to vesting date. The fair value at grant date is determined using generally accepted valuation techniques that take into account exercise price, the term of the option or performance rights, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option/performance rights and an appropriate probability weighting to factor the likelihood of the satisfaction of non-vesting conditions.

Notes to the financial statements (continued)

Note 14 Share based payments (continued)

Inputs used to value the performance rights on issue are as follows:

	Tranche 1	Tranche 2
Grant date	10/11/16	10/11/16
Expected volatility (%)	100	100
Risk-free interest rate (%)	2.20	2.20
Expected life of (years)	7	7
Weighted average share price (\$)	\$0.21	\$0.28
Model used	Trinomial	Trinomial

There are no share options outstanding at the end of the 2018 financial year.

<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 June 2018	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	-	-	-	-
Weighted average exercise price			\$0.14	-	-	-	-	-

The following table shows the number, movements and weighted average exercise price of employee share options outstanding for the 2017 year

<i>Grant Date</i>	<i>Expiry date</i>	<i>Exercise price</i>	Opening Balance July 2016	Exercised During the Year	Granted During the Year	Expired During the year	Closing Balance June 2017	Vested & Exercisable
30/11/15	29/11/17	\$0.14	1,500,000	-	-	-	1,500,000	1,500,000
14/01/16	14/01/18	\$0.14	500,000	-	-	-	500,000	500,000
Total			2,000,000	-	-	-	2,000,000	2,000,000
Weighted average exercise price			\$0.14	-	-	-	\$0.14	\$0.14

The weighted average remaining contractual life of share options outstanding at the end of the year was 0.4 years.

The following table shows the number, movements and exercise price of performance rights for the 2018 year.

Vesting Date	Exercise Price	01/07/2017	Issued	Exercised	Expired	30/06/2018
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 following table shows the number, movements and exercise price of performance rights for the 2017 year.

Vesting Date	Exercise Price	Movements				30/06/2017
		01/07/2016	Issued	Exercised	Expired	
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	-	-	4,550,000

Notes to the financial statements (continued)

Note 14 Share based payments (continued)

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transaction recognised during the year were as follows:

	Consolidated	
	June 2018	June 2017
	\$	\$
Performance rights	199,624	423,499
	<u>199,624</u>	<u>423,499</u>

Note 15. Commitments

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Operating lease commitments

Commitments for minimum lease payments for non-cancellable operating leases for offices and equipment contracted for but not recognised in the financial statements.

	Consolidated	
	June 2018	June 2017
	\$	\$
Payable - minimum lease payments		
• not later than 12 months	5,250	5,250
• between 12 months and 5 years	-	-
	<u>5,250</u>	<u>5,250</u>

Notes to the financial statements (continued)

Note 15 Commitments (continued)

Exploration expenditure:

To maintain an interest in the exploration tenements in which it is involved, the consolidated entity is required to meet certain conditions imposed by the various statutory authorities granting the exploration tenements or that are imposed by the joint venture agreements entered into by the consolidated entity. These conditions can include proposed expenditure commitments. The timing and amount of exploration expenditure obligations of the consolidated entity 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 consolidated entity's proposed expenditure obligations, which are not provided for in the financial statements are as follows:

	Consolidated	
	June 2018	June 2017
Minimum expenditure requirements	\$	\$
• not later than 12 months	4,153,861	1,637,420
• between 12 months and 5 years	82,893	2,637,363
	<u>4,236,754</u>	<u>4,274,783</u>

Notes to the financial statements (continued)

Note 16. Financial instruments**Overview**

The consolidated entity's principal financial instruments comprise receivables, payables, cash and term deposits. The main risks arising from the consolidated entity's financial assets are interest rate risk, foreign currency risk, credit risk and liquidity risk.

This note presents information about the consolidated entity's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk. Other than as disclosed, there have been no significant changes since the previous financial year to the exposure or management of these risks.

The consolidated entity holds the following financial instruments:

	Consolidated	
	June 2018	June 2017
Financial Assets	\$	\$
Cash and cash equivalents	7,019,345	6,727,424
Trade and other receivables	194,814	100,674
	<u>7,214,159</u>	<u>6,828,098</u>
Financial Liabilities		
Trade and other payables	258,024	431,032
	<u>258,024</u>	<u>431,032</u>

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Key risks are monitored and reviewed as circumstances change (e.g. acquisition of new entity or project) and policies are created or revised as required. The overall objective of the consolidated entity's financial risk management policy is to support the delivery of the consolidated entity's financial targets whilst protecting future financial security.

Given the nature and size of the business and uncertainty as to the timing and amount of cash inflows and outflows, the consolidated entity does not enter into derivative transactions to mitigate the financial risks. In addition, the consolidated entity's policy is that no trading in financial instruments shall be undertaken for the purpose of making speculative gains. As the consolidated entity's operations change, the Directors will review this policy periodically going forward.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board reviews and agrees policies for managing the consolidated entity's financial risks as summarised below. These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits.

Risk management is carried out by senior finance executives (finance) under policies approved by the Board of Directors. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units where appropriate.

(a) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The consolidated entity is also exposed to earnings volatility on floating rate instruments.

A forward business cash requirement estimate is made, identifying cash requirements for the following period (generally up to one year) and interest rate term deposit information is obtained from a variety of banks over a variety of periods (usually one month up to six-month term deposits) accordingly. The funds to invest are then scheduled in an optimised fashion to maximise interest returns.

Notes to the financial statements (continued)

Note 16 Financial instruments (continued)

Interest rate sensitivity

A sensitivity of 1% interest rate has been selected as this is considered reasonable given the current market conditions. A 1% movement in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
	1% increase	1% decrease	1% increase	1% decrease
	\$	\$	\$	\$
Consolidated - 30 June 2018				
Cash and cash equivalents	70,193	(70,193)	70,193	(70,193)
Consolidated - 30 June 2017				
Cash and cash equivalents	67,274	(67,274)	67,274	(67,274)

Interest rate risk on other financial instruments is immaterial.

(b) Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The Board's approach to managing liquidity is to ensure, as far as possible, that the consolidated entity will always have sufficient liquidity to meet its obligations when due.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The consolidated entity manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. This is based on the undiscounted cash flows of the financial liabilities based on the earliest date on which they are required to be paid. At the end of the reporting period the consolidated entity held cash of \$7,019,345 (2017: \$6,727,424).

