



**TLOU ENERGY**



**Annual Report 2011**

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# CORPORATE DIRECTORY

## ABN

79 136 739 967

## Directors

Nathan Mitchell  
Christopher Pieters  
Anthony Gilby  
Martin McIver  
Stuart Comline  
Henri van Rooyen

## 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



The past year has been a very productive one for Tlou Energy Limited (Tlou) with the Company consolidating itself as a leading Coal Bed Methane (CBM) operator in southern Africa. The Company is well positioned for the future, progressing well with the Botswana Gas Project whilst actively seeking out new ventures with a view to realising value for all shareholders.

The main objectives achieved during the year include:

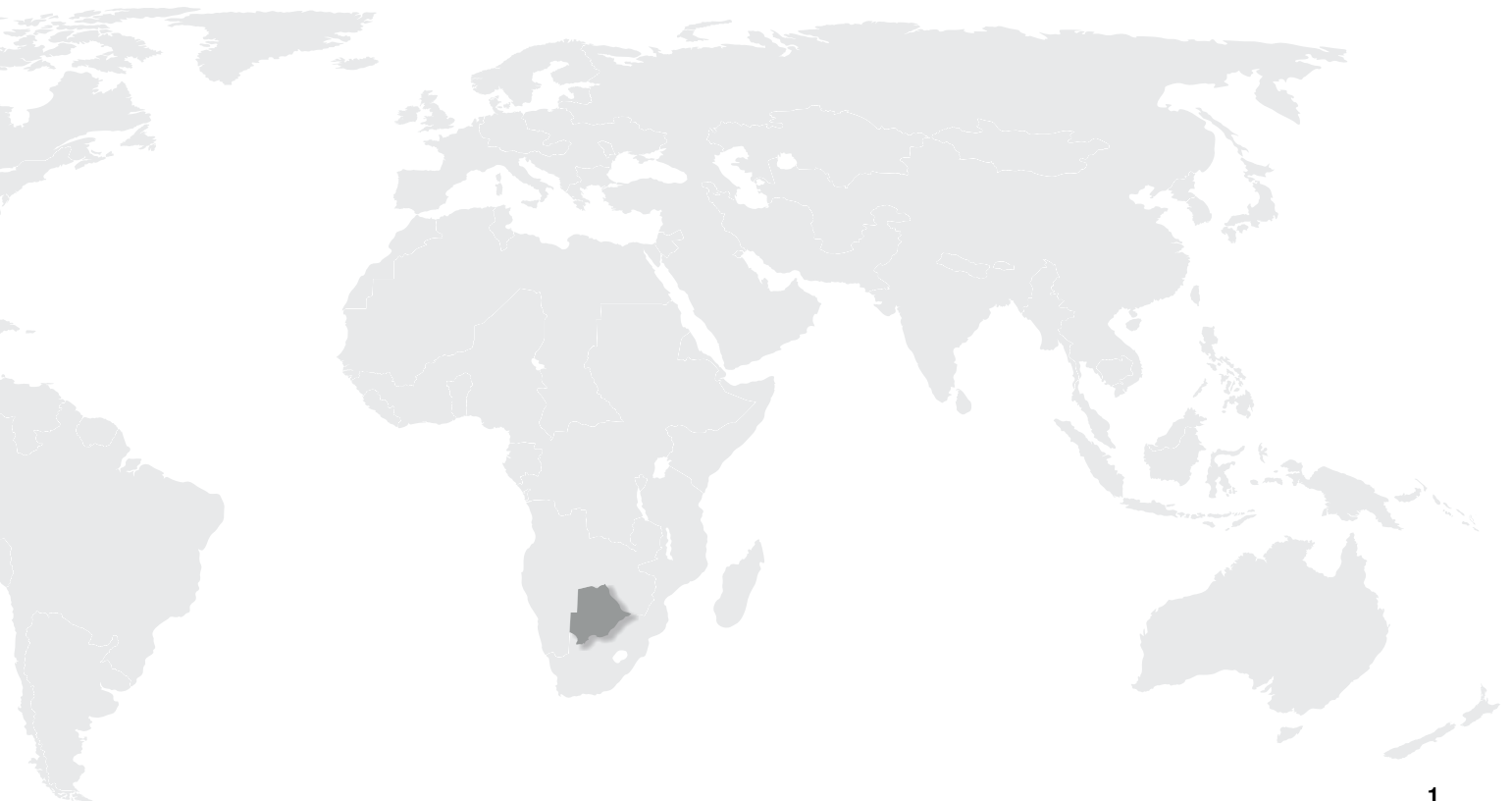
- Completion of our first phase exploration and resource program
- Acquisition of Saber Energy Inc's southern African assets, allowing Tlou control of the three licences areas in Botswana
- Completing a resource review in order to high grade areas for further evaluation
- Develop a pre-feasibility pilot well program to help establish bankable CBM reserves
- Assessing other potential opportunities in southern Africa to enter new markets

The Company is in a strong position to build on these achievements over the coming year. Tlou's highly skilled team are well placed to ensure that the Company consolidates this position.

Post balance date, Tlou has raised further capital through a rights issue to existing shareholders. This will ensure that the Company is well funded for progression of existing and new business developments. The board's focus over the coming year is to convert this strong position into bankable value for shareholders.

Yours faithfully,

**Nathan Mitchell**





# DIRECTOR'S 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 2011.

## 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:

Nathan Mitchell	
Christopher Pieters	
Anthony Gilby	
Martin McIver	(appointed as director and resigned as alternate for Deidre Mitchell, 16 September 2010)
Stuart Comline	(appointed 29 November 2010)
Henri van Rooyen	(appointed 29 November 2010)
Deidre Mitchell	(resigned as director and appointed as alternate for Martin McIver, 14 September 2010)
James McKay	(alternate director for Christopher Pieters)
Sean Werger	(alternate director for Henri van Rooyen, appointed 15 April 2011)

## 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.

## Dividends

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

## Review and results of operations

The loss for the consolidated entity after providing for income tax amounted to \$8,522,456 (30 June 2010: \$163,360).

### Overview

The past year has seen significant progress on the Botswana Gas Project, with the Company completing a resource review following the initial exploration program, with significant work undertaken across the licence areas currently held. The Company has also moved to expand its acreage position to include different markets in southern Africa.

At last year's annual general meeting we outlined that the farm-in project in the Masama, Karoo Central and Karoo West areas was on-going and scheduled for completion during the year ended 30 June 2011. This was successfully achieved following the drilling of five wells in the Karoo Central area.

A major achievement during the year was the acquisition of Saber Energy Inc.'s southern African CBM assets, following shareholder approval in November 2010. This saw a consolidation of the project in Botswana and gave Tlou 100% control of the Karoo Central and Karoo West licence areas and 85% control of the Masama licences.

Tlou's technical team completed a resource review across the three licence areas within the Botswana Gas Project. This allowed the group to high grade areas for future pilot testing and





possible development. The Company's current primary focus is on the Karoo Central area where a two well pilot drilling program is underway.

