



TLOU ENERGY

ANNUAL REPORT 2010



CONTENTS

| | |
|-------------------------|----|
| Chairman's Letter | 1 |
| Directors' Report | 2 |
| Annual Financial Report | 14 |
| Corporate Governance | 34 |
| Additional Information | 38 |

CORPORATE DIRECTORY

ABN

79 136 739 967

Directors

Christopher Pieters
Nathan Mitchell
Anthony Gilby
Deidre Mitchell

Company Secretary

Stephen Rodgers

Administration & Registered Office

210 Alice Street
Brisbane QLD 4000
Ph: +61 7 3012 9793

Solicitors

Porter Davies
Level 5 River Quarter
46 Edward Street
Brisbane QLD 4000

Auditors

PKF
Level 6 AMP Place
10 Eagle St
Brisbane QLD 4000

CHAIRMAN'S LETTER



Dear Shareholders,

Since the Company was formed in early 2009, Tlou Energy Limited (Tlou) has quickly established itself as a leading Coal Bed Methane (CBM) operator in southern Africa. Following the successful private capital raising in August 2009, activities in the Company have focused on progressing the highly prospective CBM project in Botswana.

Tlou's key accomplishments to date have been:

- Transformed the existing Saber Energy project in Botswana into a world-class CBM operation with approximately 40 local staff supporting two drilling rigs
- Built a custom-made gas desorption testing laboratory in Francistown, Botswana to test all coal samples taken during the drilling program
- Completed a capital raising of \$20 million, during the second quarter of 2009, in accordance with the Information Memorandum (IM)
- Progressed Farm-in with Saber Energy and have now successfully completed nine CBM core wells as part of the initial Phase I exploration program
- Built a strong management team to oversee operational, technical and financial activities of the Company
- Submitted applications for highly prospective CBM acreage in neighbouring countries

The three licence regions have all had varying degrees of work conducted on them to place Tlou in a position to achieve the Farm-in as outlined in the IM. The Board is pleased to confirm that the Company is on track and expects to earn its equity interest in these areas within the envisaged time frame.

While Tlou is earning its equity in these licence regions, the Board and management team is continually working on the exploration and appraisal of CBM that will ultimately deliver commercial gas reserves. Supply-demand dynamics in southern Africa are geared very strongly towards potential gas producers which bodes well for future commercialisation options. Power supply in Botswana and the region continues to tighten with favourable indicative pricing terms available for those with equity gas reserves.

Post balance date, Tlou has negotiated a transaction with Saber Energy Inc, that the Directors believe will see the Company better positioned for growth in this highly prospective region. The transaction is subject to shareholder approval.

Your Board and management team's clear focus going forward is translating this favourable market position and considerable progress over the past year into value for all shareholders.

Yours faithfully

A handwritten signature in black ink that reads "Nathan Mitchell". The signature is written in a cursive, flowing style.

Nathan Mitchell

DIRECTORS' REPORT

The Directors of Tlou Energy Limited have pleasure in submitting their report on the Consolidated Entity consisting of Tlou Energy Limited and the entities it controlled at 30 June 2010, in order to comply with the provisions of the *Corporations Act 2001*.

Directors

The following persons were directors of Tlou Energy Limited (Tlou) at any time during the period, up to the date of this Directors' report, unless otherwise stated.

| Name | Date of appointment / resignation |
|---------------------|---|
| Christopher Pieters | Appointed 23 July 2009 |
| Nathan Mitchell | Appointed 23 July 2009 |
| Anthony Gilby | Appointed 23 July 2009 |
| Deidre Mitchell | Appointed 23 July 2009 |
| James McKay | Appointed 23 July 2009; Resigned 28 July 2009 |
| Peter Mitchell | Appointed 23 July 2009; Resigned 11 August 2009 |

Directors' meetings

The number of meetings of the Company's Board of Directors and of each Board Committee held during the financial year ended 30 June 2010 and the number of meetings attended by each Director were:-

| Name | Number eligible to attend | Number attended |
|---------------------|---------------------------|-----------------|
| Christopher Pieters | 12 | 12 |
| Nathan Mitchell | 12 | 12 |
| Anthony Gilby | 12 | 9 |
| Deidre Mitchell* | 12 | 9 |
| James McKay** | 1 | 0 |
| Peter Mitchell*** | 2 | 0 |

* *Deidre Mitchell was represented by her alternate director, Martin Mclver, for four of the nine meetings recorded as attended*

** *James McKay resigned as director on 28 July 2009 and was subsequently appointed as the alternate director for Christopher Pieters on 27 October 2009*

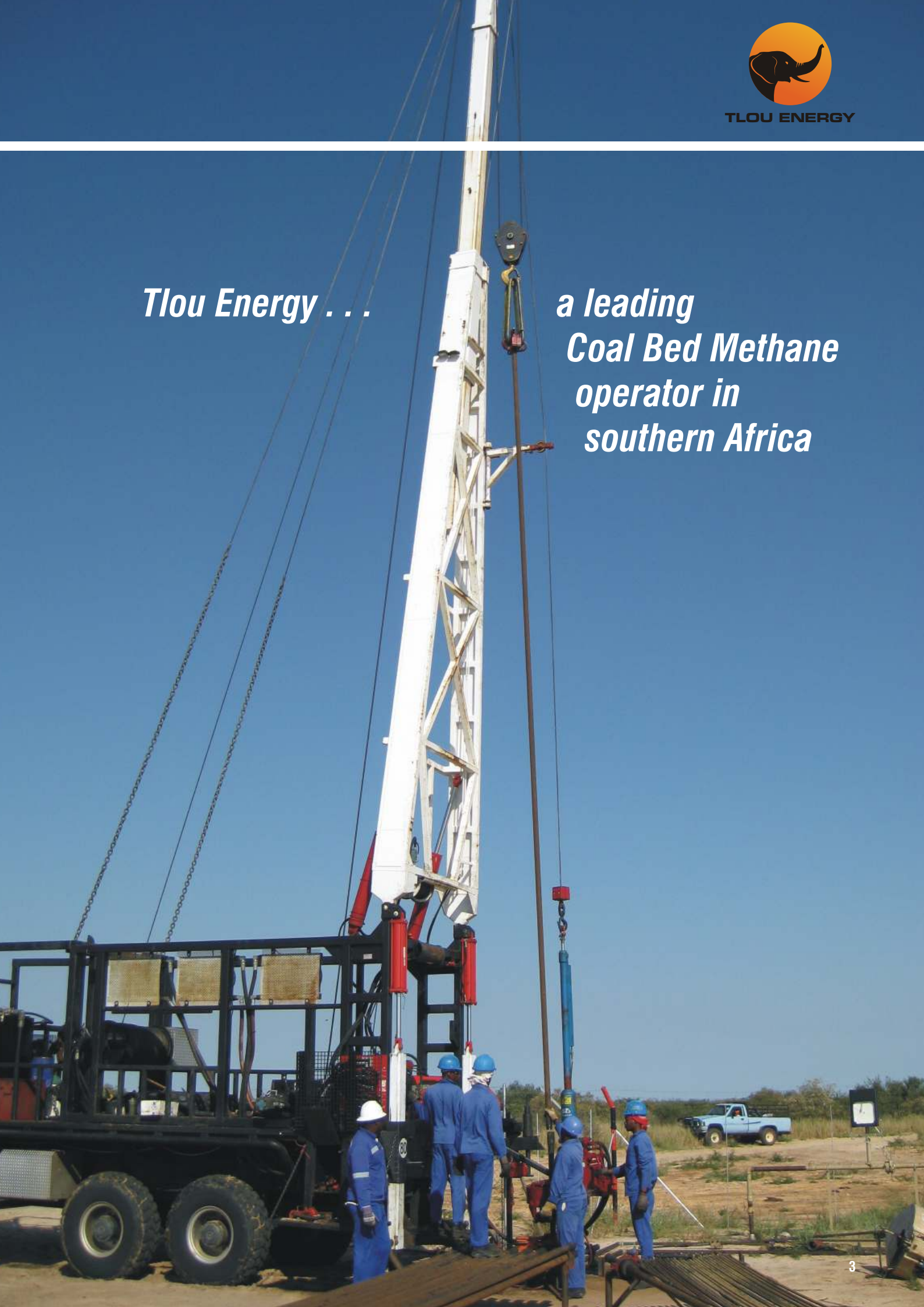
*** *Peter Mitchell resigned as director on 11 August 2009*



TLOU ENERGY

Tlou Energy . . .

*a leading
Coal Bed Methane
operator in
southern Africa*



Principal activities

The principal activity of Tlou 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 Company is still in the exploration and evaluation stage.