The following table details the remaining contractual maturity for non-derivative financial liabilities.

	Within	Between	Total Contractual	Carrying
	1 Year	1 & 2 years	Cash Flows	Amount
	\$	\$	\$	\$
Consolidated - 30 June 2018				
Trade and other payables	258,024	-	258,024	258,024
Consolidated - 30 June 2017				
Trade and other payables	431,032	-	431,032	431,032

(c) Foreign exchange risk

As a result of activities overseas, the consolidated entity's consolidated statement of financial position can be affected by movements in exchange rates. The consolidated entity also has transactional currency exposures. Such exposures arise from transactions denominated in currencies other than the functional currency of the relevant entity.

The consolidated entity's exposure to foreign currency risk primarily arises from the consolidated entity's operations overseas. Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The consolidated entity currently does not engage in any hedging or derivative transactions to manage foreign currency risk. The consolidated entity's policy is to generally convert its local currency to Pula, Rand or US dollars at the time of transaction. The consolidated entity, has on rare occasions, taken the opportunity to move Australian dollars into foreign currency (ahead of a planned requirement for those foreign funds) when exchange rate movements have moved significantly in favour of the Australian dollar, and management considers that the currency movement is extremely likely to move back in subsequent weeks or months. Therefore, the opportunity has been taken to lock in currency at a favourable rate to the consolidated entity. This practice is expected to be the exception, rather than the normal practice.

Notes to the financial statements (continued)

Note 16 Financial instruments (continued)

The consolidated entity's exposure to foreign currency risk at the reporting date, expressed in Australian dollars, was as follows:

	2018 USD A\$	2018 BWP A\$	2018 ZAR A\$	2018 GBP A\$	2017 USD A\$	2017 BWP A\$	2017 ZAR A\$	2017 GBP A\$
Financial Assets								
Cash and cash equivalents	18,950	2,895,669	89,615	2,946,349	20,603	105,567	36,377	5,471,648
Trade and other receivables	-	186,725	-	-	-	78,337	-	-
Financial Liabilities								
Trade and other payables	-	(101,457)	-	-	-	(112,508)	-	-
Net Financial Instruments	18,950	2,980,937	89,615	2,946,349	20,603	71,396	36,377	5,471,648

Foreign currency rate sensitivity

Based on financial instruments held at 30 June 2018, had the Australian dollar strengthened/weakened by 10% the consolidated entity's profit or loss and equity would be impacted as follows:

	Profit or loss		Equity	
	10% Increase	10% Decrease	10% Increase	10% Decrease
2018	\$	\$	\$	\$
Dollar (US)	(1,895)	1,895	(1,895)	1,895
Pula (Botswana)	(298,094)	298,094	(298,094)	298,094
Rand (South Africa)	(8,962)	8,962	(8,962)	8,962
Pound (UK)	(294,635)	294,635	(294,635)	294,635
2017				
Dollar (US)	(2,060)	2,060	(2,060)	2,060
Pula (Botswana)	(7,140)	7,140	(7,140)	7,140
Rand (South Africa)	(3,638)	3,638	(3,638)	3,638
Pound (UK)	(547,165)	547,165	(547,165)	547,165

Notes to the financial statements (continued)

Note 16 Financial instruments (continued)

(d) Credit risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from cash and cash equivalents and trade and other receivables. The consolidated entity's exposure and the credit ratings of its counterparties are continuously monitored by the Board of Directors.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in the table above.

Credit Risk Exposures

Trade and other receivables

Trade and other receivables comprise primarily of VAT and GST refunds due. Where possible the consolidated entity trades with recognised, creditworthy third parties. The receivable balances are monitored on an ongoing basis. The consolidated entity's exposure to bad debts is not significant. At 30 June 2018, none (2017: nil) of the consolidated entity's receivables were past due.

Cash and cash equivalents

The consolidated entity has a significant concentration of credit risk with respect to cash deposits with Westpac Banking Corporation, First National Bank Botswana and First National Bank South Africa. However, significant cash deposits are invested across banks to mitigate credit risk exposure to a particular bank. AAA rated banks are used where possible and non-AAA banks are utilised where commercially attractive returns are available.

Note 17. Key Management Personnel

Key management personnel comprise directors and other persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity.

Detailed remuneration disclosures are provided in the remuneration report on pages 12 to 17.

Key management personnel compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	June 2018	June 2017
	\$	\$
Short-term employee benefits	945,044	653,675
Post-employment benefits	68,602	54,796
Other long-term benefits	45,612	23,730
	<hr/>	<hr/>
	1,059,258	732,201
Share based payments ¹	109,685	232,690
	<hr/>	<hr/>
	1,168,943	964,891

¹ In the 30 June 2017 financial statements the amount under Share based payments showed the full value of the rights issued rather than the expense related to the 2017 financial year. The comparative figure has been updated to show the expense related to the 2017 financial year. The remaining amount, reflecting the expense for the 2018 year, is shown in the 2018 column as the Share based payment.

Notes to the financial statements (continued)

Note 18. Auditors' Remuneration

During the year the following fees were paid or payable for services provided by the auditor of the consolidated entity:

	Consolidated	
	June 2018	June 2017
	\$	\$
Audit services		
Auditing or reviewing the financial statements - BDO Australia	55,000	55,000
Auditing or reviewing the financial statements - BDO Botswana	27,932	25,214
Non-audit services - BDO Australia		
Tax consulting and compliance services	11,810	10,172
BSE Listing	4,500	-
Corporate finance services	30,000	-
Total	129,242	90,386

Note 19. Contingent Liabilities

The Directors are not aware of any contingent liabilities (2017: nil).

Note 20. Related Party Transactions**Parent entity**

The legal parent entity is Tlou Energy Limited.

Subsidiaries

Interests in subsidiaries are set out in note 23.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2018	2017
	\$	\$
<u>Payment for goods and services:</u>		
Office rent paid to The Gilby McKay Alice Street Partnership, a director-related entity of Anthony Gilby.	21,000	21,000

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

Current payables:

Trade payables to The Gilby McKay Alice Street Partnership, a director-related entity of Anthony Gilby	-	1,925
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Loans to/from related parties

There were no loans to or from related parties at the reporting date or during the year.

Terms and conditions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Notes to the financial statements (continued)

Note 21. Segment Reporting
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 30 June 2018 no revenue has been derived from its operations (2017: nil).