In an effort to grow the assets held by the Company and enhance shareholder value, Tlou has actively engaged with various parties to secure new licences in Botswana, as well as in other countries in southern Africa, namely Mozambique, Tanzania and Zimbabwe.

#### **New Ventures**

In addition to Tlou's CBM portfolio, consultation with various parties regarding conventional Coal and Underground Coal Gasification (UCG) programs in some of our licence areas is in progress. During the initial exploration drilling program in 2010, a potentially prospective UCG resource was identified, in and around the H3-1X corehole, drilled in the Karoo Central licence area.

Tlou commissioned specialist UCG testing to assess samples taken from this well including:

- Overburden strength testing
- Coal reactivity
- Ash fusion testing
- Trace element analysis

This analysis is ongoing and will provide the Company with valuable, low-cost information on the suitability of the host rocks to support a UCG project. The coals in the H3-1X area were found to be very thick, though under-saturated in gas. Interpretation of the CBM exploration work concluded that the gas volumes were insufficient to support a commercial CBM project. However, preliminary results of the testing mentioned above and advice from independent consultants provides evidence that this area has the potential to contain a significant UCG resource. As such, Tlou is currently engaged in discussions with UCG specialists regarding potential joint venture or farm-in project options for the area. Tlou is seeking partners with both the technical expertise and financial capacity to progress a UCG project.

Preliminary investigation of bore hole data in Tlou's PL 154/2007 licence suggest that coal at minable depths may exist in that licence. Aquila Resources and its partners have undertaken 14,000m of coal exploratory drilling on its Dukwe Project which is located

immediately to the south of Tlou's PL 154/2007 licence with the operator announcing a non-JORC compliant insitu coal resource in excess of 1 billion tonnes. Tlou is assessing the potential for this coal resource to extend into held acreage.

#### **Other**

During the year the Company acquired a number of new personnel in senior positions. This included the addition of three new Directors, Mr Martin McIver, Mr Henri van Rooyen and Mr Stuart Comline, all of whom bring substantial international resource experience to the board.

Further, this year also saw the appointment of Mr Gabaake Gabaake as Regional Manager, based in Gaborone, Botswana. As the previous Permanent Secretary of Mines, Minerals and Water in Botswana, Mr Gabaake provides the Company with an excellent understanding and link to the network within government and related non-government organisations in Botswana and the southern African region. We are very pleased that we were able to fill these positions with outstanding personnel who bring a high degree of energy to their respective roles.

We look forward to the upcoming year, which we believe will see a realisation of value for shareholders. The pilot drilling program will provide valuable information on the productivity of the coals in the Botswana Gas Project. This is an essential step in establishing the commerciality of the gas resource which will ultimately drive value. Building the asset portfolio through additional CBM and other assets will provide a platform of multiple assets to deliver further value.



## Significant changes to state of affairs

On 30 November 2010, Tlou acquired part of Saber Energy Inc's (SEI) southern African coal bed methane (CBM) assets, in exchange for a 30% interest of Tlou's undiluted capital. This resulted in SEI's parent entity; Talon Metals Corp becoming Tlou's largest shareholder. The acquisition gave Tlou control over SEI's southern African assets, of which Tlou was previously committed to fund by way of a farm-in agreement.

During the year ended 30 June 2011, there were no other significant changes to the state of affairs of the consolidated entity other than those stated above and disclosed in the financial report and notes thereof.

## Matters subsequent to end of the financial year

On 9 September 2011 the consolidated entity announced a rights issue, being a renounceable entitlement offer of two new shares for every 15 shares currently held. If fully subscribed the offer will raise approximately \$5.1m. The maximum number of shares to be issued under the offer is 8,504,726, and if fully subscribed the total shares in issue following the offer will be 72,290,440.

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.

## Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

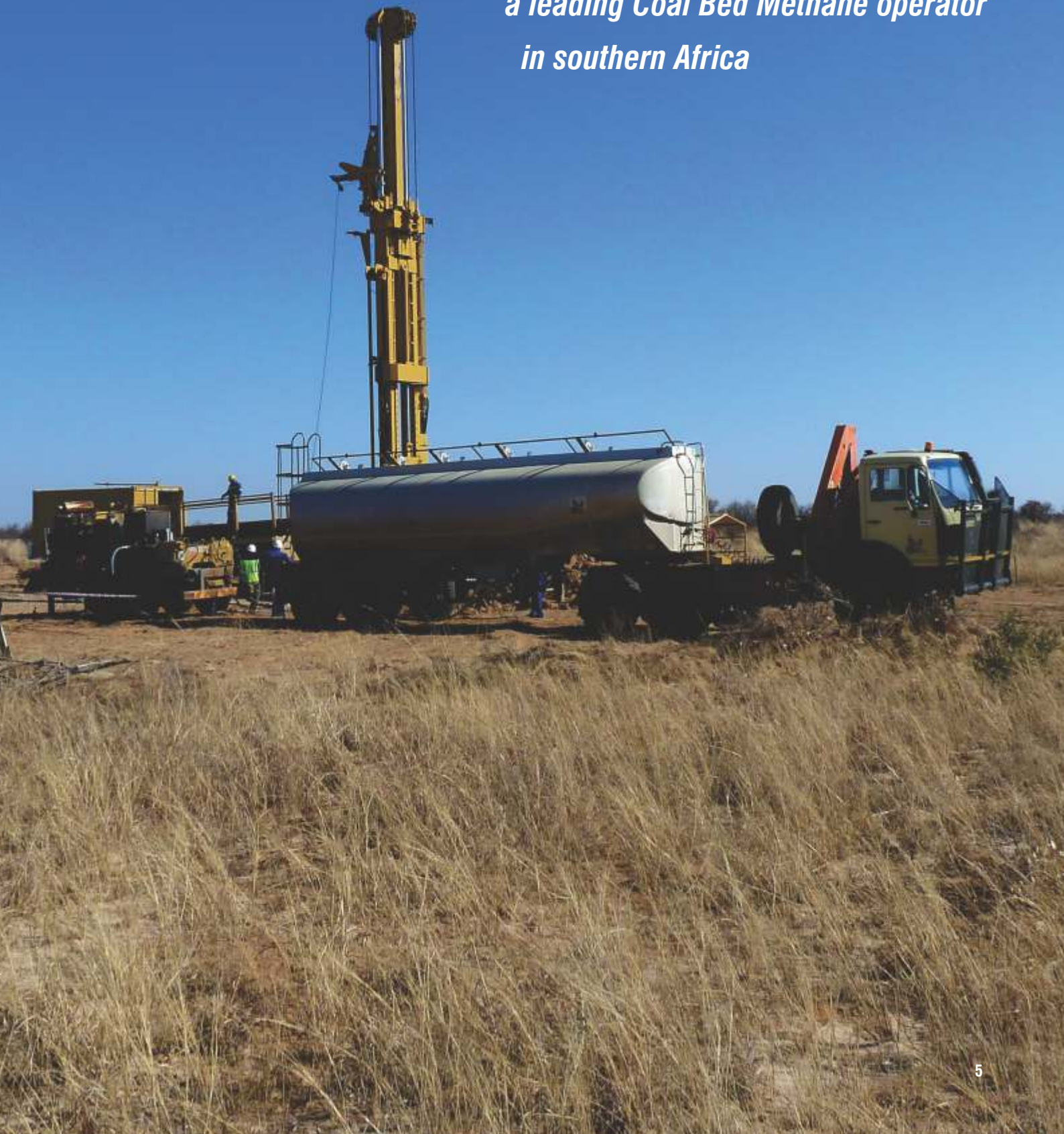
## Environmental regulation

The Directors are satisfied that adequate systems are in place for the management of its environmental responsibilities and compliance for 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.