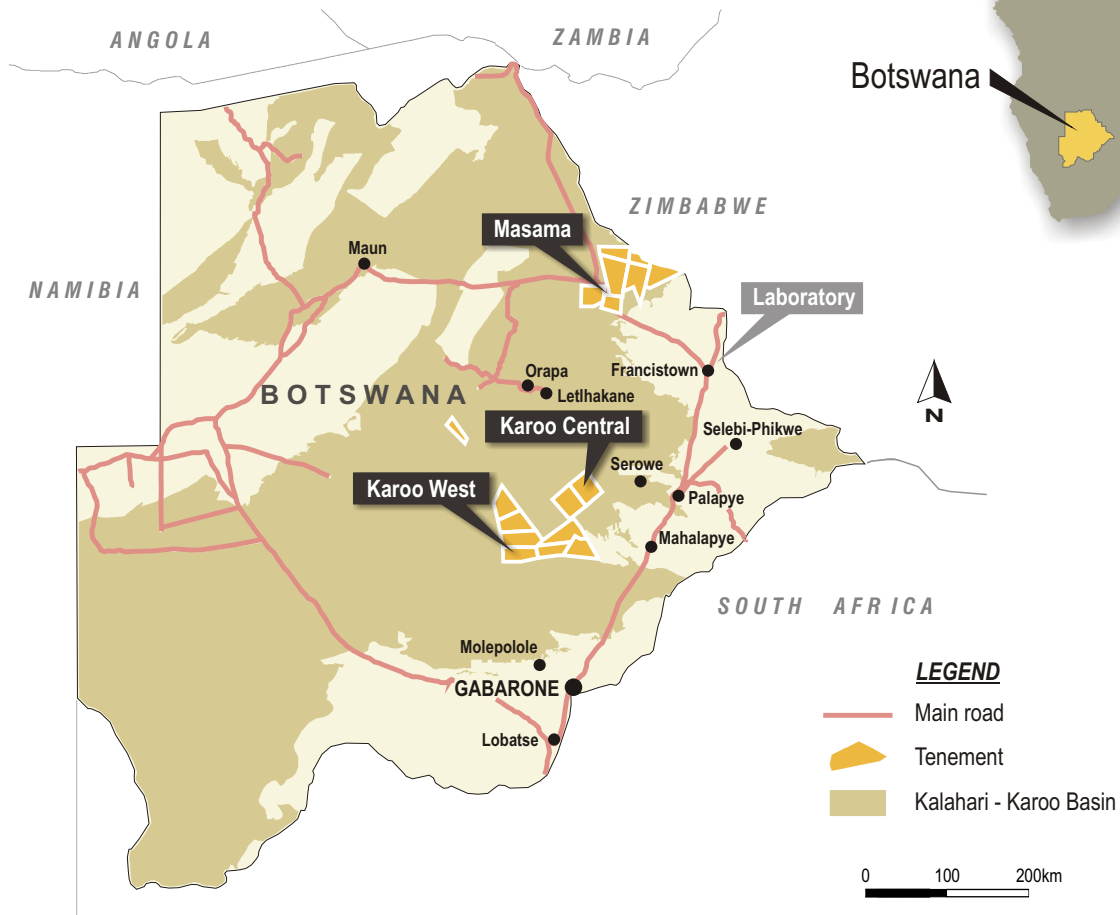
Review of operations

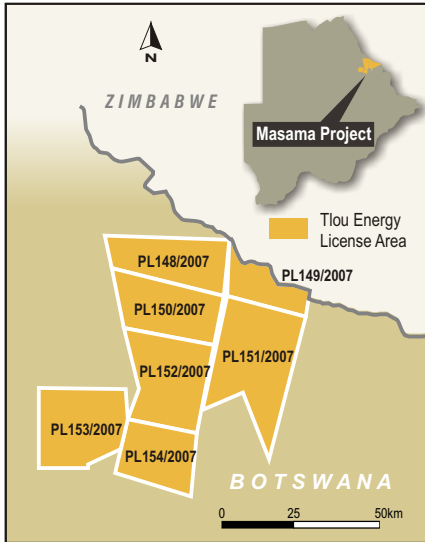
Considerable planning goes into any operation, particularly one in a relatively remote location. The establishment of a committed and experienced management team, coupled with the expertise of its key consultants from the founding entities, has been a significant accomplishment for Tlou in the process of establishing an operational presence in Botswana. In less than six months, Tlou transformed the previous Saber

Energy project into a world class CBM operation with approximately 40 local staff supporting two drilling rigs. A custom made CBM desorption laboratory was built in Francistown, Botswana to process the many coal and shale samples taken, that are essential in the evaluation of gas potential. Specialist drilling and testing equipment was also imported into the country, including a Mitchell Drilling coring rig.

All operations and testing procedures conducted in country, adhere to well established Australian Standards to ensure high levels of safety, effective environmental management and integrity of data capture. Tlou has been proactive in the development of the CBM industry in Botswana and continues to work with the Botswana Government on matters of legislation, operational standards and Occupational Health & Safety.

Funding of the project has been a key component to Tlou's commercial development. The raising of private equity has provided Tlou with the ability to achieve its exploration drilling commitments and subsequently progress into appraisal and development. Ultimately, the exploration program is designed to progress the abundant CBM resources in the project areas towards a commercial reserve. Throughout the program to date, each of the three project areas have had various levels of work conducted and are outlined below.



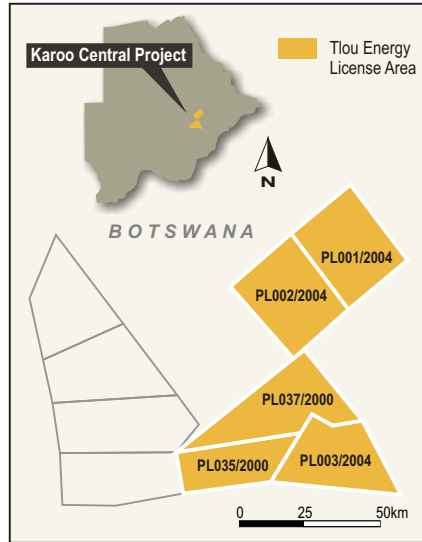


Masama Licences – Masama Region

The exploration program began in October 2009 in the Masama region. To date, results have been in line with pre-drilling expectations with gross carbonaceous intersections of between 44m and 73m. A total of 85 coal and shale samples were taken across the five core wells and are currently on test in the laboratory in Francistown. The data is currently being assessed and assimilated by the technical team with quantitative gas-in-place numbers expected in the third quarter of 2010.

Management is pleased with the accomplishment of completing the five core wells in the Masama region before the end of the financial year. Tlou has now completed its Farm-in obligations for the Masama region and has earned its effective 64% interest in these licences.

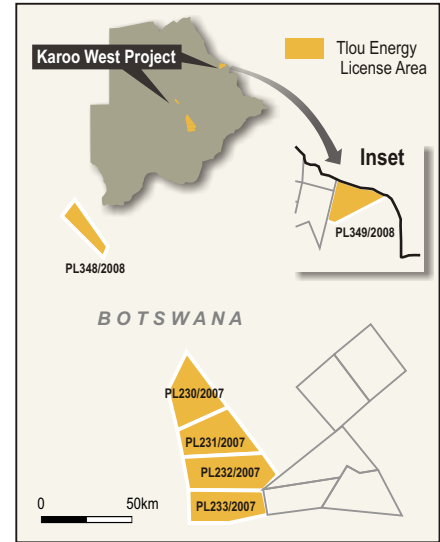
The initial three year licence period for the Masama region ended on 30 June 2010. An application for the first renewal of all seven licences was submitted to the Department of Geological Survey (DGS) in April. This was approved by the Government of Botswana on 8 July 2010.



Kalahari Licences – Karoo Central Region

The Karoo Central region was the primary target area of the previous operator, Saber Energy, who drilled a total of 93 wells throughout the five licences. Thus, the five core well program was designed to introduce new testing methods to this region to more accurately assess the CBM potential and to test the validity of the abundant existing data. Should this data prove reliable, Tlou will be able to utilise this large dataset to fast track the exploration program and ultimately its understanding of the entire Karoo Central region. The work program currently in progress is tracking in line with initial expectations and is forecast to be completed in September 2010. To date, four of the five core wells have been drilled with net coal and shale thickness intersections ranging between 56m and 85m. Similar to the Masama region, coal and shale samples are currently on test in the laboratory, undertaking gas desorption analysis. Quantitative results are expected during the fourth quarter of 2010 with all data utilised for gas-in-place analysis.