Segment assets

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

	June 2018	June 2017
	\$	\$
Botswana	53,949,941	50,341,366
Australia	5,225	1,813
	<u>53,955,166</u>	<u>50,343,179</u>

Note 22. Cash Flow Information

	Consolidated	
	June 2018	June 2017
	\$	\$
Reconciliation of cash flow from operations		
Loss for the period	(2,810,730)	(3,165,323)
Depreciation	204,788	240,961
Share-based payments	199,624	423,499
Loss on disposal	-	788
Net exchange differences	35,229	37,181
Changes in operating assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
Decrease/(increase) in trade and other receivables	(28,674)	189,757
Decrease/(increase) in other assets	(1,865)	-
Increase/(decrease) in trade payables and accruals	(183,242)	(112,369)
Decrease/(increase) in employee benefits	(47,017)	35,318
Increase/(decrease) in provisions	48,991	5,319
	<u>(2,582,895)</u>	<u>(2,344,869)</u>

There were no non-cash investing or financing activities during the year (2017: none).

Notes to the financial statements (continued)

Note 23. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1.

Name of entity	Country of incorporation	Class of shares	Equity holding %	
			June 2018	June 2017
Tlou Energy Botswana (Proprietary) Ltd	Botswana	Ordinary	100	100
Technoleads International Inc	Barbados	Ordinary	100	100
Tlou Energy Exploration (Proprietary) Limited	Botswana	Ordinary	100	100
Sable Energy Holdings (Barbados) Inc	Barbados	Ordinary	100	100
Tlou Energy Resources (Proprietary) Limited	Botswana	Ordinary	100	100
Copia Resources Inc	Barbados	Ordinary	100	100
Tlou Energy Corp Services Botswana (Proprietary) Limited	Botswana	Ordinary	100	100
Madra Holdings (Barbados) Inc	Barbados	Ordinary	100	100
Tlou Energy Solutions (Proprietary) Limited	Botswana	Ordinary	100	100

Note 24. Matters subsequent to the end of the financial year

In July 2018 the Company raised additional capital following the issue of 54,889,260 ordinary shares in the Company. The total issued share capital following the issue of these shares is 409,113,535 shares. There has not been any matter or circumstance, other than that referred to in this report and disclosed 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.

Notes to the financial statements (continued)

Note 25. Parent entity disclosures

	Parent	
	June 2018	June 2017
	\$	\$
Current assets	4,196,540	6,640,713
Non-current assets	30,218,976	30,215,563
Total assets	34,415,516	36,856,276
Current liabilities	194,898	330,900
Total liabilities	194,898	330,900
Net assets	34,220,618	36,525,376
Contributed equity	90,463,822	83,380,184
Share based payment	309,400	520,499
Accumulated losses	(56,552,604)	(47,375,307)
Total equity	34,220,618	36,525,376
Loss for the period	9,177,297	2,735,999
Total comprehensive income	9,177,297	2,735,999

Commitments, Contingencies and Guarantees of the Parent Entity

The Parent Entity has no commitments for the acquisition of property, plant and equipment, no contingent assets, contingent liabilities or guarantees at balance date.

Directors' declaration

In the Directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- the remuneration report as set out in the directors' report for the year ended 30 June 2018 comply with section 300A of the *Corporations Act 2001*; and

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of Directors made pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the Directors



Anthony Gilby
Director

Brisbane
30 August 2018

INDEPENDENT AUDITOR'S REPORT

To the members of Tlou Energy Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Tlou Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related 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 opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Carrying value of exploration and evaluation assets

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Refer to note 8 in the financial report.</p> <p>The Group carries exploration and evaluation assets as at 30 June 2018 in relation to the application of the Group's accounting policy for exploration and evaluation assets.</p> <p>The recoverability of exploration and evaluation asset is a key audit matter due to:</p> <ul style="list-style-type: none"> • The significance of the total balance; and • The level of procedures undertaken to evaluate management's application of the requirements of AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i> ('AASB 6') in light of any indicators of impairment that may be present. 	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • Obtaining evidence that the Group has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditure by obtaining supporting documentation such as license agreements and also considering whether the Group maintains the tenements in good standing • Making enquiries of management with respect to the status of ongoing exploration programs in the respective areas of interest and assessing the Group's cashflow budget for the level of budgeted spend on exploration projects and held discussions with directors of the Group as to their intentions and strategy • Enquiring of management, reviewing ASX announcements and reviewing directors' minutes to ensure that the Group had not decided to discontinue activities in any applicable areas of interest and to assess whether there are any other facts or circumstances that existed to indicate impairment testing was required.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 17 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Tlou Energy Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit Pty Ltd



T R Mann
Director

Brisbane, 30 August 2018

Corporate Governance Statement

The Directors (the “Board”) of Tlou Energy Limited (“Tlou Energy” or “the Company”) are committed to the implementation of the highest standards of corporate governance. In determining what these standards should be, the Board references guidance and supports, where appropriate, the Corporate Governance Principles and Recommendations with 2014 amendments (3rd Edition) (“3rd Edition Recommendations or ASX Recommendations”) established by the ASX Corporate Governance Council (the “Council”).

This statement outlines the key aspects of Tlou Energy’s governance framework and practices. The charters, policies and procedures are reviewed regularly and updated to comply with the law and best practice. This statement contains specific information and discloses the extent to which the Company intends to or is able to follow the 3rd Edition Recommendations. The charters and policies of the Company can be viewed on Tlou Energy’s website at www.tlouenergy.com.au (“website”).

The Council’s recommendations are not prescriptive and, if certain recommendations are not appropriate for the Company given its circumstances, it may elect not to adopt that particular practice in limited circumstances. The Company believes that during the reporting period ending 30 June 2018 its practices are largely consistent with those of the 3rd Edition Recommendations and where they do not follow a recommendation this statement identifies those that have not been followed and details reasons for non-adherence. Even where there is a deviation from the recommendations the Company continues to review and update its policies and practices in order that it keeps abreast of the growth of the Company, the broadening of its activities, current legislation and good practice.

This Corporate Governance statement reports on the main practices of Tlou Energy and is current as at the 28 August 2018 and has been approved by the Board of Directors.

Role of the Board

The Board is responsible for ensuring that the Company is managed effectively. Given the size of the Company and the Board, the Board undertakes an active role in the management of the Company.