*... the Company has consolidated itself as  
a leading Coal Bed Methane operator  
in southern Africa*





## Information on directors

Name:  
Title:

Experience and expertise:



Other current directorships:  
Former directorships (in the last 3 years):

Name:  
Title:  
Qualifications:

Experience and expertise:



Other current directorships:  
Former directorships (in the last 3 years):

Name:  
Title:  
Qualifications:

Experience and expertise:



Other current directorships:  
Former directorships (in the last 3 years):  
Special responsibilities:

**Nathan Mitchell**  
Non-Executive 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.

Westside Corporation Limited  
None

**Christopher Pieters**  
Managing Director  
B.Sc (Hons) B.Bus

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 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.

Comet Ridge Limited  
None

**Anthony Gilby**  
Non-Executive Director  
B.Sc. (First Class Honours)

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.

Comet Ridge Limited  
Sunshine Gas Limited (resigned 15 December 2008)  
Member of the Audit Committee





Name:  
Title:  
Qualifications:

Experience and expertise:



Other current directorships:  
Former directorships (in the last 3 years):  
Special responsibilities:

Name:  
Title:  
Qualifications:

Experience and expertise:



Other current directorships:  
Former directorships (in the last 3 years):

Name:  
Title:  
Qualifications:

Experience and expertise:



Other current directorships:  
Former directorships (in the last 3 years):  
Special responsibilities:

**Martin Mclver**  
Non-Executive Director  
MBA

Martin Mclver is the General Manager of the Mitchell Group. Prior to this he worked with PricewaterhouseCoopers Corporate Finance team. Martin was also the General Manager for a transport company servicing the Australian mining industry with operations in four states. In total Martin has over 10 years' experience at General Manager and Director levels in mining service companies.

He holds an MBA (International) with honours from the American Graduate School of International Management.

None  
None  
Chairman of the Audit Committee

**Stuart Comline**  
Non-Executive Director  
B.Sc (Hons) Geology, M.Sc Geology

Stuart Comline is a geologist with more than 40 years' experience in mineral exploration and mining in a wide range of commodities and operations in Africa, North and South America.

He was the CEO and President of Talon Metals Corp, until stepping down in May 2011. He was CEO and then Chairman, of AfriOre Limited until it was sold to Lonmin PLC for \$495m in 2007. Stuart holds B.Sc. Hons. degree from the University of Natal and M.Sc. degree from the University of Western Ontario.

Talon Metals Corp  
None

**Henri van Rooyen**  
Non-Executive Director  
B. Com, B. Com (Hons), C.A.

Henri van Rooyen obtained his Bachelors of Commerce and Bachelors of Commerce (Hon.) degree from the University of Johannesburg in May 1992 and qualified as a CA (SA) thereafter. Henri has been a Senior Vice President of Tau Capital Corp. since September 2007 where he heads up New Business and Operations.

He was President and Chief Executive Officer of Pinpoint Selling Inc., a Tau Group online technology company. Henri has over nine years of exploration and mining experience, including founding, growing, developing and selling two South African mining and exploration projects

None  
None  
Member of the Audit Committee

Name: **Deidre Mitchell**  
 Title: **Alternate Director for Martin McIver**

Experience and expertise: 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.

Other current directorships: None  
 Former directorships (in the last 3 years): None

Name: **James McKay**  
 Title: **Alternate Director for Christopher Pieters**  
 Qualifications: B.Com, LL.B

Experience and expertise: James McKay has a strong commercial background, with sound finance, investment markets, business management and legal expertise. He holds degrees in commerce and law from the University of Queensland

James is Executive Chairman of Walcot Capital. Walcot Capital was founded in 2009 as a venture capital business specialising in early stage commodity investments. The firm's mandate is the identification of, and investment in, international resource assets.

James is the former Chairman of successful Coal Seam Gas explorer Sunshine Gas Limited, having overseen that company's growth to join the ranks of Australia's Top 150 with a market capitalisation approaching \$1 billion prior to its merger with Queensland Gas Company. It was a top ten Queensland company and top 150 Australian company by market capitalisation.

He is also the Chairman of Comet Ridge Limited, a listed Australian resource company. He is a past president of the Australasian Cemeteries and Crematoria Association, having served on its board for over 8 years.

Other current directorships: Comet Ridge Limited  
 Former directorships (in the last 3 years): Sunshine Gas Limited (resigned 15 December 2008)

Name: **Sean Werger**  
 Title: **Alternate Director for Henri van Rooyen**  
 Qualifications: LL.B, MBA

Sean joined the Canadian based Tau Capital Group in 2006, and is presently responsible for managing all legal matters for the group, as well as negotiating the acquisition and/or sale of the group's various mineral exploration projects. Previously Sean was a lawyer with Lax O'Sullivan Scott LLP, which is a litigation firm based in Toronto, Canada. As a lawyer, his practice included a variety of complex corporate and commercial litigation matters. Sean obtained his LL.B and M.B.A. degrees from Osgoode Hall Law School and Schulich School of Business, respectively. Sean is a member of the Ontario Bar Association.

Other current directorships: None  
 Former directorships (in the last 3 years): None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.



## Company secretary

Mr Stephen Rodgers was appointed Company Secretary on 11 August 2009 and continues in office at the date of this report.

Stephen Rodgers is a lawyer with over 20 years' experience and holds a Bachelor of Laws degree from QUT. After practicing law with several firms in Brisbane over a 12 year period, he then operated his own specialist commercial and property law practice for seven years. Stephen then joined the successful team at Sunshine Gas Limited, where he was the in-house Legal and Commercial Counsel, a broad role which also included assisting the Company Secretary with many of the facets of that position. Since 2007, Stephen has been the Company Secretary of Chartwell Energy Limited (now a subsidiary of Comet Ridge Limited), a position which he continues to hold. He is also Company Secretary of Walcot Capital Pty Ltd.