During the financial period under review, an application had been submitted to the DGS for a special renewal of Petroleum Licences 35/2000 and 37/2000 that have been in issue for the last 10 years. The submission was received favourably with feedback on renewal expected in the near term.



Saber Licences – Karoo West Region

The key areas for drilling wells in the Karoo West region are contained in the Central Karoo Game Reserve (CKGR). An Environmental Management Plan (EMP) for drilling the two core wells was submitted for approval to the respective government authorities and has subsequently been approved. Tlou is currently waiting the issuance of a permit from the Department of Parks and Wildlife to commence the work program which will take approximately six weeks to complete. The locations for the two wells have been scouted and all plant and equipment is ready to mobilise once the permit is issued.

Four of the licences in the Karoo West region fall due for renewal on 30 September 2010 and an application for this first renewal has been submitted to the DGS. It is expected that all four licences will be renewed for further exploration and evaluation as the work program has yet to be completed.

Exploration and Evaluation

Tlou has brought to the Botswana CBM project considerable experience and expertise in transforming a CBM resource into a commercial reserve. The methodology employed has been successfully applied in Australia and elsewhere in the world and can be specifically tailored to any CBM project area, including Botswana. Tlou's current exploration program is focused on delivering a robust gas-in-place model for the Botswana gas project. Following this initial exploration phase, work will move towards CBM pilot well testing that will define the commerciality of the gas field. Management

is currently evaluating potential CBM pilot locations and most importantly, working on optimising the pilot well completion technique that is so crucial in any successful CBM project. A schematic summarising Tlou's exploration strategy can be found in the figure below.

Tlou was founded as a company focused on developing CBM projects in southern Africa. Whilst the majority of time and money has been spent on progressing the Botswana gas project, regional geological work has identified potential investment opportunities in other countries in southern Africa. In line with this, Tlou has submitted applications for

highly prospective CBM licences with negotiations with relevant government authorities ongoing.

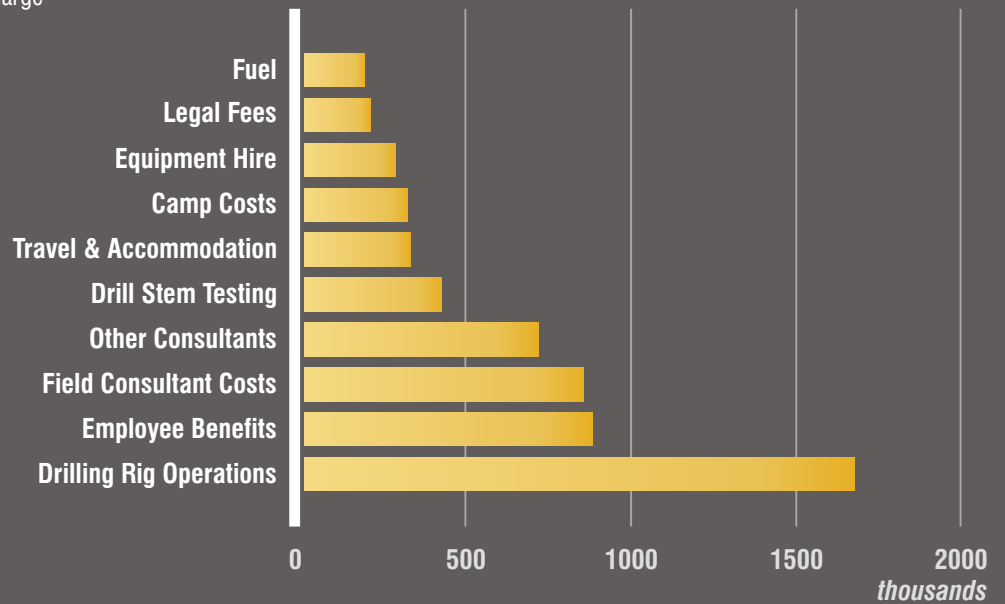
The exploration and evaluation costs associated with a CBM operation are important to analyse. One of the principal focus areas for the Tlou management team has been the efficient allocation of funds to ensure that the value realised is commensurate with the dollars spent. While it is appreciated that there are many areas that require funding, the summarised graphs below illustrates the various phases and time lines as well as the key focus areas of expenditure within the project to date.





As expected, drilling and ancillary services, have absorbed the majority of total costs to date. The costs of resources in the form of consultants and employees are the key focus areas where Tlou expected to spend a large portion of the funds available.

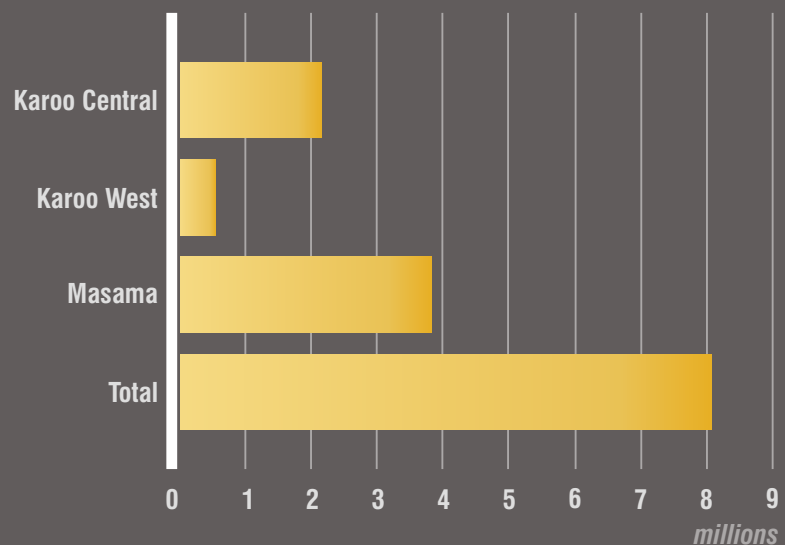
Top 10 Key Exploration Expenses



The equity raising detailed in the IM, outlined the proposed expenditure of funds in three geographical regions. As at the end of the reporting period, \$8.1 million has been applied to the exploration and evaluation program. The amounts spent in each of the regions are depicted in the adjacent graph.

The Masama core well drilling program has been completed and has consequently absorbed the highest costs to date, while the program within the other two regions is still ongoing.

Exploration Expenditure





An overall summary of the wells in each of the three geographical regions drilled is depicted below:

| Seq. No. | Well Name | Area | Total Depth (m) | Date Completed | Carbonaceous Interval (m) | No. of Desorp. Samples | No. of DSTs |
|----------|-----------|---------------|-----------------|----------------|---------------------------|------------------------|----------------|
| 1 | V01-X1 | Masama | 404.6 | 23/11/2009 | 60.5 | 27 | Well suspended |
| 2 | R01-XR | Masama | 441.92 | 6/02/2010 | 44.4 | 22 | 4 |
| 3 | T01-XR | Masama | 558.8 | 23/03/2010 | 65.4 | 18 | 2 |
| 4 | Z01-XR | Masama | 616.8 | 14/03/2010 | N/A | N/A | N/A |
| 5 | X01-XRRR | Masama | 682.4 | 23/03/2010 | 72.7 | 32 | 2 |
| 6 | H3-1X | Karoo Central | 605.7 | 7/05/2010 | 79.3 | 61 | 4 |
| 7 | D2-1XRR | Karoo Central | 512.6 | 16/07/2010 | 84.5 | 36 | 3 |
| 8 | B6-1X | Karoo Central | 479.8 | 6/06/2010 | 56.3 | 33 | 3 |
| 9 | F4-2X | Karoo Central | 711.4 | 31/07/2010 | 63 | 29 | 2 |
| 10 | G5-1X | Karoo Central | 459.5 | Yet to Core | Yet to Core | In Progress | |
| 11 | K5-1X | Karoo West | Yet to Drill | | | | |
| 12 | M1-1X | Karoo West | Yet to Drill | | | | |

Farm-in arrangements

As detailed in the IM issued in August 2009, Tlou has entered into an agreement regarding Farm-in arrangements and obligations with Saber Energy Inc, which must be completed by October 2011.

A suite of legal documents has been signed by both parties outlining the details and agreements negotiated, the essence of which is outlined below.

Tlou's effective interests in the Masama project, the Karoo Central project and the Karoo West project (retained on completion of the Farm-in obligations for all three projects) are shown below.

| Region | Work schedule | Net (indirect) interest on completion of Farm-in |
|----------------------|---------------|--|
| Masama | 5 core wells | 64% |
| Karoo Central | 5 core wells | 10%** |
| Karoo West | 2 core wells | 75% |

*** In addition to the Karoo Central Farm-in interest, Tlou has the option to acquire a further 25% of the equity in this region at a price to be negotiated.*



If Tlou does not complete the Farm-in obligations for all projects during the Farm-in period, it will not retain its shareholdings referred to above or its indirect interest in the projects.