The Board’s role and the Company’s Corporate Governance practices are continually being reviewed and updated to reflect the Company’s circumstances and growth. The Board has adopted a Charter which sets out the responsibilities of the Board and its structure and governance as well as the matters expressly reserved to the Board and those delegated to management. A copy of the Charter is available on the Company’s website.

The Board is responsible for determining the strategic direction and objectives of the Company and overseeing management’s achievements against these.

(ASX Recommendation 1.1)

The Board of Directors

The Board is currently comprised of six (6) Directors. Details of the Directors who held office during the year under review are namely: -

Name of Director	Board Membership	Date of Appointment
Martin McIver	Non-Executive Chairman	16 September 2010
Anthony Gilby	Managing Director	23 April 2009
Gabaake Gabaake	Executive Director	11 March 2015
Colm Cloonan	Finance Director	11 February 2016
Hugh Swire	Non-Executive Director	22 June 2017
Linah Mohohlo	Non-Executive Director	12 July 2017

The skills, experience and expertise relevant to the position of each Director are set out in the Directors' Report of this Annual Report. Prior to the appointment of a person, or putting forward to shareholders a candidate for election, as a director, the Company undertakes checks which it believes are appropriate to verify a director's character, experience, educations, criminal record and bankruptcy history. The Company will ensure that all material information in its possession relevant to a shareholders decision to elect or re-elect a director is provided to shareholder in the Company's Notice of Annual General Meeting.

(ASX Recommendation 1.2)

Each executive director and senior executive of Tlou Energy has an agreement in writing with the Company which sets out the key terms and conditions of their appointment including their duties, rights and responsibilities. There are no formal agreements with the non-executive directors other than their Deeds of Access and Indemnity. Given the size and operations of the Company at this stage and the experience and skills that the non-executive directors possess the Board does not believe that there would be any benefit to the Company in doing so.

(ASX Recommendation 1.3)

Company Secretary

The Company Secretary is directly accountable to the Board through the Chairman who the Company Secretary has a direct line of reporting to. The Company Secretary is responsible for advising the Chairman and the Board to manage the day to day governance framework of the Company. The responsibilities of the Company Secretary are contained in the Board Charter a copy of which is available on the Company's website.

(ASX Recommendation 1.4)

Diversity Policy

The Company is committed to creating a fair and inclusive work environment that embraces diversity and recognises its contribution to the Company's commercial success. As the Company has a relatively small staff at present the Board does not believe that any benefit would be obtained setting measurable objectives for achieving gender diversity and has not done so. Neither is the Company a 'relevant employer' under the Workplace Gender Equality Act.

A copy of the Company's Diversity Policy can be found on the Company's website.

(ASX Recommendation 1.5)

Improvement in Board processes and effectiveness is a continuing objective and the purpose of the annual Board evaluation is to identify ways to improve performance. The Board has appointed the Chairman as the person responsible for conducting an annual review of the Board's performance.

This process will involve the Chairman circulating to members of the Board a detailed questionnaire on performance indicators and collating the data from the same before discussing with each member of the Board and reviewing performance indicators such as time engaged on Company business, so as to assess the effectiveness of processes structure and contributions made by individual directors.

The Managing Director assesses, annually or as necessary, the performance of all key executives. Both qualitative and quantitative measures will be used consistent with performance targets set annually by the Managing Director in consultation with those executives. The Managing Director reports to the Remuneration and Nomination Committee on their performance and the Remuneration and Nomination Committee will then consider any changes to remuneration and the establishment of new performance targets.

During the reporting period, a review of the Boards performance was carried out by the Chairman.
(ASX Recommendation 1.6)

The Board will assess annually or as necessary the performance of the Managing Director benchmarking his performance against the role description in the employment contract and general industry standards expected of a Managing Director carrying on that role. The Board regularly evaluates management's performance against various criteria and requires senior executives to address the Board on execution of strategy and associated issues. The Chief Executive Officer reviews the performance of the senior executives annually. These evaluations take into account matters such as the achieving of the Company's objectives and reaching of performance criteria.

An executive management review has been carried out for the current reporting period.
(ASX Recommendation 1.7)

Structure of Board to Add Value

The Board comprises three non-executive Directors, including the Chairman, and three executive Directors including Managing Director. The names of the Directors of the Company in office at the date of this report or through the year under review and their qualifications are set out in the section of the Annual Report headed "Directors' Report".

The composition and size of the Board is determined so as to provide the Company with a broad base of industry, business, technical, administrative, financial and corporate skills and experience considered necessary to achieve the strategic objectives of the Company taking into consideration the size of the Company and the nature of its current operations.

The Board considers that, fundamentally, the independence of Directors is based on their capacity to put the best interests of the Company and its shareholders ahead of all other interests, so that Directors are capable of exercising objective independent judgment.

When evaluating candidates, the Board has regard to the potential for conflicts of interest, whether actual or perceived, and the extent or materiality of these in the ongoing assessment of director independence. In this regard the Board has regard to the definition of "independence" in the 3rd Edition Recommendations. The Board is of the view that the existence of one or more of the relationships in the definition will necessarily result in the relevant Director not being classified as independent, particularly given the criteria outlined above, and that the Company will seek to implement additional safeguards to ensure independence. An overall review of these considerations is conducted by the Board to determine whether individual Directors are independent.

Additional policies and practices, such as Directors not being present during discussions or decision making on matters in which they have or could be seen to potentially have a material conflict of interest, as well as Directors being excluded from taking part in the appointment of third party service providers where the Director has an interest, provide further separation and safeguards to independence. The Board has adopted materiality thresholds in relation to independence, which are contained in the Board Charter and summarised below.

ASX Recommendation 2.4 requires most of the Board to be independent Directors. In addition, ASX Recommendation 2.5 requires the Chairman of the Company to be independent. The Council defines 'independence' as being a non-executive director who is not a member of management and who is free from any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the independent exercise of their judgment. Based on this definition the current Directors, three of the Directors could not be considered independent by virtue of them being either executives, substantial shareholders of the Company or Directors or Officers of Companies that are substantial shareholders of the Company.

The Chairman (Martin McIver) if applying the independence criteria in the Principles is considered to be independent.

Martin Mclver has previously not been treated as an independent Director as formally he was employed by a Company that was a substantial shareholder and which was a related party of the former Chairman. Mr Mclver left the employ of that entity in January 2013. Given that effluxion of time, having regard to the materiality of the role and the fact that Mr Mclver meets all of the other criteria to establish independence the Board has (in the absence of Mr Mclver) determined that Mr Mclver is independent.