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development*

## Meetings of directors

The number of meetings of the consolidated entity's Board of Directors and of each board committee held during the year ended 30 June 2011, and the number of meetings attended by each Director were:

	Full Board		Audit Committee	
	Attended	Held	Attended	Held
Nathan Mitchell	8	8	-	-
Christopher Pieters	8	8	-	-
Anthony Gilby	8	8	1	1
Martin McIver (as Director)	6	6	1	1
Martin McIver (as Alternate)	1	2	-	-
Stuart Comline	4	4	-	-
Henri van Rooyen	4	4	1	1
Deidre Mitchell (as Director)	2	2	-	-
Deidre Mitchell (as Alternate)	2	6	-	-
James McKay	7	8	-	-
Sean Werger	2	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

Unissued ordinary shares of Tlou Energy Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
20 July 2010*	20 July 2013	\$1.00	250,000
29 November 2010	30 June 2013	\$1.25	4,945,055
15 April 2011*	14 April 2014	\$1.25	250,000
15 April 2011*	14 April 2014	\$2.00	250,000
1 February 2011*	30 June 2014	\$1.00	50,000
1 February 2011*	30 June 2014	\$2.00	50,000

\* These shares were issued to key management personnel during the year. Full details are available in the notes to the financial statements for the year ended 30 June 2011.



## Shares issued on the exercise of options

There were no ordinary shares of Tlou Energy Limited issued during the year ended 30 June 2011 on the exercise of options granted.

## 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 consolidated entity

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the consolidated entity, or to intervene in any proceedings to which the consolidated entity is a party for the purpose of taking responsibility on behalf of the consolidated entity 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* is set out along with the financial report.

## Auditor

PKF continues in office in accordance with section 327 of the *Corporations Act 2001*.

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



**Christopher Pieters**  
Director

Brisbane  
11 October 2011

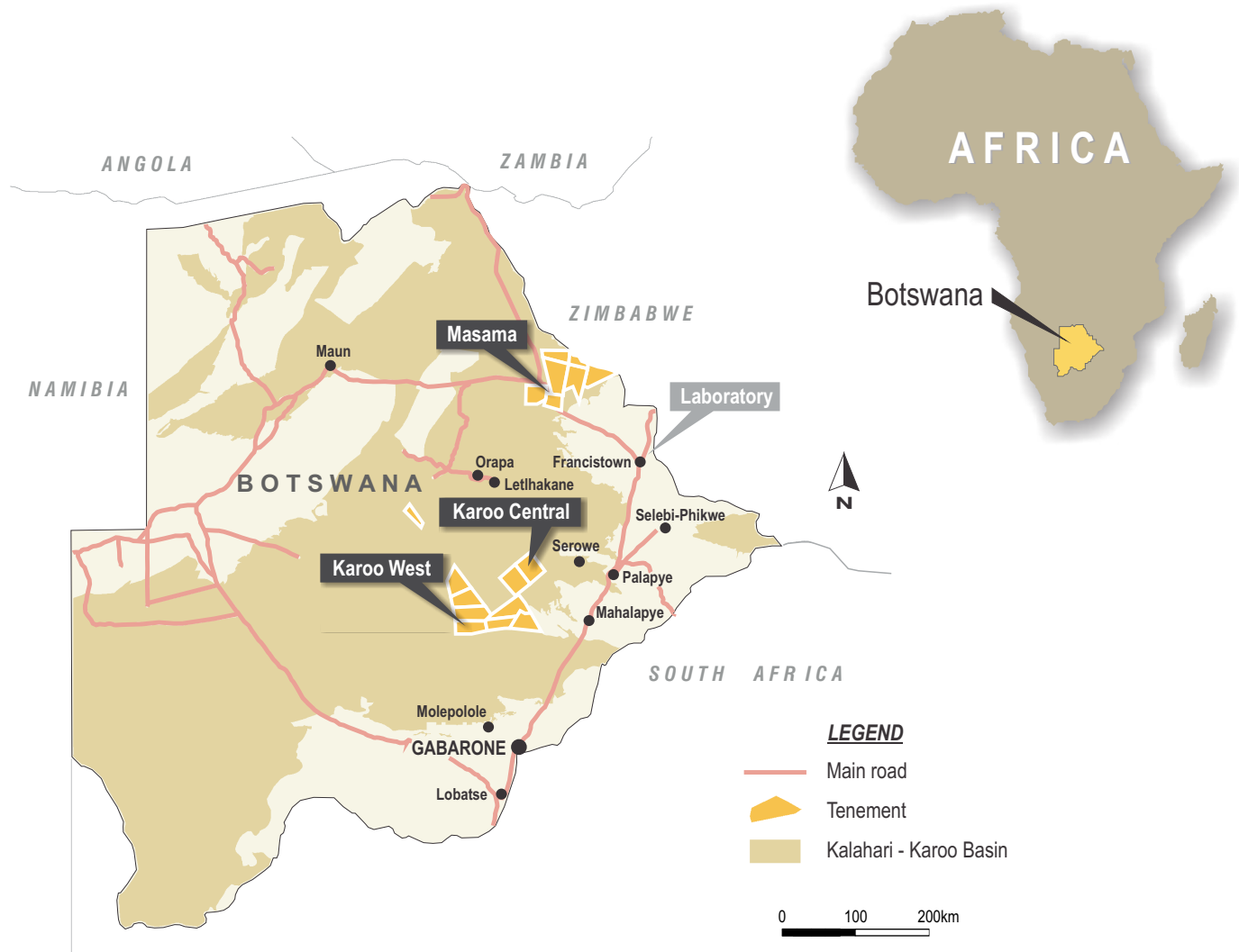


# ANNUAL REVIEW OF OPERATIONS

The past year has been one of consolidation with the Company completing the exploration and evaluation of the Botswana Gas Project. The focus of the year has largely been in Botswana although ongoing assessment of acreage opportunities across the southern African region including Mozambique, Tanzania and Zimbabwe is continuing. The end of the reporting period has seen Tlou entering into the next planned phase of its evaluation strategy with mobilisation of equipment and personnel to undertake the drilling of two prefeasibility pilot wells in the Karoo Central permit area. This area was high graded based on the results of its 10 corehole evaluation programme.

The following summarises the key activities achieved by Tlou during the year:

- Completed the drilling of 10 fully evaluated exploration coreholes across the main permit areas (Masama and Karoo Central);
- Successfully completed the corporate merger between Tlou and Saber Energy Inc. (SEI);
- Administered the sample analysis programme for all core samples taken in the exploration program;
- Performed in-house Quality Control checks on all laboratory data;
- Continuing to build a geological model to assess the CBM resource, and steer future work programmes;
- Completed the design work on drilling two prefeasibility pilot wells with offset pressure monitoring wells;
- Lodged application for new exploration licences immediately to the south of current Karoo Central permits;
- Enlisted Netherland Sewell & Associates (NSAI) to review the exploration data and geological model, with a view to independently certifying a contingent gas resource in the near term.
- Rehabilitation of wells and drill sites drilled by previous operators in the Central Karoo areas. Existing wells which were regarded as having future benefit were audited and surveyed for later use.