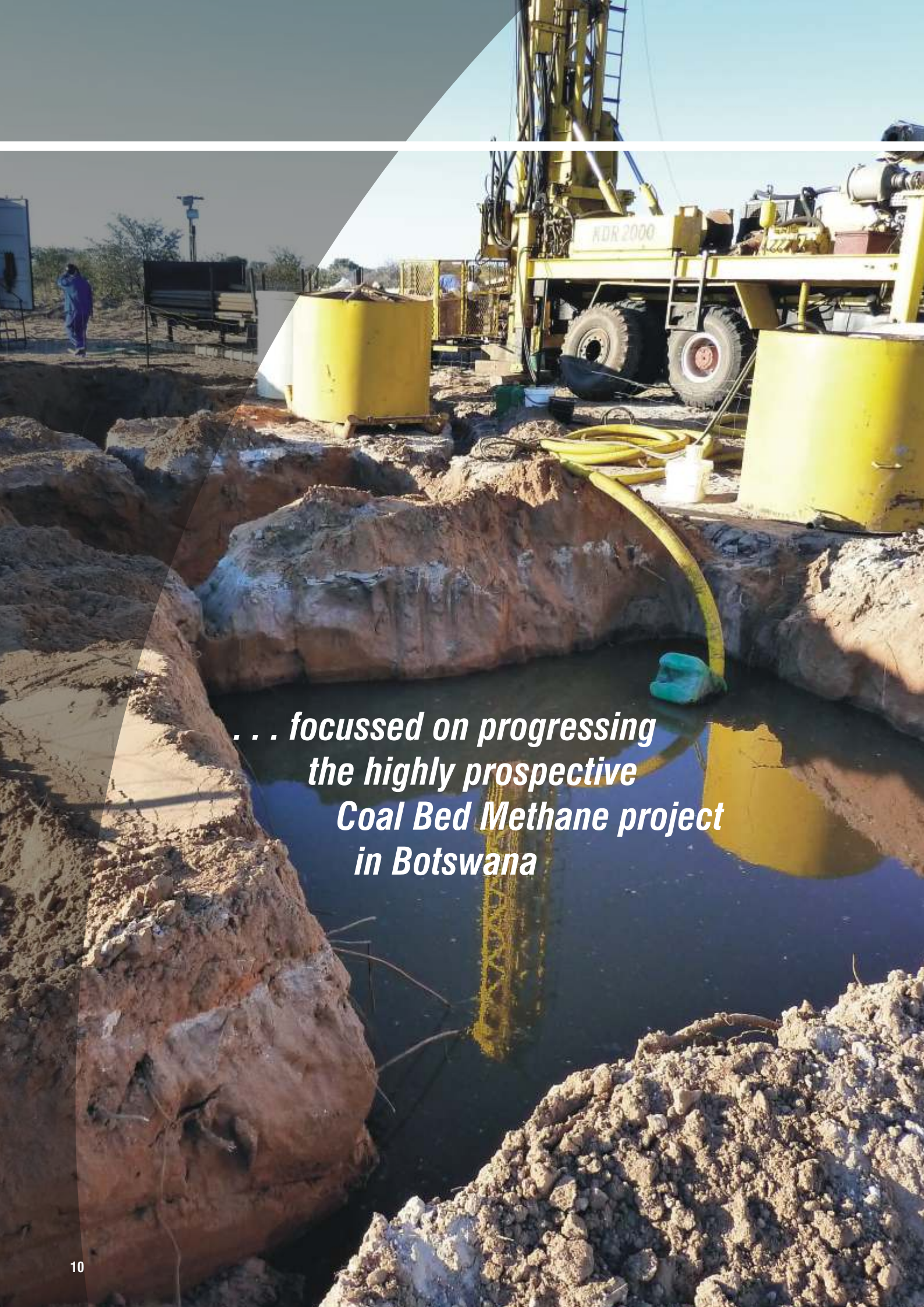
A Share Sale Agreement governs Tlou's right to acquire and retain its various interests in the three projects. This agreement grants Tlou the right to acquire equity interests in joint venture companies (being the parent entities of the licence holders). It also contains the Farm-in obligations in respect of the three projects that must be completed during the Farm-in period.

The agreement involves Tlou being issued new shares in the relevant joint venture company, which is the joint venture company for the corresponding project. The shares are held in escrow subject to completion of all Tlou's Farm-in obligations.

Significant changes to state of affairs

On 20 January 2010, a special resolution of the members of Tlou was passed that changed the status of the Company from a proprietary limited corporation to an unlisted public entity. The meeting also approved an amended constitution and a change of the Company's name from Tlou Energy Pty Ltd to Tlou Energy Limited.

During the year ended 30 June 2010, there were no other significant changes to the state of affairs of the Consolidated Entity other than those disclosed in the year end report and notes thereto.



*... focussed on progressing
the highly prospective
Coal Bed Methane project
in Botswana*

Matters subsequent to end of period

As announced recently, Tlou has agreed, subject to a number of conditions precedent including an independent valuation and shareholder approval, to acquire Saber Energy Inc's (SEI) southern African CBM assets.

SEI will transfer its interests in all three project areas to Tlou as well as substantial equipment with a book value in excess of \$2.5 million.

In exchange for these interests Tlou will issue to SEI or its nominee, ordinary shares equivalent to 30% of the undiluted capital (19,071,429 ordinary shares) of the Company which will rank equally with the shares already on issue. This will result in SEI or its nominee becoming the largest shareholder of Tlou.

SEI will also be granted Options to acquire a further 4,890,110 ordinary shares. These options will have an exercise price of \$1.25 and remain available to exercise up to 30 June 2013.

Further details of the transaction will be contained in the Notice of Meeting, that will be called in order to approve the transaction.

There has not been any matter or circumstance, other than that referred to above and in the financial statements or notes thereto, that has arisen since the end of the period, that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of these operations, or the state of affairs of the Consolidated Entity in future financial years.

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. Of significance is the approval granted by the Department of Environmental Affairs of the EMP which details the Company's procedures and processes to ensure it meets with all regulatory compliance requirements.

Auditor's independence declaration

The Auditor's independence declaration for the year ended 30 June 2010 has been received and is attached to this report.

Auditors

PKF were appointed as auditors in accordance with section 327 of the *Corporations Act 2001* on 10 November 2009, as approved by shareholders on that date.

Health and safety

Tlou remains steadfastly committed to undertaking all its activities, irrespective of their complexity or location, to a high level of health and safety standards. This policy will be applied to both its direct employees and contract workforce. This philosophy is communicated at all levels of the organisation and it is an expectation of every employee to adopt this culture in carrying out their duties for the Company.

Notwithstanding this and although not directly associated with the drilling operation, regrettably a member of the contract local workforce suffered a fatal traffic accident on a public road during the period.

No other significant incident was reported during the period.

Community relationships and government liaison

As with all projects conducted in and around areas owned by local landowners, it is imperative to keep these stakeholders informed and ensure that all impending work programs remain transparent and workable for all parties concerned. Tlou has ensured that local personnel are engaged to facilitate and assist in these affairs and ensure compliance with all regulations.

Relationships with government officials and departments at all levels have been fruitful throughout the project and regular contact and discussions have been conducted with relevant parties to provide updates and progress on all matters pertaining to the project.

Signed in accordance with a resolution of the Directors.



Christopher Pieters
Director

Brisbane
12 August 2010

DIRECTORS



Nathan Mitchell
Chairman

Nathan Mitchell has a lifelong involvement with the drilling and resource exploration industry. Throughout this time, he has developed both skilled technical ability and commercial management expertise.

As CEO of Mitchell Drilling for six years, Nathan doubled the size of the company and directed international expansion to Indonesia, India, China, USA and Zambia. After the sale of Mitchell Drilling's Australian operations in August 2008, Nathan incorporated Mitchell Group as a governing company to all existing international operations and future energy sector expansion.

Nathan is also a non-executive director at Westside Corporation Limited – a company with interests in coal bed methane projects in Queensland and Indonesia.



Christopher Pieters
Managing Director

Chris Pieters is Managing Director and co-founder of Walcot Capital Pty Ltd, a private venture capital business specialising in energy investment. Prior to that, he was Chief Commercial Officer of Sunshine Gas Limited where he was a key member of the team that built the company before its takeover by Queensland Gas Company in 2008. Chris also held other technical and business development roles whilst at Sunshine Gas Limited.

Chris is a non-executive director of listed Australian coal bed methane company, Comet Ridge Limited.