Hugh Swire and Linah Mohohlo, both of whom are non-executive directors are considered to be independent as they fall within the Council's definition of 'independence' as being a non-executive director who is not a member of management and who is free from any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the independent exercise of their judgment.

Notwithstanding that these 3rd Edition Recommendations in respect to the composition of the Board are not strictly followed (majority of the Board to be independent) the Company believes that it has achieved in the last 18 months some significant progress to achieving this objective and given its history and the formation of the Board reflects certain founding members, it is not practical at this stage to have a majority of independent Directors. Therefore, the Board takes the view that the interests of the Shareholders are best served with the Board's present composition and has resolved that the situation will continue to be monitored as the operations of the Company evolve and appoint appropriately qualified independent Directors as the opportunities and necessity arise.

(ASX Recommendation 2.3)

The Board has established a Nomination and Remuneration Committee which regularly reviews Board membership. This includes considering what other skills that might be necessary for the Company to reach its strategic objectives. Now that the Board has 3 independent non-executive directors this ASX Recommendation 2.1 can be satisfied with the Committee being constituted by these three directors. A copy of the Remuneration and Nominations Committee Charter is located on the Company's website.

The Committee's members, the number of times that they have met throughout the reporting period and the member's attendance at those meetings is recorded in the section of the 2018 Annual Report headed "Directors Report".

(ASX Recommendation 2.1)

If a Board vacancy becomes available it will be the responsibility of the Nomination Committee to identify the skills, experience and diversity that will best complement the Board and will then embark on a process to identify a candidate who can best meet those criteria. A skills matrix has been developed and adopted by the Board to help assess the relevant criteria of candidates. The Directors believe the skill base of the current Directors is appropriate for the Company given its size and stage of development.

(ASX Recommendation 2.2)

Given the size of the Company there is no formal induction process for new Directors nor does it have a formal professional development program for existing Directors. The Board does not consider that a formal induction program is necessary given the current size and scope of the Company's operations.

Rather any new Director will be provided with a personalised induction which will be dependent upon the skills and experience that any new Director might possess. Any new Director induction will include comprehensive meetings with senior management and the provision of relevant materials such as all the Company's policies and procedures as well as instruction in relation to these.

All Directors are expected to maintain the skills required to effectively discharge their obligations and are encouraged to undertake continuing professional education such as industry seminars and approved education courses.

(ASX Recommendation 2.6)

Board Charter

The Board operates in accordance with the broad principles set out in its Charter which is regularly reviewed and updated by the Board. It has also adopted a written Code of Conduct which establishes guidelines for its conduct. The purpose of the Code is to ensure that Directors and Executives act honestly, responsibly, legally and ethically and in the best interests of the Company.

Conflicts of Interest

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised on an ongoing basis, of any interest that may lead to a conflict with the interests of the Company. Where the Board believes that there is a significant or material conflict, the Director concerned shall be excluded from all discussions and access to Board papers and the like, and shall not be present at any Directors meeting during the consideration or vote on such a matter.

Independence of Professional Advice

The Board has determined that individual Directors have the right to seek independent professional advice in connection with any of their duties and obligations as Directors of the Company. Before a Director may obtain that advice at the Company's expense, the Director must obtain the approval of the Chairman who will not unreasonably withhold that consent. If appropriate any advice received will be made available to the full Board. No member of the Board availed himself of this entitlement during the year under review.

Committees

Audit Committee, Risk Committee and Remuneration & Nomination Committee

The Board delegates specific responsibilities to various Board Sub-Committees. The Board has established the following standing committees:

- An Audit Committee, which is responsible for overseeing the external and internal auditing functions of the Company's activities;
- A Risk Committee, which comprises representatives of the Board and staff to advise and assist the Board in assessing risk factors associated with the operation of the Company; and
- A Remuneration & Nomination Committee, which is responsible for making recommendations to the Board on recruitment and remuneration packages for executives.

The Board has again this year delegated the specific responsibility of overseeing the Company's audit obligations to an Audit Committee. The Audit Committee is currently made up of the following members:

- Linah Mohohlo – Chair
- Martin McIver - Committee Member
- Colm Cloonan - Committee Member
- Anthony Gilby – Committee Member

Act Ethically and Responsibly

The Company in recognition of the importance of ethical and responsible decision making has adopted a Corporate Code of Conduct which sets out ethical standards and a Code of Conduct to which all Directors, and Senior Executives will adhere whilst conducting their duties.

(ASX Recommendation 3.1)

The Code of Conduct for Director and Senior Executives forms part of this Corporate Code of Conduct. It provides as follows: -

All Directors and Senior Executives will: -

1. Actively promote the highest standards of ethics and integrity in carrying out their duties for the Company;
2. Disclose any actual or perceived conflicts of interest of a direct or indirect nature of which they become aware and which they believe could compromise in any way the reputation or performance of the Company;

3. Respect confidentiality of all information of a confidential nature which is acquired in the course of the Company's business and not disclose or make improper use of such confidential information to any person unless specific authorisation is given for disclosure or disclosure is legally mandated;
4. Deal with the Company's suppliers, contractors, competitors and each other with the highest level of honesty, fairness and integrity and to observe the rule and spirit of the legal and regulatory environment in which the Company operates;
5. Report any breach of this code of conduct or other inappropriate or unethical conduct to the appropriate authority within the Group; and
6. This Code of Conduct is in addition to the Code of Conduct for all employees which has been adopted by the Board of the Company.

The Company is committed to increasing shareholder value and aims to ensure its shareholders are fully informed as to the true financial position and performance of the Group through timely and accurate disclosure of information and risk management practices and exemplary compliance with the continuous disclosure regime. A copy of the Code of Conduct is available at the Company's website.

(ASX Recommendation 3.1)

The Company has adopted in compliance of ASX Listing Rule 12.12 a Policy for Trading in Company Securities which is binding on all Directors, senior management, officers, employees and consultants of the Company. The purpose of this policy is to provide a brief summary of the law on insider trading and other relevant laws, set out the restrictions on dealing in the Company's securities by people who work for or are associated with Company and assist in maintaining market confidence in the integrity of dealings in Tlou Energy securities. The Policy is posted on the Company's website to ensure that there is public confidence and understanding of the Company's policies governing trading by "potential insiders".