## Exploration and Evaluation Programme

Exploration drilling operations concluded in August 2010, with the successful drilling of 10 coreholes across Tlou's portfolio. Five coreholes were drilled in the Masama permits, and five drilled in the Central Karoo permits. All wells provided valuable geological information which will be integrated into Tlou's geological model, and will benefit future work programmes.

Two coreholes were planned in the western Karoo permits, however, were deferred from the programme due to delays in receiving final approval for access into the Central Kalahari Game Reserve ("CKGR"). Further evaluation is planned in the western Karoo permits in a subsequent exploration programme.

As with any major exploration drilling programme, an enormous amount of data was collected and compiled. The exploration

program was very successful in sampling the coal samples from the coreholes. A total of 255 gas desorption samples were taken as part of this program. These samples continued on for further analysis as outlined in the table below. As a part of this exploration programme alone, over 1.7km of core was cut, with almost 200 linear metres of net coal samples, including 1,537 specialist laboratory tests.

Well Name	Area (permit)	Total Depth	Metres of core cut	Specialist Laboratory Analyses														
				Gas Desorption	Gas Composition	Proximate	Relative Density	Calorific Value	Methane adsorption Isotherm	Maceral	Vitrinite Reflectance	Helium Pycnometry	Sandstone Porosity & Permeability	Total Sulphides	Ultimate Analysis	Ash Analysis	UCG specific testing (various tests)	
V01-X	Masama (PL151/2007)	404.6	120.8	●	●	●	●	●			●	●			●	●	●	
R01-XR	Masama (PL153/2007)	441.9	141.5	●	●	●	●	●			●	●			●	●	●	
T01-XR	Masama (PL152/2007)	558.8	162.4	●	●	●	●	●			●	●			●	●	●	
Z01-XR	Masama (PL148/2007)	616.8	0	Failed to reach coal														
X01-XRRR	Masama (PL150/2007)	682.4	138	●	●	●	●	●			●	●			●	●	●	
H3-1X	Central Karoo (PL003/2004)	605.7	309	●	●	●	●	●	●	●	●	●	●	●				●
D2-1XRR	Central Karoo (PL002/2004)	512.7	200.7	●	●	●	●	●	●	●	●	●	●	●				
B6-1X	Central Karoo (PL001/2004)	479.8	176.2	●	●	●	●	●	●	●	●	●	●	●				
F4-2X	Central Karoo (PL037/2004)	711.4	251.4	●	●	●	●	●	●	●	●	●	●	●				
G5-1X	Central Karoo (PL035/2000)	692.4	232.9	●	●	●	●	●	●	●	●	●	●	●				





Sampling commenced at the respective wellsite, and was later shipped to Tlou's purpose-built desorption laboratory in Francistown (northern Botswana), where gas desorption and gas composition testing continued. The desorption sampling often takes many months to fully desorb the gas from the coal sample, before any further analysis can be conducted. The composition of the gas desorbing from the coal samples is also tested in our Francistown laboratory. From here, selected coal samples were dispatched to Brisbane for further testing in specialist laboratories. Tlou utilise world renowned laboratories for analysis of the coal sampling, including Weatherford, and ALS.

With the exception of a relatively few number of ongoing samples, all of the analytical results have been received in Tlou's Brisbane headquarters. Results underwent strict in-house Quality Assurance, in addition to the Laboratories' own QA procedures.

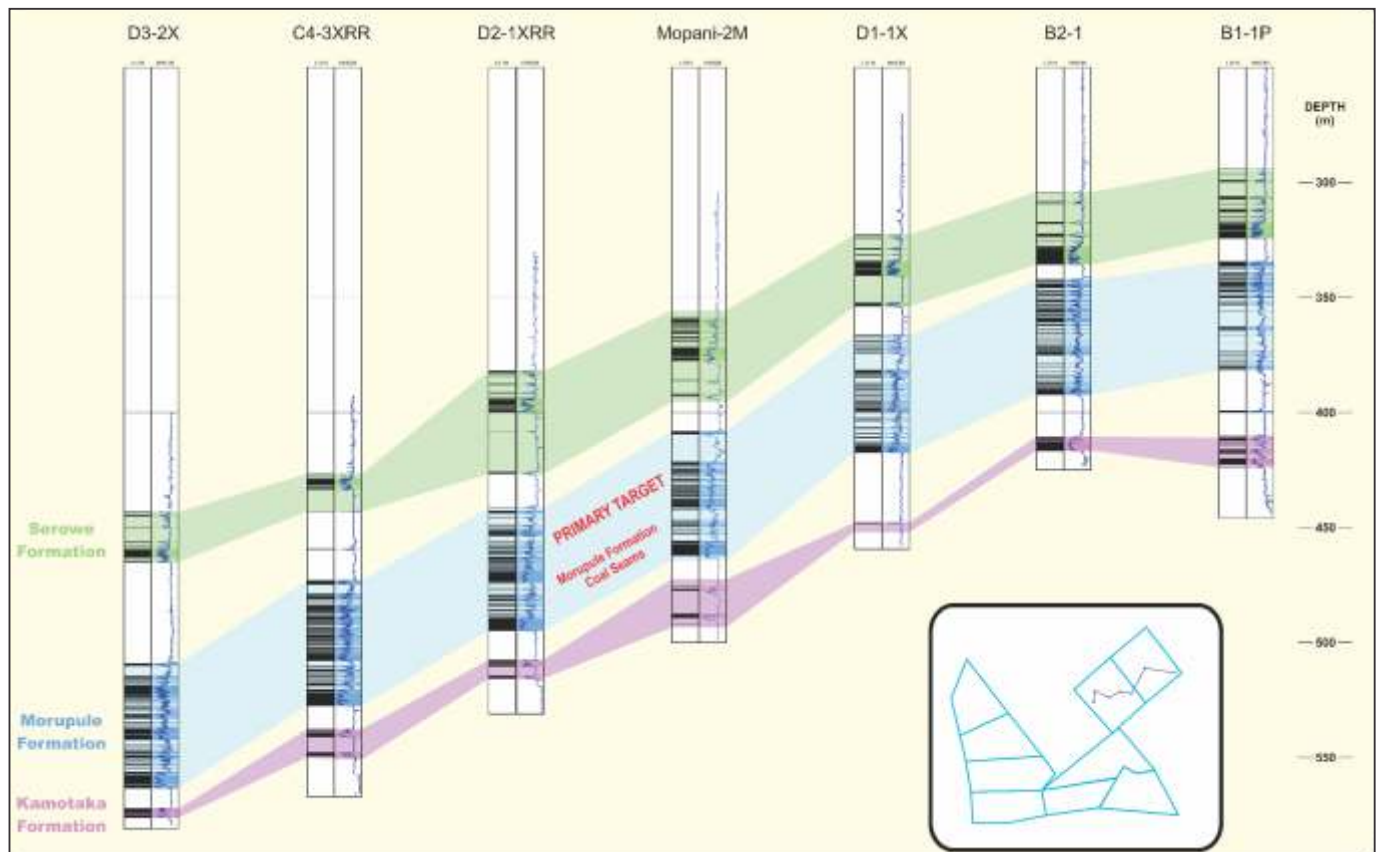
### Results

Results from the Masama area indicate a highly banded coal, with relatively high ash contents. The gross coaly interval is appreciably thick, however the coal quality appears to be too poor to underpin any viable CBM project.