Chris holds both Bachelor of Science (Geology) and Bachelor of Business degrees from UQ, and an Honours degree in Petroleum Geology and Geophysics from the Australian School of Petroleum in Adelaide. Chris is a member of the Petroleum Exploration Society of Australia.



Anthony Gilby
Non-Executive Director

Anthony (Tony) Gilby 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. He began his career as a geologist for Delhi Petroleum in the Cooper Basin. He subsequently held positions with Delhi Petroleum and with ESSO (after the Delhi acquisition). His roles included exploration geology, geophysics, petrophysics and working in the Exxon Production Research Centre in Houston.

On his return to Australia, he continued to work with ESSO 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 variety of consulting roles as well as the acquisition of prospective Queensland acreage in a private capacity. This work culminated with the founding of Sunshine Gas where he remained Managing Director until its sale for \$1.1 billion in late 2008.

He was a founding director of Chartwell Energy Limited until its merger with Comet Ridge Limited and is a founding director of Walcot Capital Pty Ltd.

Anthony is a member of the Petroleum Exploration Society of Australia and the American Association of Petroleum Geologists.



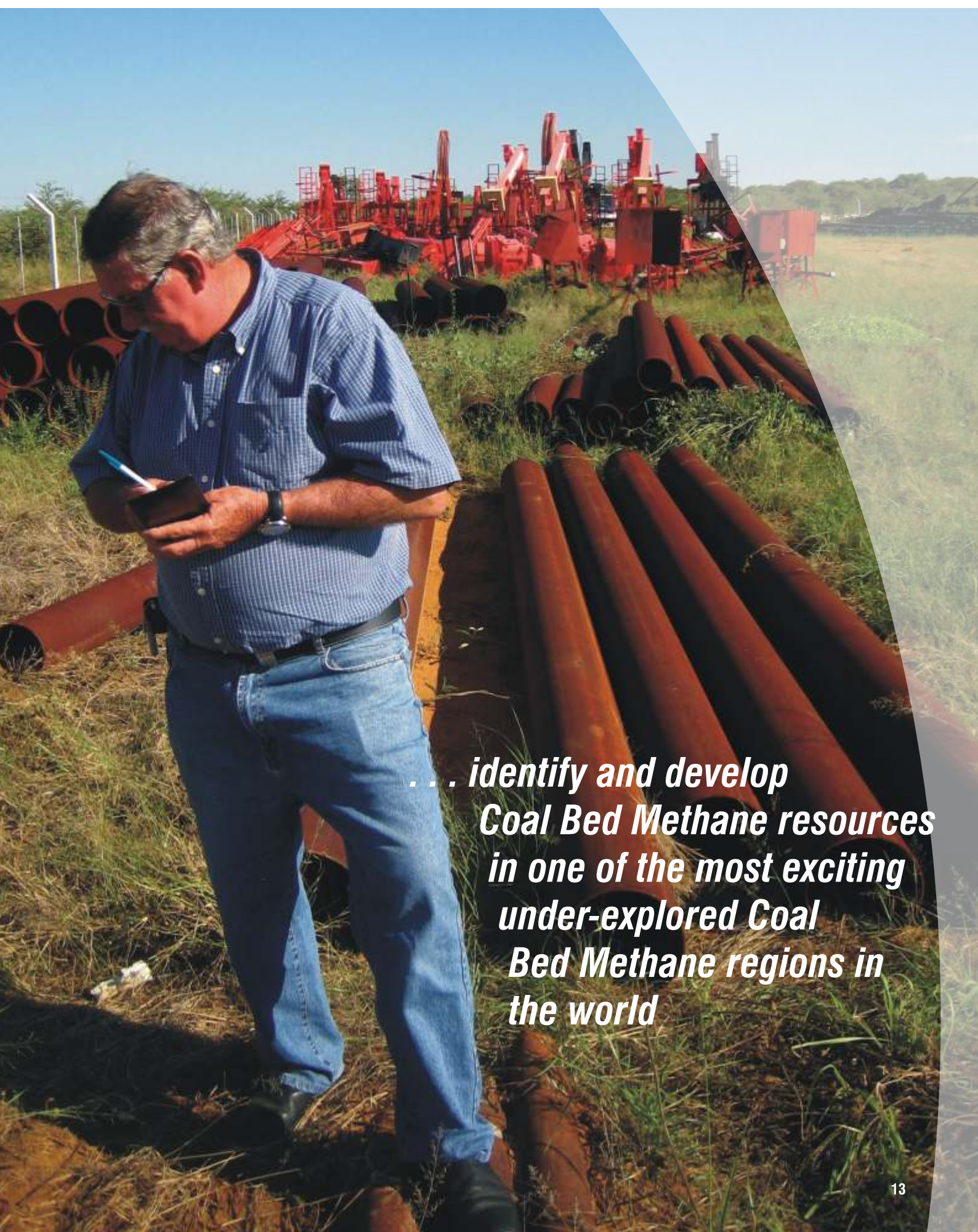
Deidre Mitchell
Non-Executive Director

Deidre has enjoyed a long and successful career in the resource industry over the past four decades.

As a founding director of Mitchell Drilling in 1969, Deidre was responsible for the total administration of the business. Her extensive insight into the industry is the result of her participation in all facets of the business during those years, ranging from work in the field to head office management.

In Mitchell Drilling's formative years, Deidre's conscientious approach to financial management and administration allowed the fledgling company to ride out the cycles of the 70's and 80's and emerge in the mid 2000's as the largest privately owned drilling contractor in Australia.

Whilst Deidre was a director, Mitchell Drilling grew to turnover in excess of \$100 million per annum and became a leading participant in the CBM industry.



*... identify and develop
Coal Bed Methane resources
in one of the most exciting
under-explored Coal
Bed Methane regions in
the world*

ANNUAL FINANCIAL REPORT

2010

CONTENTS

| | |
|--|----|
| Auditor's Independence Declaration | 16 |
| Consolidated Statement of Comprehensive Income | 17 |
| Consolidated Statement of Financial Position | 18 |
| Consolidated Statement of Cash Flows | 19 |
| Consolidated Statement of Changes in Equity | 20 |
| Notes to the Consolidated Financial Statements | 21 |
| Directors' Declaration | 32 |
| Independent Auditor's Report | 33 |

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Tlou Energy Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.



PKF



Albert Loots
Partner

Dated at Brisbane this 12th day of August 2010



**TLOU ENERGY LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010**

| | | Consolidated | |
|--|-------------|------------------------|-------------|
| | Note | 2010 | 2009 |
| | | \$ | \$ |
| Revenue from continuing operations | 2 | 310,402 | - |
| Employee benefit expense | 2 | (423,833) | - |
| Other expenses | 2 | (49,929) | - |
| Loss before income tax | | <u>(163,360)</u> | - |
| Income tax expense | 3 | - | - |
| Loss for the year | | <u>(163,360)</u> | - |
| Other comprehensive income | | | |
| Exchange difference on translation of foreign operations | | <u>66,963</u> | - |
| Total comprehensive income for the year | | <u><u>(96,397)</u></u> | - |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements.

TLOU ENERGY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

| | | Consolidated | |
|---|-------------|--------------------------------|--------------------------------|
| | Note | 30 June 2010 \$ | 30 June 2009 \$ |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 11(a) | 12,540,039 | 100 |
| Other receivables | 5 | 581,763 | - |
| Total Current Assets | | <u>13,121,802</u> | <u>100</u> |
| Non-Current Assets | | | |
| Financial assets - shares | 6 | 1,924 | - |
| Financial assets - investment in projects | 7 | 6,949,766 | - |
| Total Non-Current Assets | | <u>6,951,690</u> | <u>-</u> |
| TOTAL ASSETS | | <u>20,073,492</u> | <u>100</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 8 | 1,176,039 | - |
| Total Current Liabilities | | <u>1,176,039</u> | <u>-</u> |
| TOTAL LIABILITIES | | <u>1,176,039</u> | <u>-</u> |
| NET ASSETS | | <u>18,897,453</u> | <u>100</u> |
| Equity | | | |
| Issued capital | 9 | 18,993,850 | 100 |
| Accumulated losses | 10 | (96,397) | - |
| TOTAL EQUITY | | <u>18,897,453</u> | <u>100</u> |

The above Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.