All persons covered by the Policy may not deal in the securities in the Company without first seeking and obtaining a written acknowledgement from the Chairman (or in his absence the Company Secretary) or the Company Secretary (or in his absence the Managing Director) prior to any trade, at which time they must confirm that they are not in possession of any unpublished price-sensitive information. The Company Secretary maintains a register of notifications and acknowledgements given in relation to trading in the Company's securities. The policy was reviewed during the year to ensure that it aligns with the requirements of the ASX Listing Rules and the requirements of other regulatory regimes under which the Company operates (including in respect of its AIM quotation, the AIM Rules for Companies and the Market Abuse Regulations).

Safeguard Integrity in Financial Reporting

In accordance with ASX Recommendation 4.1 the Board has had established for all of the financial year under review an Audit Committee with a Charter that sets out the roles, responsibilities, composition, structure and membership requirements.

The primary objective of the Committee is to assist the Board to discharge its responsibilities with regard to:

- Monitoring the integrity of the financial statements of the Company, reviewing significant financial reporting judgements;
- Reviewing the Company's internal financial control system;
- Monitoring and reviewing the effectiveness of the Company's internal audit function (if any);
- Monitoring and reviewing the external audit function including matters concerning appointment and remuneration, independence and non-audit services; *and*
- Performing such other functions as assigned by law, the Company's constitution, or the Board.

Structure of the Audit Committee and Charter

ASX Recommendation 4.1 states that the audit committee should have at least 3 members consisting only of non-executive directors, a majority of which should be independent with the Chair of the Committee being one of the independent directors who is not the chair of the Company.

During the reporting period, the Committee appointed by the Board did comply with this recommendation as it comprised now of two non-executive Directors and two executive Directors, with the chair of the Committee being an independent Director as prescribed by the ASX Recommendations.

Colm Cloonan and Anthony Gilby are members of the Committee who are executive directors. At the time of his appointment to the Committee Mr Gilby was a non-executive director but has since been appointed the Managing Director.

The Chair of the Committee is Linah Mohohlo who is an independent non-executive director.

Martin McIver who is an independent non-executive director was previously the Chair of the Committee but also Chair of the Board of Directors. He now sits on the Committee as a member only.

Each member of the Audit Committee has an appropriate knowledge of the Company's affairs and has the financial and business expertise to effectively discharge the duties of the Committee. The members of the Audit Committee by virtue of their professional background experience and personal qualities are well qualified to carry out the functions of the Audit Committee.

The members of the Committee have direct access to any employee, the auditors and financial and legal advisers without management present. The Committee meets as often as is required but no less than twice a year.

The Committee Chair shall report any significant issues arising from the Committee Meetings at the next meeting of the Board.

The Directors report contained in the Company's annual report to shareholders is to contain a dedicated section that describes the role of the Audit Committee and what action it has taken.

The role of the Audit Committee is to: -

- (a) monitor the integrity of the financial statements of the Company, by reviewing significant financial reporting judgements;
- (b) review the effectiveness of the Company's internal financial control system and, unless expressly addressed by a separate Risk Committee or by the Board itself, risk management systems;
- (c) monitor and review the effectiveness of the Company's internal audit function;
- (d) monitor and review the external audit function including matters concerning appointment and remuneration, independence and non-audit services;
- (e) perform such other functions as assigned by law, the Company's constitution, or the Board;
- (f) approve the corporate governance section of the Company's Annual Report relating to the Committee and its responsibilities; *and*
- (g) review compliance with legal and regulatory requirements.

The Audit Committee keeps minutes of its meetings and includes them for review at the following Board Meeting. The Audit Committee members' attendance at meetings as compared to total meetings held is set out in the Directors' Report contained in the Annual Report.

As a matter of practice the Chief Executive Officer and the Chief Financial Officer are required to make declarations in accordance with section 295A of the Corporations Act that the Company's financial reports present a true and fair view in all material respects of the Company's financial condition and operational results and are in accordance with relevant accounting standards, and to provide assurance that the declaration is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects.

(ASX Recommendation 4.2)

The external auditors attend the committee meetings at least twice a year and on other occasions where circumstances warrant as well as being available at the Company's AGM to answer shareholders questions about the conduct of the audit and the preparation and content of the audit report.

The Auditor's lead engagement partner attended the Company's 2017 Annual General Meeting. There were no questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report for year ended 30 June 2017. (ASX Recommendation 4.3)

Make Timely and Balanced Disclosure

The Company appreciates the considerable importance of communications with Shareholders and the market as a whole. The Company's communication strategy requires communication with shareholders and investors in an open regular and timely manner so that the shareholders and investors have sufficient information to make informed investment decisions on the operations and results of the Company.

The strategy provides for the use of systems that ensure regular and timely release of information about the Company to shareholders.

Methods of communication currently employed include:

- Shareholder Updates
- Quarterly Reports
- Half Yearly Reports
- Annual Reports; and
- Face to face Shareholder presentations

Continuous Disclosure

The Company is a "disclosing entity" pursuant to section 111AR of the Corporations Act and, as such, complies with the continuous disclosure requirements of Chapter 3 of the ASX Listing Rules and section 674 of the Corporations Act. In addition, the Company is subject to disclosure obligations in respect of the other markets to which it is admitted to trading which includes inter alia the AIM Rules for Companies and the Market Abuse Regulations. Subject to the applicable exceptions contained in these regulations, the Company is required to disclose to the ASX and via a regulatory news service in the United Kingdom any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares.

The Company has adopted an updated Continuous Disclosure Policy in compliance with ASX Recommendation 5.1 and ASX Guidance Note 8: Continuous Disclosure. A copy of the policy can be found on the Company's website.

Each employee and consultant engaged by the Company will be provided with a copy of the policy while impressing upon them during their induction the importance of the same.

The Company Secretary has primary responsibility for discharging the Company's continuous disclosure obligations to the ASX. All officers and employees must immediately notify the Company Secretary of any material information which may need to be disclosed under Listing Rule 3.1-3.1B. Where uncertainty arises as to the meeting of continuous disclosure obligations, the Company Secretary may seek external legal and professional advice.

The Officers of the Company are committed to:

- Encouraging prompt disclosure of any material information which may need to be disclosed under Listing Rule 3.1-3.1B; and
- Promoting an understanding of the importance of the continuous disclosure regime throughout the Company.