Central Karoo area showed much more promise, with better quality coal seams, and higher gas contents commonly displayed.

- Wells in the Central Karoo area intersected coals at depths ranging from 300-600m, well within the optimal range for CBM production.
- Gas contents of in excess of 5m<sup>3</sup>/t have been observed, with much of the focus area displaying gas contents around 4m<sup>3</sup>/t.
- Net coal thickness commonly range from 15-25m with additional intercalated shale and carbonaceous mudstone reservoirs present.

- The shale reservoirs add an additional 20 to 30m to the total reservoir thickness. The desorption sampling of these shales indicate that a significant contribution of gas is present within these reservoirs.
- Drill stem tests (DST) indicate reservoir permeability within the range of 20-30mD which is in the moderate to good range for analogous CBM projects worldwide.
- Isotherm analysis shows that the coals in the focus area are almost highly saturated with respect to methane. Isotherm results suggest up to 75% methane saturation within the coals.



X-section of the Karoo Central target area

**Pre-Pilot appraisal and evaluation**

After evaluation of the initial exploration results, Tlou quickly moved to the next phase of evaluation known as a pre-pilot phase. This phase has already commenced with the drilling of two pre-feasibility pre-pilot wells, and two offset monitoring wells.

The aim of any pilot program is to simulate full-scale CBM production of the coals, but on a small scale. Pilot stage is a necessary part of all producing CBM projects worldwide. Pilot production is where many specific reservoir properties are measured, with the results going towards tailoring a subsequent full-scale production phase in the most effective manner possible.

The aim of this pilot program is to appraise the productivity of the coals, and gather valuable reservoir information for input into the geological model. Such properties include:

- Lateral permeability of the coals
- Effectiveness of various completion techniques
- Gas recovery factor
- Gas and water flow rate
- Formation water sampling

Various completion techniques are proposed to be trialled as part of this ongoing stage of evaluation and appraisal. Should they be required, these may include formation stimulation strategies such as cavitation or fracture stimulation, or various drilling technologies such as horizontal drilling. At present, Tlou does not adopt fracture stimulation methodologies in their projects.

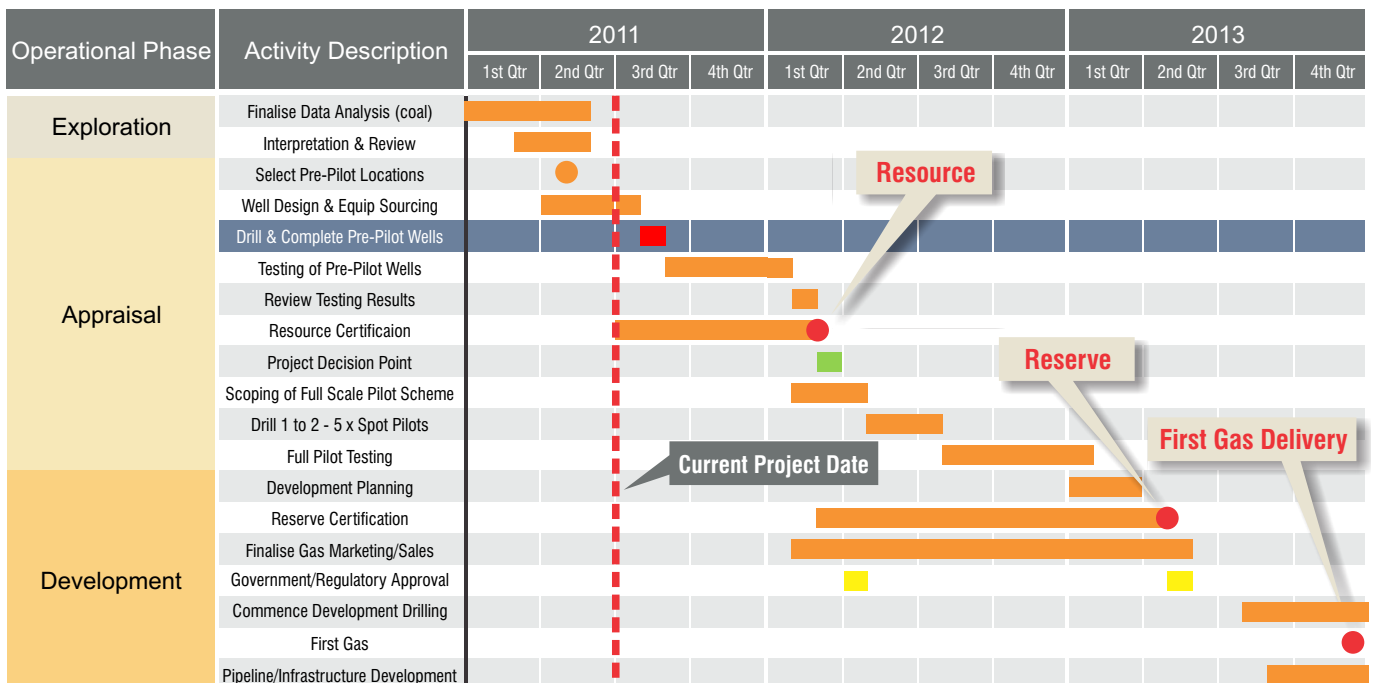
Pre-pilot wells Mopani 1P and 2P were drilled using a barefoot completion style, drilled with a balanced mud circulation system. The coal intervals were under-reamed to approximately 16 inches to maximise wellbore radius and to minimise any near-wellbore formation damage. The well was then cased with pre-perforated production liner, and will be completed with a downhole submersible pump.

Work on these pre-pilot wells is continuing, with the downhole pumps to be fitted, and water and gas handling facilities connected later this year. Production testing will commence immediately thereafter, and is scheduled to continue into 2012.

Once the appropriate reservoir properties have been adequately measured, this will lead into the establishment of an independently certified gas resource. Respected international certifiers, Netherland, Sewell & Associates, Inc. (“NSAI”) based out of Dallas USA have been contracted by Tlou to undertake the certification process. A verified database of all the exploration results together with the design and testing documentation for the prefeasibility wells have been prepared for NSAI in order to fast track their study. This will be supplemented with the testing results of the wells once completed. It is Tlou's intention to have a certified resource statement by late 2011. This will provide the security for taking the project forward into full pilot testing phase.