TLOU ENERGY LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

| | Consolidated | |
|---|-------------------------|------------|
| Note | 2010 \$ | 2009 \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | - | - |
| Payments to suppliers and employees | (443,184) | - |
| Interest received | 310,401 | - |
| GST and VAT received | 130,368 | - |
| Net cash outflow from operating activities | 11(b) (2,415) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for investment in projects | (6,271,137) | - |
| Advances to other projects | (225,259) | - |
| Net cash outflow from investing activities | (6,496,396) | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issue of shares | 20,000,000 | 100 |
| Payment of share issue costs | (1,006,250) | - |
| Oversubscription of share issue | 45,000 | - |
| Net cash inflow from financing activities | 19,038,750 | 100 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 12,539,939 | 100 |
| Cash and cash equivalents at the beginning of the financial year | 100 | - |
| CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR | 11(a) 12,540,039 | 100 |

The above Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

TLOU ENERGY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

| Consolidated | Issued Capital | Accumulated Losses | Total |
|-----------------------------------|-----------------------|-------------------------------|-------------------|
| | \$ | \$ | \$ |
| At 1 July 2008 | - | - | - |
| Shares issued | 100 | - | 100 |
| At 30 June 2009 | <u>100</u> | <u>-</u> | <u>100</u> |
| At 1 July 2009 | 100 | - | 100 |
| Shares issued | 20,000,000 | - | 20,000,000 |
| Share issue costs | (1,006,250) | - | (1,006,250) |
| Comprehensive income for the year | - | (96,397) | (96,397) |
| At 30 June 2010 | <u>18,993,850</u> | <u>(96,397)</u> | <u>18,897,453</u> |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report covers the consolidated entity of Tlou Energy Limited and its controlled entity. Tlou Energy Limited is an unlisted public company, incorporated and domiciled in Australia.

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

Introduction

Tlou Energy Limited is incorporated and domiciled in Australia and is the parent entity of Tlou Energy Botswana (Pty) Ltd.

Operations and principal activities

Principal activities comprise exploration and evaluation of assets in southern Africa to identify and develop coal bed methane resources through investments in projects.

Scope of financial statements

The financial statements consist of Tlou Energy Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

Currency

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

Authorisation of financial report

The financial report was authorised for issue on 12 August 2010.

Basis of preparation

This special purpose financial report has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entities 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 below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the consolidated entity.

Key estimates – impairment

The consolidated entity assesses impairment at each reporting date by evaluating conditions specific to the consolidated entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Key judgements – investment in projects

The consolidated entity performs regular reviews on each area of interest to determine the appropriateness of continuing to carry forward costs (under Financial assets – investment in projects) in relation to that area of interest. These reviews are based on detailed surveys and analysis of drilling results performed to balance date.

(a) Principles of consolidation

A controlled entity is any entity which has the power to control the financial and operating policies so as to obtain benefits from its activities. A list of controlled entities of Tlou Energy Limited is contained in Note 17 to the financial statements. All controlled entities have a 30 June financial year end.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Investment in projects

Investment in projects represents exploration, evaluation and development expenditure incurred and 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 and farm-in arrangements are expected to be met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A regular review has been undertaken on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Regular reviews are also undertaken to determine if farm-in arrangements can be met.

Restoration and rehabilitation

Both for close down and restoration and for environmental cleanup costs, 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 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.

(d) Financial instruments

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition trade and other receivables and trade and other payables are measured at amortised cost. The consolidated entity's financial instruments consist mainly of deposits with banks, accounts receivable and payable.

(e) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(f) Employee benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(g) Provisions

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

(i) Revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimate future cash receipts through the expected life of the financial asset to that asset's net carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Goods & Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances GST is recognised as part of the acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of financing and investing activities, which are disclosed as operating cash flows.

(k) Foreign currency transactions and balances

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at period end exchange rates prevailing at that reporting date
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

(l) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(m) Comparative figures

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions* [AASB2] (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity- or a cash-settled transaction. The group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the financial statements of the group.

(ii) AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues* [AASB 132] (effective from 1 February 2010)

In October 2009, the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The group will apply the amended standard from 1 July 2010. As the group has not made any such rights issues, the amendment will not have any effect on the group's financial statements.

(iii) *Standards arising from AASB 9* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The group is yet to assess its full impact. The group has not yet decided when to adopt AASB 9.

(iv) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009, the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

(v) AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19* (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the group's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the group has not entered into any debt for equity swaps since that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(vi) AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* (effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The group does not make any such prepayments. The amendment is therefore not expected to have any impact on the group's financial statements. The group intends to apply the amendment from 1 July 2011.

(vii) AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* and AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective from 1 July 2010/1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The group will apply the amendments from 1 July 2010. It does not expect that any adjustments will be necessary as a result of applying the revised rules.

(viii) AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013)

On 30 June 2010, the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Tlou Energy Limited does not prepare general purpose financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. LOSS FROM OPERATIONS

| | Consolidated | |
|--|----------------|----------|
| | 2010 | 2009 |
| | \$ | \$ |
| Revenue | | |
| Interest income | | |
| Bank deposits | 310,402 | - |
| | <u>310,402</u> | <u>-</u> |
| Loss before income tax has been arrived at after charging the following expenses: | | |
| Operating expenses: | | |
| Employee benefits expense | 423,833 | - |
| Other expenses | 49,929 | - |
| | <u>473,762</u> | <u>-</u> |

3. TAX

| | Consolidated | |
|--|--------------|----------|
| | 2010 | 2009 |
| | \$ | \$ |
| (a) Income tax expense | | |
| Current tax expense | - | - |
| Deferred tax | - | - |
| | <u>-</u> | <u>-</u> |
| (b) Reconciliation of income tax benefit to prima facie tax payable | | |
| Net loss before income tax | (96,397) | - |
| Tax at the Australian tax rate of 30% (2009 - 30%) | (28,919) | - |
| Tax losses not recognised as deferred tax asset | 28,919 | - |
| | <u>-</u> | <u>-</u> |
| Income tax expense | - | - |

(c) At 30 June 2010, the Group has tax losses of \$96,397 that have not been recognised as deferred tax assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. AUDITORS REMUNERATION

| | Consolidated | |
|---------------------------------------|---------------|----------|
| | 2010 | 2009 |
| | \$ | \$ |
| PKF Brisbane | | |
| Audit and review of financial reports | 19,000 | - |
| Taxation services | 6,624 | - |
| | <u>25,624</u> | <u>-</u> |
| Total remuneration for all services | <u>25,624</u> | <u>-</u> |

5. OTHER RECEIVABLES

| | Consolidated | |
|----------------------|----------------|----------|
| | 2010 | 2009 |
| | \$ | \$ |
| Current | | |
| GST / VAT receivable | 252,912 | - |
| Other receivables | 328,851 | - |
| | <u>581,763</u> | <u>-</u> |

6. OTHER FINANCIAL ASSETS

| | Consolidated | |
|-----------------------|--------------|----------|
| | 2010 | 2009 |
| | \$ | \$ |
| Non current | | |
| Shares held in escrow | 1,924 | - |
| | <u>1,924</u> | <u>-</u> |

7. INVESTMENT IN PROJECTS

| | Consolidated | |
|---|------------------|----------|
| | 2010 | 2009 |
| | \$ | \$ |
| Exploration & evaluation expenditure capitalised | | |
| Opening balance | - | - |
| Net current year expenditure | 6,949,766 | - |
| Write off in current year | - | - |
| | <u>6,949,766</u> | <u>-</u> |
| Closing balance | <u>6,949,766</u> | <u>-</u> |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. TRADE & OTHER PAYABLES

| | Consolidated | |
|-----------------------------------|------------------|----------|
| | 2010 | 2009 |
| | \$ | \$ |
| Current | | |
| Trade payables | 1,015,185 | - |
| Other payables & accrued expenses | 160,854 | - |
| | <u>1,176,039</u> | <u>-</u> |

9. ISSUED CAPITAL

| | 30 June | 30 June | 30 June | 30 June |
|--|-------------------|------------|-------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| | Shares | Shares | \$ | \$ |
| Opening balance | 100 | - | 100 | - |
| Issue of ordinary shares during the year | 44,499,900 | 100 | 20,000,000 | 100 |
| Share issue costs | - | - | (1,006,250) | - |
| Closing balance | <u>44,500,000</u> | <u>100</u> | <u>18,993,850</u> | <u>100</u> |

10. ACCUMULATED LOSSES

| | Consolidated | |
|---|-----------------|----------|
| | 2010 | 2009 |
| | \$ | \$ |
| Balance at beginning of financial year | - | - |
| Comprehensive income for the year | (96,397) | - |
| Balance at end of financial year | <u>(96,397)</u> | <u>-</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. CASH FLOW INFORMATION

| | Consolidated | |
|--|-------------------|------------|
| | 2010 | 2009 |
| | \$ | \$ |
| (a) Reconciliation of cash and cash equivalents | | |
| Cash and cash equivalents including: | | |
| Cash at bank | 12,540,039 | 100 |
| | <u>12,540,039</u> | <u>100</u> |
| | | |
| | 2010 | 2009 |
| | \$ | \$ |
| (b) Reconciliation of loss for the year to net cash flows from operating activities | | |
| Loss for the year after tax | (96,397) | - |
| Non-cash items in loss after tax: | | |
| Exchange difference on translation of foreign operations | (66,963) | - |
| (Increase)/decrease in payables and accruals | (31,541) | - |
| Increase/(decrease) in receivables | 192,486 | - |
| | <u>(2,415)</u> | <u>-</u> |

12. SEGMENT INFORMATION

The Group operates predominantly in one business and geographical segment being in the coal seam gas industry in southern Africa. No revenue from this activity has been earned to date as the Group is still in the exploration and evaluation stage.