The Company uses its website www.tlouenergy.com as its primary communication tool for distribution of the annual report, market announcements and media disclosures. External communication which may have a material effect on the price or value of the Company's securities will not be released unless it has been announced previously to the ASX and via a regulatory news service in the United Kingdom. Effective participation by Shareholders is encouraged at general meetings and procedures have been designed to facilitate this including online voting and the ability of stakeholders to subscribe to receive copies of announcements and reports that are released by the Company.

(ASX Recommendation 5.1)

Respect the Rights of Security Holders

The Company keeps shareholders and other interested parties informed of performance and major developments via communications through its website. This includes details of the Governance framework adopted by the Company including copies of the Corporate Governance Policies and Charters. The link to which is: <http://tlouenergy.com/corporate-governance>

(ASX Recommendation 6.1)

The Company has a Shareholder Communications and Engagement Policy that outlines the processes followed to ensure communication with shareholders and the investment community is effective, consistent and adheres to the principles of continuous disclosure. This is one of the policies available on the Governance page of the Company's website.

(ASX Recommendation 6.2)

The policy regarding shareholder communication and engagement sets out the processes the Company has in place to facilitate and encourage the participation of shareholders and other investors at meetings and to engage with management. These include encouraging shareholders to attend the AGM and allowing them to vote on line if they are unable to attend the meeting.

(ASX Recommendation 6.3)

The Company considers that communicating with shareholders by electronic means is an efficient way to distribute information in a timely and convenient manner. Therefore, its website contains a function to allow interested parties to subscribe to receive electronic notification of public releases and other relevant material concerning the Company and its activities.

(ASX Recommendation 6.4)

Recognition and Management of Risk

The Board is responsible for the oversight of the Company's risk management. The responsibility and control of risk management is overseen by the Managing Director, with matters delegated to the appropriate level of management within the Company with the Managing Director being responsible for assuring the systems are maintained and complied with.

The Company has established a Risk Committee that is focused on ensuring that the Company maintains an effective system of internal control and risk management. The Committee's structure, roles and responsibilities are detailed in the Risk Committee Charter.

Flowing from this, the Company has adopted a Risk Management Policy that governs the Company's approach to managing financial and non-financial risks.

The members of the Risk Committee are appointed by the Board, two of which are to be Board Members. Company personnel are required to attend Risk Committee meetings as and when requested.

Specific functions of the Risk Committee are to: -

- (a) review and oversee the Company's risk profiles as developed and reported by management;
- (b) identify material business risks and monitor emerging risks and changes in the Company's risk profile;
- (c) monitor and review the risk management performance of the Company, including conducting specific investigations where deemed necessary;
- (d) review any legal matters which could significantly impact the Company's risk management and internal control systems, and any significant compliance and reporting issues, including any recent internal regulatory compliance reviews and reports;
- (e) review the effectiveness of the compliance function at least annually, including the system for monitoring compliance with laws and regulations and the results of management's investigations and follow-ups (including disciplinary action) of any fraudulent acts or non-compliance;

- (f) be satisfied that all regulatory compliance matters have been considered in the preparation of the Company's official documents;
- (g) review the findings of any examinations by regulatory agencies and oversee all liaison activities with regulators;
- (h) review and discuss media releases, ASX announcements and any other information provided to analysts;
- (i) review corporate legal reports of evidence of a material violation of the Corporations Act, the ASX Listing Rules or breaches of fiduciary duties;
- (j) review the Company's insurance strategy, including the coverage and limits of the insurance policies, in order to, if thought fit, recommend to the Board for approval; and
- (k) promote an awareness of a risk based culture in the balance of pursuit of business objectives whilst managing risks.

(ASX Recommendation 7.1)

The Risk Committee meets whenever necessary, but no less than three times per year, and keeps minutes of its meetings which are included for review at the following Board Meeting.

The Company has a qualified Compliance and Risk Manager who has been engaged to oversee the design and implementation of the risk control programme. The Company's Risk Management Policy requires the Board, being guided by the Risk Committee to at least annually undertake a risk review to determine if the existing risk framework is satisfactory considering the material risks faced by the Company.

The Board with the assistance of the Risk Committee has completed a review of the Company's risk management framework during the year under review and determined that the risk management framework that was in place was satisfactory for the present needs of the Company.

(ASX Recommendation 7.2)

The Company does not have a formal internal audit function. However, it has adopted a number of internal controls such as identifying key risks in a Risk Register and managing activities within a budget and operational plan. Management led by the Chief Financial Officer periodically undertakes an internal review of financial systems and processes and where systems are considered to require improvement these systems are developed. Delegations of Authority are reviewed annually by the Audit Committee.

The ongoing mitigation and management of financial and operational risks are standing agenda items of the Audit and Risk Committees. The Chief Executive Officer and the Chair of the Audit Committee are responsible for reporting to the Board on a regular basis in relation to whether the Company's material business risks are being managed effectively by the existing management and internal controls systems.

(ASX Recommendation 7.3)

The Company undertakes gas exploration activities and as such faces inherent risks to its business, including economic, environmental and social sustainability risks which may materially impact the Company's ability to create or preserve value for shareholders over the short, medium or long term. The Board is regularly briefed by management as well as keeping itself abreast of possible material exposure to risks that the Company may face.

Of core importance to the Company is safety, which it considers a priority not only in respect to its employees and contractors but also to the community and environment in which it operates. The Company believes that if these matters are priorities then they will act as drivers for value to shareholders. The Company has in place policies and procedures, including a risk management framework, to help manage these risks.

(ASX Recommendation 7.4)

Remunerate Fairly and Responsibly

The Board has established a Nomination & Remuneration Committee. There is no separate Remuneration Committee.

Given the size of the Board, the Directors have previously determined that the non-executive Directors would execute the functions of a Remuneration & Nomination Committee and have adopted a Remuneration and Nomination Charter. The Board has agreed that the function of the Remuneration & Nomination Committee will be constituted by a majority of independent non-executive directors.

The Board does not believe that any advantage would be achieved at this juncture taking into account the size of the Company and the Board to have a separately constituted Remuneration Committee to carry out this function.

The non-executive members of the Board acting in their capacity as a Committee is tasked with ensuring that the Company has remuneration policies and practices which enable it to attract and retain Directors and executives who will best contribute towards achieving positive outcomes for Shareholders.

The Company complies with the guidelines for executive remuneration packages and non-executive Director Remuneration as recommended in the ASX Recommendations.