**Tlou CBM Project Timeline**

(as at June 2011)







**Financial results**

The Company is in a very strong position financially. Net asset are approximately \$30m, which is made up mainly by the exploration and evaluation (E&E) asset and cash at bank. While the statement of comprehensive income shows a significant loss for the period, this is due to the impairment of the E&E asset following the proposed relinquishment of licence areas no longer considered of significant value to the Company. Movements in foreign exchange also have had a significant effect during the year. The strengthening Australian dollar has negatively impacted the valuation of E&E which is accounted for in local currency (Botswana Pula). The Company also has exposure to US dollars, which resulted in an unrealised loss on foreign exchange at the reporting date.

As with any major exploration program significant expenditure is required in order to evaluate the potential of any asset. This year the main focus of our exploration was in the Karoo Central area. In line with expectations over \$3m was spent in this area alone, completing the farm-in program, rehabilitating old wells and performing initial work for the pilot program. The forward plan will focus mainly on the Karoo Central area with other ventures also expected to come on-stream. At the financial year end the Company is fully funded to meet its outstanding commitments in the areas currently held.

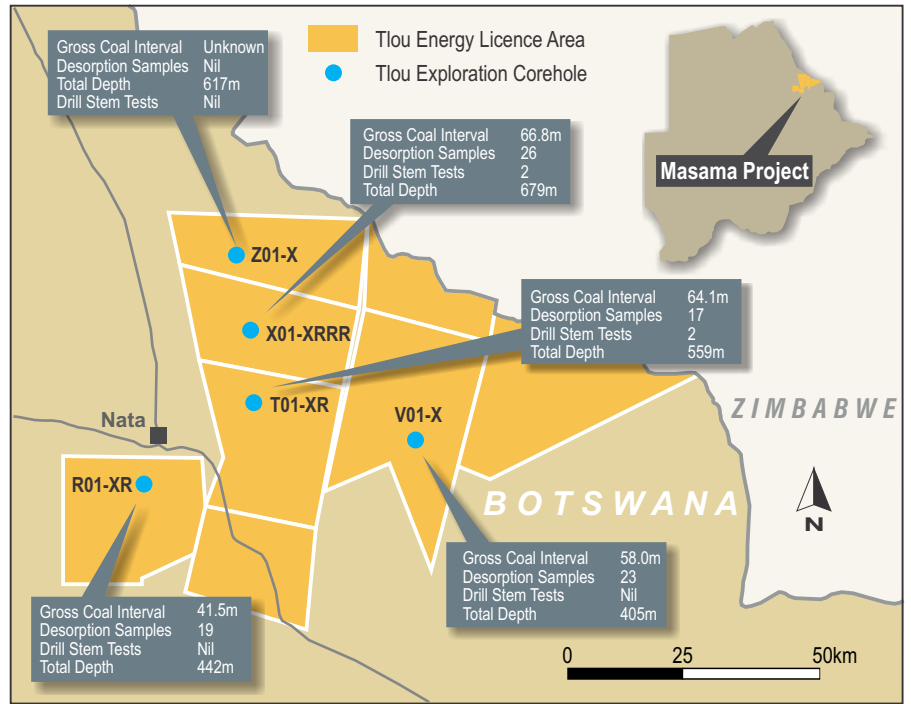
In addition to the above commitments, the Company also has a number of other projects, which are expected to materialise during the coming year. These projects will be funded through the rights issue announced in September 2011. A successful raising will allow the Company to develop projects in other regions of southern Africa, and also enter into new markets, which potentially include conventional coal, shale gas and underground coal gasification.

Dependant on the results of the recent and proposed pilot programs and the success of new ventures the Company expects to be in a position to go to an Initial Public Offering (IPO) in 2012. Full results for the year are available in the financial statements later in this report.

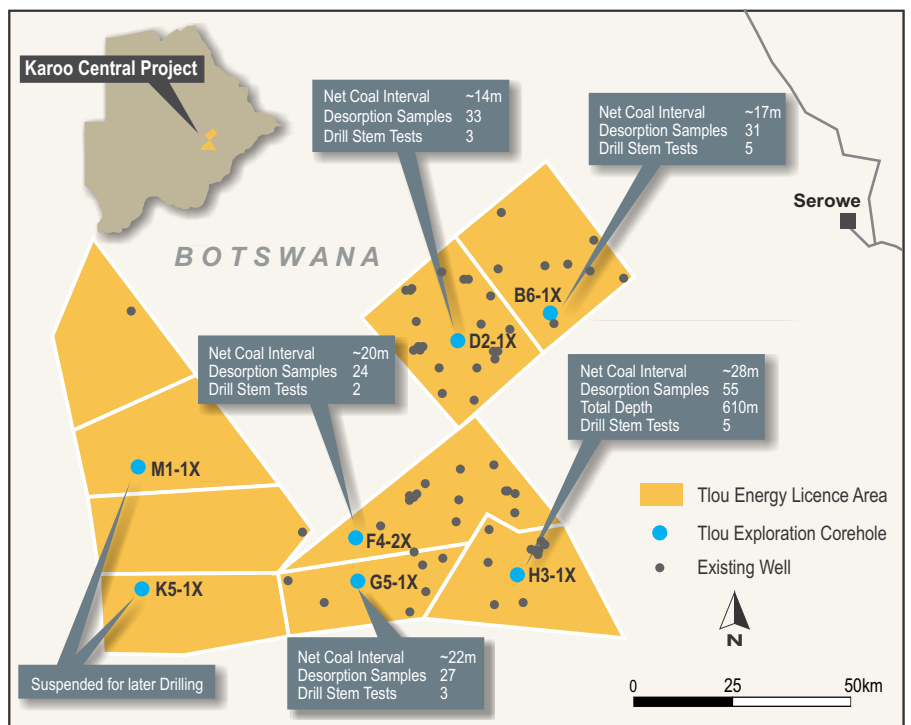
**Permit Asset Management**

All permits currently held in the three core areas within Botswana, namely the Masama area, Karoo Central and Karoo West area, remain in good standing with work permit commitments in line with or exceeding work

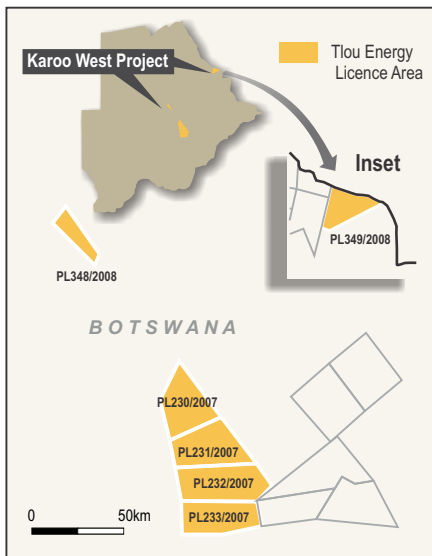
programme obligations. Based on the poor CBM exploration results in the northern Masama region, relinquishment of the northern permits is being considered, although not yet ratified.