13. EVENTS SUBSEQUENT TO BALANCE DATE

Tlou Directors have been in discussions with the management of Saber Energy Inc (SEI) about the potential of merging the two entities. Details of the final arrangement are still in the process of being negotiated. In principle, if any transaction materialises it will be subject to shareholder approval.

There has not been any matter or circumstance, other than that referred to above and in the financial statements or notes thereto, that has arisen since the end of the period, that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of these operations, or the state of affairs of the Consolidated Entity in future financial years.

14. CONTINGENT ASSETS AND LIABILITIES

There are no contingent liabilities or contingent assets at 30 June 2010.

15. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions that are no more favourable than those which it is reasonable to expect would have been adopted if dealing with an unrelated party at arm's length in the same circumstances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. PARENT ENTITY INFORMATION

| Information relating to Tlou Energy Limited: | Parent Entity | |
|---|-------------------|------------|
| | 2010 | 2009 |
| | \$ | \$ |
| Current assets | 12,772,412 | 100 |
| Total assets | 19,724,102 | 100 |
| Current liabilities | 787,100 | - |
| Total liabilities | 787,100 | - |
| Issued capital | 18,993,850 | 100 |
| Accumulated losses | (56,848) | - |
| Total shareholders' equity | <u>18,937,002</u> | <u>100</u> |
| Profit or loss of the parent entity | (56,848) | - |
| Total comprehensive income of the parent entity | (56,848) | - |

17. CONTROLLED ENTITIES

| Subsidiaries of Tlou Energy Limited | Country of incorporation | Ownership interest | |
|-------------------------------------|--------------------------|--------------------|------|
| | | 2010 | 2009 |
| | | % | % |
| Tlou Energy Botswana (Pty) Ltd | Botswana | 100 | 100 |

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 17 to 31 are in accordance with the *Corporations Act 2001* including:
 - (a) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (b) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2010 and of its performance for the year ended on that date.
2. In the Directors' opinion, there are reasonable grounds to believe that the Company and Consolidated Entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Christopher Pieters
Director

Brisbane
12 August 2010

INDEPENDENT AUDITOR'S REPORT

To the members of Tlou Energy Limited

Report on the Financial Report

We have audited the accompanying consolidated financial report, being a special purpose financial report, of Tlou Energy Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the group are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial report, are appropriate to meet the requirements of the *Corporations Act 2001* and are appropriate to meet the needs of the members. The directors' responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the members. We conducted our audit in accordance with Australian Auditing Standards.

These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to members for the purpose of fulfilling the directors' financial reporting under the *Corporations Act 2001*. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

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

Independence

We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Tlou Energy Limited, would be in the same terms if provided to the directors' as at the date of the audit report.

Auditor's Opinion

In our opinion, the financial report of Tlou Energy Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the group's financial position as at 30 June 2010 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and
- (b) complying with Australian Accounting Standards to the extent described in Note 1 and complying with the *Corporations Regulations 2001*.

PKF

PKF



Albert Loots
Partner

Dated at Brisbane this 12th day of August 2010

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Tlou Energy Limited ("Tlou" or "the Company") is committed to implementing the highest standards of corporate governance. The Board guides and monitors the business and affairs of Tlou on behalf of the shareholders whom they are accountable to.

In determining what these high standards should involve, the Board of Tlou has turned to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (2nd Edition) for guidance. This Corporate Governance statement contains specific information and discloses the extent to which the Company intends to or is able to follow the ASX recommendations.

Many of these recommendations are designed for companies which are often large ASX listed companies. Tlou, whilst public, is unlisted and would of course review the implementation of the recommendations as it grows and if it listed on the ASX or any other Stock Market at some stage in the future. If Tlou does not follow a recommendation, it will be disclosed, together with the reasons for the departure.

Tlou's Corporate Governance statement should be read with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

1. Lay solid foundations for management and oversight;
2. Structure, the Board, to add value;
3. Promote ethical and responsible decision-making;
4. Safeguard integrity in financial reporting;
5. Make timely and balanced disclosure;
6. Respect the rights of shareholders;
7. Recognise and manage risk; *and*
8. Remunerate fairly and responsibly

For further details, a copy of the Corporate Governance Principles and Recommendations can be found on the ASX website at www.asx.com.au.

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 of Directors

The Board is currently comprised of four (4) Directors. Details of the Directors who have held office during the year under review are namely:-

| Name of Director | Board Membership | Date of Appointment |
|---------------------|------------------------|---------------------|
| Christopher Pieters | Managing Director | 23 April 2009 |
| Nathan Mitchell | Non-executive Chairman | 23 April 2009 |
| Anthony Gilby | Non-executive Director | 23 April 2009 |
| Deidre Mitchell | Non-executive Director | 23 April 2009 |
| James McKay * | Non-executive Director | 23 April 2009 |
| Peter Mitchell ** | Non-executive Director | 23 April 2009 |

* James McKay resigned as a Director on 28 July 2009

** Peter Mitchell resigned as a Director on 11 August 2009

CORPORATE GOVERNANCE STATEMENT (continued)

The skills, experience and expertise relevant to the position of each Director are set out in the Directors' report of this Annual Report.

Subject to the requirements of the *Corporations Act 2001*, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director.

The Board is responsible for setting the strategic direction and establishing goals for management and monitoring the achievements against these goals.

Corporate Governance Recommendation 2.1 requires a majority of the Board to be independent Directors. In addition, Recommendation 2.2 requires the Chairman of the Company to be independent. The Corporate Governance Council defines 'independence' as being free from any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of unfettered and independent judgment. Based on this definition, the current Directors could not be considered independent by virtue of them being either executives, Directors or substantial shareholders of the Company or Directors or Officers of Companies that are substantial shareholders of the Company.

The Board believes that in light of the fact that the Company has only recently been formed and is still very much in a growth phase, it is not practical at this stage to have a majority of Independent Directors or an Independent Chairman. 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 be monitored as the operations of the Company evolve and appoint independent Directors as the opportunities and necessity arises.

Board Charter

There is currently no formally adopted Board Charter. The Board is currently in the process of considering and adopting a Board Charter and has listed this as a priority for the coming year. Shareholders will be notified once the same is in place.

Committees

Nomination Committee, Audit Committee and Remuneration Committee

The Recommendations require a listed entity to establish a Nomination Committee (See Recommendation 2.4), Audit Committee (See Recommendation 4.3) and a Remuneration Committee (See Recommendation 9.2).

At present, because of the size, composition and status of the Company, the Board does not deem it necessary or possible to have separate committees to carry out the roles of administering the matters of the said committees.

Therefore, the full Board (subject to members voting rights in general meeting) is responsible for the duties that would otherwise be the responsibility of the said committees. The Board believes that given its current composition, it will not be able to satisfy the requirements in relation to the members of the respective committees' as there are no Independent Directors. Nevertheless, with this in mind, the Board will continue to monitor and review this issue as the activities or status of the Company evolves. In doing so, the Board adopts the policy of best practice for Corporate Governance.

Director & Executive Code of Conduct

Recommendation 3.1 requires the Company to establish a Code of Conduct to guide the Directors and executives as to policies to maintain the integrity of the Company and to report and investigate unethical practice. The Board has considered this recommendation and believe that at this stage of the development of the Company that it was not necessary to establish such Codes, given the expertise and experience of the current Directors.

Nevertheless, it is the intention of the Board that once the Company has developed further, to consider the introduction of a Code of Conduct which will address among other matters Respect of the Law and to act in accordance with it.

CORPORATE GOVERNANCE STATEMENT (continued)

Performance Evaluation Process

Recommendation 8.1 requires listed entities to disclose the process for performance evaluation of the Board, its committees and individual Directors and key executives. As the Company is not listed, this process has not yet been formalised. It is the intention of the Board to review this recommendation if the Company becomes a listed entity. Until such time, the whole of the Board will address any issues that would have been referred to a specifically established Committee to undertake this process.