The ASX Listing Rules and the Constitution require that the maximum aggregate amount of remuneration to be allocated among the non-executive Directors be approved by the shareholders in a general meeting. In proposing the maximum amount of consideration by shareholders, and in determining the allocation, the Remuneration Committee will take into account the time demands made on Directors and such factors as fees paid to non-executive Directors in comparable Australian companies. A meeting of shareholders held 10 July 2012 saw a resolution passed approving a pool of no more than \$500,000 for this purpose.

The names of the members of the Nomination & Remuneration Committee and their attendances at the meetings of the Committee (if held) are set out in the Directors Report which forms a part of the Company's Annual Report. The remuneration paid to Directors and senior executives is shown in the Remuneration Report contained in the Directors' Report, which includes details on the Company's remuneration policies. There are no termination and retirement benefits for non-executive Directors other than statutory superannuation entitlements.

(ASX Recommendation 8.1)

The Company's policies and practices regarding the remuneration of non-executive Directors, executive Directors and senior executives is set out in the Remuneration & Nominations Committee Charter and in the Remuneration Report contained in the 2018 Annual Report.

A copy of the Remuneration & Nomination Committee Charter is available on the Company's website.

(ASX Recommendation 8.2)

The Company has an equity based remuneration scheme. The Company's Policy for Trading in the Company's Securities does not specifically prohibit Directors entering into transactions or arrangements which would limit the economic risk of unvested entitlements.

However, all dealings in the Company's Securities do need to be first approved by the Company. The Securities Trading Policy is available on the Company's website.

(ASX Recommendation 8.3)

Additional Information

1. Shareholder Information

The shareholder information set out below was applicable as at 20 August 2018 and relates to shares held on the ASX, AIM and BSE.

2. Ordinary Share Capital

409,113,535 fully paid ordinary shares.

3. Number of Equity Holders

Ordinary Share Capital held by 635 individual shareholders.

4. Voting Rights

In accordance with the Company's Constitution, for a show of hands, every shareholder present in person or by a proxy, attorney or representative of a shareholder has one vote and for a poll, every shareholder present in person or by a proxy, attorney or representative has in respect of fully paid shares, one vote for every share held. No class of option holder or performance rights holder has a right to vote, however the shares issued upon exercise of options or performance rights will rank pari passu with the then existing issued fully paid ordinary shares.

5. Distribution of Shareholdings

Holdings			No. of Holders	Units	% of Issued Ordinary Capital
1	-	1,000	32	3,228	0.0%
1,001	-	5,000	44	136,842	0.0%
5,001	-	10,000	55	389,069	0.1%
10,001	-	50,000	157	3,863,604	0.9%
50,001	-	100,000	74	4,957,704	1.2%
100,001	-	maximum	273	399,763,088	97.7%
			635	409,113,535	100.0%

6. Substantial Shareholders

The following information is extracted from the Company's Register of Substantial Shareholders:

	Ordinary Fully Paid Shares Held	% of Issued Ordinary Capital
Investor Group - Anthony Gilby	21,701,789	5.3%

7. The 20 Largest Holders of Ordinary Shares

	Ordinary Fully Paid Shares Held	% of Issued Ordinary Capital
Hargreaves Lansdown (Nominees) Limited <15942>	23,650,396	5.78%
FNB Nominees Pty Ltd Re: AA BPOPF Equity	19,230,769	4.70%
Hargreaves Lansdown (Nominees) Limited <VRA>	16,808,945	4.11%
Gilby Super Pty Ltd	13,604,240	3.33%
Citicorp Nominees Pty Limited	13,296,847	3.25%
Interactive Investor Services Nominees Limited <SMKTISAS>	11,774,646	2.88%
Kabila Investments Pty Limited	11,619,999	2.84%
Mitchell Group Holdings Pty Ltd	11,136,364	2.72%
Sixth Erra Pty Ltd	11,112,499	2.72%
Barclays Direct Investing Nominees Limited <Client1>	9,167,516	2.24%
Share Nominees Ltd	8,168,063	2.00%
IK Botswana Investments Pty Ltd	7,115,000	1.74%
Luna Nominees Limited <2144200>	6,951,217	1.70%
Jim Nominees Limited <Jarvis>	6,637,045	1.62%
Lawshare Nominees Limited <Sipp>	6,408,953	1.57%
HSDL Nominees Limited <Maxi>	6,064,765	1.48%
BNP Paribas Nominees Pty Ltd	5,942,999	1.45%
Mr Christopher John Blamey & Mrs Anne Margaret Blamey	5,826,801	1.42%
Interactive Investor Services Nominees Limited <SMKTNOMS>	5,677,748	1.39%
Hargreaves Lansdown (Nominees) Limited <HLNOM>	5,005,518	1.22%
Total	205,200,330	50.16%
Balance of register	203,913,205	49.84%
Grand total	409,113,535	100%

8. Restricted Securities

There were no restricted securities issued during the reporting period and there are currently none on issue.

9. Interests in Prospecting Licences (PL) and Mining Licence (ML)

As at the date of this Report, Tlou Energy Limited had an interest in the following licences:

Licence	Region	interest % *	Operator
PL 1/2004	Lesedi Project (Botswana)	100%	Tlou Energy Botswana Pty Ltd
PL 3/2004	Lesedi Project (Botswana)	100%	Tlou Energy Botswana Pty Ltd
PL 35/2000	Lesedi Project (Botswana)	100%	Tlou Energy Botswana Pty Ltd
PL 37/2000	Lesedi Project (Botswana)	100%	Tlou Energy Botswana Pty Ltd
PL 237/2014	Mamba Project (Botswana)	100%	Tlou Energy Botswana Pty Ltd
PL 238/2014	Mamba Project (Botswana)	100%	Tlou Energy Botswana Pty Ltd
PL 239/2014	Mamba Project (Botswana)	100%	Tlou Energy Botswana Pty Ltd
PL 240/2014	Mamba Project (Botswana)	100%	Tlou Energy Botswana Pty Ltd
PL 241/2014	Mamba Project (Botswana)	100%	Tlou Energy Botswana Pty Ltd
ML 2017/18L	Lesedi Project (Botswana)	100%	Tlou Energy Botswana Pty Ltd

* The interest shown in each of the licences represents the percentage that Tlou Energy Limited holds in the corporate holder of the licence.