Dealing in the Company's Securities

The Company has, to date, imposed on its employees and consultants general trading restrictions. As the Company is not listed, the scope for insider trading is not in the Board's view as prevalent as it would be if the shares in the same were traded on an exchange. Nevertheless, if the Company becomes a listed entity, the Directors being mindful of the importance of restricting the unlawful use of inside information and market sensitive information, intend to introduce a "Share Trading Policy".

Code of Ethics and Conduct

The Company has not yet implemented any policies, including a Code of Business Conduct, which provide guidelines for maintaining high ethical standards and corporate behaviour. The Board is aware of the importance of establishing and maintaining high ethical and conduct standards and it is the Board's intention to introduce a Code of Business Conduct once the activities and operations of the Company evolves to such a level as to warrant the establishment of such a Code.

Notwithstanding the absence of a Code, the Directors acknowledge and require the Company's employees and consultants to comply with all Company policies and to act professionally with integrity, honesty and responsibility at all times.

Communication with Shareholders

The Company appreciates the considerable importance of communications with Shareholders. The Company's communication strategy requires communication with shareholders in an open, regular and timely manner so that the shareholders 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
- Half Yearly Reports
- Annual Reports; and
- Face to face Shareholder presentations

Continuous Disclosure

It is the Board's intention to develop a Continuous Disclosure Policy to comply with the Corporations Law and the Listing Rules of the ASX even though the Company is not listed on any exchange. While a policy has not yet been implemented, the Directors are very aware of the importance of such to achieve best practice.

Therefore, during the period leading up to the formal adoption of such a policy, the Directors and senior management of the Company are taking steps to ensure that all employees and contractors of the Company are aware of the obligations in relation to price sensitive information and the improper release or disclosure of the same.

CORPORATE GOVERNANCE STATEMENT (continued)

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.

Risk Management

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.

At this stage, the Board has not established a Risk Committee but will perform the functions of such a Committee until such time as one is established. In discharging this obligation, the Board assumes the responsibility for identifying, assessing, treating, monitoring and reporting in respect of identified risks and the management of these.

Environment

The Company is committed to sustainable development of energy resources in an environmentally and socially responsible manner. All operational activities are conducted in strict compliance with the terms of the relevant licence or permits. The Company employs technology and invests in environmental practices to achieve this objective.

Role of Auditor

All Directors have direct access to the Auditors if required by them.

Any recommendations and advice that is received from the auditor or other external advisers on the operational financial risks faced by the Company will be instigated where appropriate.

ADDITIONAL INFORMATION

1. Shareholder Information

The shareholder information set out below was applicable at 21 July 2010.

2. Ordinary Share Capital

44,500,000 fully paid ordinary shares.

3. Number of Equity Holders

Ordinary Share Capital held by 92 individual shareholders.

4. Voting Rights

In accordance with the Company's Constitution, on a show of hands, every shareholder present in person or by a proxy, attorney or representative of a shareholder has one vote and on 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 has a right to vote, however the shares issued upon exercise of options will rank pari passu with the then existing issued fully paid ordinary shares.

5. Distribution of Shareholdings

| Holdings | No. of Holders | Units | Percentage of Issued Capital |
|-------------------|----------------|------------|------------------------------|
| 1 - 1,000 | 0 | 0 | 0.000% |
| 1,001 - 5,000 | 1 | 3,778 | 0.008% |
| 5,001 - 10,000 | 1 | 5,667 | 0.013% |
| 10,001 - 100,000 | 51 | 1,965,655 | 4.417% |
| 100,001 - maximum | 39 | 42,524,900 | 95.562% |
| | 92 | 44,500,000 | 100.000% |

ADDITIONAL INFORMATION (continued)

6. Substantial Shareholders

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

| Name | Number of Shares Held | Percentage Interest |
|----------------------------|-----------------------|---------------------|
| Mitchell Energy Pty Ltd | 11,136,364 | 25.026% |
| Waterford Atlantic Pty Ltd | 4,454,546 | 10.010% |
| Gilby Resources Pty Ltd | 4,454,546 | 10.010% |
| Matapos Holdings Limited | 2,270,000 | 5.101% |
| Pieters Capital Pty Ltd | 2,227,272 | 5.005% |

The above shareholdings are disclosed pursuant to Section 671B (3) of the *Corporations Act 2001* but the relevant interests shown do not necessarily represent the beneficial interest in the share capital of the Company or the parties concerned.

7. The 20 Largest Holders of Ordinary Shares

| | | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|----|--|---|--------------------------------------|
| 1 | Mitchell Energy Pty Ltd | 11,136,364 | 25.026% |
| 2 | Berne 132 Nominees Pty Ltd | 4,570,000 | 10.270% |
| 3 | Waterford Atlantic Pty Ltd | 4,454,546 | 10.010% |
| 4 | Gilby Resources Pty Ltd | 4,454,546 | 10.010% |
| 5 | Matapos Holdings Limited | 2,270,000 | 5.101% |
| 6 | Pieters Capital Pty Ltd | 2,227,272 | 5.005% |
| 7 | Taher International Holdings Ltd | 2,188,922 | 4.919% |
| 8 | David Royds | 1,550,000 | 3.483% |
| 9 | Rensburg Nominees Limited | 799,950 | 1.798% |
| 10 | RAG Superannuation Pty Ltd | 775,000 | 1.742% |
| 11 | Anthony Thorncroft | 581,250 | 1.306% |
| 12 | Liath Pty Ltd | 500,000 | 1.124% |
| 13 | Financial Consultants (Jersey) Limited | 465,000 | 1.045% |
| 14 | HSBC Global Custody Nominee (UK) Ltd | 465,000 | 1.045% |
| 15 | Jesus College Cambridge | 445,000 | 1.000% |
| 16 | JTC Trustees Limited | 434,000 | 0.975% |
| 17 | Hero Nominees Limited | 426,250 | 0.958% |
| 18 | Ucan Nominees Pty Ltd | 387,500 | 0.871% |
| 19 | Power Industries Pty Ltd | 387,500 | 0.871% |
| 20 | Christopher John Blamey & Anne Margaret Blamey | 387,500 | 0.871% |
| | | 38,905,600 | 87.43% |

ADDITIONAL INFORMATION (continued)

8. Restricted Securities

As at the date of the Director's Report, there were no restricted securities.

9. Interests in Petroleum Licences (PL)

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

| PL | Region | Interest %* | Operator |
|----------|---------------|-------------|---------------------|
| 148/2007 | Masama | 64 | Tlou Energy Limited |
| 149/2007 | Masama | 64 | Tlou Energy Limited |
| 150/2007 | Masama | 64 | Tlou Energy Limited |
| 151/2007 | Masama | 64 | Tlou Energy Limited |
| 152/2007 | Masama | 64 | Tlou Energy Limited |
| 153/2007 | Masama | 64 | Tlou Energy Limited |
| 154/2007 | Masama | 64 | Tlou Energy Limited |
| 230/2007 | Karoo West | 75 | Tlou Energy Limited |
| 231/2007 | Karoo West | 75 | Tlou Energy Limited |
| 232/2007 | Karoo West | 75 | Tlou Energy Limited |
| 233/2007 | Karoo West | 75 | Tlou Energy Limited |
| 348/2008 | Karoo West | 75 | Tlou Energy Limited |
| 349/2008 | Karoo West | 75 | Tlou Energy Limited |
| 1/2004 | Karoo Central | 10 | Tlou Energy Limited |
| 2/2004 | Karoo Central | 10 | Tlou Energy Limited |
| 3/2004 | Karoo Central | 10 | Tlou Energy Limited |
| 35/2000 | Karoo Central | 10 | Tlou Energy Limited |
| 37/2000 | Karoo Central | 10 | Tlou Energy Limited |

* The interests shown in each of the licences, represent the percentage that Tlou will acquire in the licence via the corporate holder of the licence, once the Company successfully completes its Farm-in of all these licences, the details of which are contained in the Information Memorandum dated 12 August 2009. The interests shown do not take into account the resultant effect of the completion of the Transaction referred to in Matters subsequent to end of period in the Directors' Report.

10. The Board to disclose extent of assurances given under Section 295A of Corporations Law.

The Board has received declarations from the Managing Director and Chief Financial Officer pursuant to Section 295A of *Corporations Act 2001* which state that the financial statements are founded on sound risk management and internal controls and that the system is operating effectively in all material aspects in relation to financial reporting risks.



TLOU ENERGY



Tlou Energy Limited

210 Alice Street
Brisbane QLD 4000
Australia

Phone: +61 7 3012 9793
Fax: +61 7 3003 0675
Email: info@tlouenergy.com