**Masama Licences - Masama Region - Drilling**



**Kalahari Licences - Karoo Central Region - Drilling**



**Saber Licences – Karoo West Region**

As part of its ongoing reconnaissance of acreage opportunities in Botswana, Tlou lodged an exploration application for coal (and CBM) with the Botswana Government for permits immediately to the south of the Karoo Central area. This was lodged with the Government in December 2010, however the application (and all other applications) was suspended by the Department of Geological Services (DGS) in early March 2011. The moratorium on coal permit applications was evoked by the Botswana Government whilst they completed an extensive review of their coal energy and mining activities together with their permit tenure management systems. Tlou has been advised that the existing application will be eligible upon completion of this review period.

Tlou will continue to scout for both greenfield and existing opportunities across the southern African region in order to maximise the Company's exposure to quality acreage assets whilst relinquishing those areas which offer no opportunity.

**Botswana Field Operations**

Tlou maintains a permanent presence in Botswana with both an office in Gaborone for corporate and government representation and a field operations base. The field operations base was relocated 50 km to the north in June 2011 to an area in the middle of its Karoo Central permits which will provide proximal support for its ongoing exploration and development activities in the area. The field base is staffed with approximately 20 local workers and four expatriate officers.

**Health, Safety and Environmental (“HSE”) Management**

In keeping with Tlou's commitment to managing its HSE obligations to the highest industry standard, Tlou Energy's Board commissioned the preparation of a new HSE Management System. The intranet based management system will provide the necessary framework, through policy, guideline, and checklists to ensure all operations are undertaken in a risk mitigated and appropriately managed way to ensure protection of both workforce and environment. Tlou operates in some of the most culturally and environmentally sensitive areas in the world, and prides itself on its conduct. The Board is pleased to report that no significant injury or environmental incident was recorded during the reporting period.

**Government Liaison and Public Affairs**

Given its large acreage asset position in Botswana, Tlou activities touch on the lives of several communities in the area. Tlou's African management team maintain regular consultation meetings with the surrounding Village Development Committees (“VDC”s) to ensure all activities are conducted with the least disturbance and intrusion to surrounding communities.

Tlou's relationships with government officials and departments remains sound, ensuring they are well briefed on all stages and facets of the project.

**Forward Programme**

Following on from the annual reporting period, progress on the prefeasibility drilling programme continued on schedule. The drilling rig mobilised to location at the end of July and drilling on the first monitoring well (Mopani 2M) commenced on 1 August 2011. This was followed with the successful completion of the rest of the drilling programme with Mopani 1M and the two prefeasibility pilot wells Mopani 1P and Mopani 2P drilled according to schedule and under-budget. The drilling rig was released from operations at the end of September with the completion equipment in two 40 foot containers arriving in early October from Australia and Canada.

The wells are expected to be completed with the progressive cavity pump (PCPs) completion strings and on test by end October 2011.

The prefeasibility drilling programme and subsequent testing marks the beginning of a new phase in the move to establish Tlou as the first company to achieve a commercial CBM project in Africa and to build the base on which additional projects will follow.

The image features two giraffes in silhouette against a vibrant sunset sky. The giraffes are positioned on the left and right sides of the frame, with their long necks extended upwards. The sky transitions from a deep orange at the top to a darker red near the horizon. The word "finan" is written in a large, bold, lowercase sans-serif font across the bottom half of the image, partially overlapping the giraffes' bodies.

# finan





# Financials 2011

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## Auditor's Independence Declaration

### Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of Tlou Energy Limited and the entities it controlled during the year

I declare to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- no contraventions of any applicable code of professional conduct in relation to the audit.



PKF



**Albert Loots**  
Partner

Dated at Brisbane this 11<sup>th</sup> day of October 2011



**Tlou Energy Limited**  
**Financial report**  
**For the year ended 30 June 2011**

**General information**

The financial report covers Tlou Energy Limited as a consolidated entity consisting of Tlou Energy Limited and the entities it controlled at any time during the financial year ended 30 June 2011. The financial report is presented in Australian dollars, which is Tlou Energy Limited's functional and presentation currency. Amounts are rounded to the nearest one dollar.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Tlou Energy Limited is an unlisted public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

210 Alice Street  
Brisbane QLD 4000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 11 October 2011. The directors have the power to amend and reissue the financial report.



**Tlou Energy Limited**  
**Statement of comprehensive income**  
**For the year ended 30 June 2011**

		<b>Consolidated</b>	
	<b>Note</b>	<b>2011</b>	<b>2010</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue</b>	3	201,093	310,402
<b>Expenses</b>			
Employee benefit expense		(653,030)	(423,833)
Depreciation and amortisation expense	4	(127,746)	-
Impairment of assets	4	(5,310,429)	-
Currency exchange		(1,110,967)	-
Share option expense		(382,868)	-
Business acquisition related costs		(311,217)	-
Other expenses		(827,292)	(49,929)
		<hr/>	<hr/>
<b>Loss before income tax expense</b>		(8,522,456)	(163,360)
Income tax expense	5	-	-
		<hr/>	<hr/>
<b>Loss after income tax expense for the year</b>		(8,522,456)	(163,360)
<b>Other comprehensive income</b>			
Foreign currency translation		(1,864,221)	66,963
		<hr/>	<hr/>
Other comprehensive income for the year, net of tax		(1,864,221)	66,963
		<hr/>	<hr/>
<b>Total comprehensive income for the year</b>		(10,386,677)	(96,397)
		<hr/>	<hr/>
Loss for the year is attributable to:			
Non-controlling interest		(738,010)	-
Owners of Tlou Energy Limited		(7,784,446)	-
		<hr/>	<hr/>
		(8,522,456)	-
		<hr/>	<hr/>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		(707,982)	-
Owners of Tlou Energy Limited		(9,678,695)	(96,397)
		<hr/>	<hr/>
		(10,386,677)	(96,397)
		<hr/>	<hr/>

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

**Tlou Energy Limited**  
**Statement of financial position**  
**As at 30 June 2011**

		<b>Consolidated</b>	
	<b>Note</b>	<b>2011</b>	<b>2010</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	5,482,876	12,540,039
Trade and other receivables	7	74,782	581,763
Other current assets	8	144,859	-
Total current assets		<u>5,702,517</u>	<u>13,121,802</u>
<b>Non-current assets</b>			
Financial assets - shares	9	-	1,924
Exploration and evaluation asset	10	29,740,705	6,949,766
Property, plant and equipment	11	764,566	-
Total non-current assets		<u>30,505,271</u>	<u>6,951,690</u>
<b>Total assets</b>		<u>36,207,788</u>	<u>20,073,492</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	1,157,427	1,176,039
Total current liabilities		<u>1,157,427</u>	<u>1,176,039</u>
<b>Non-current liabilities</b>			
Deferred tax liability	5	4,459,714	-
Provisions	13	248,750	-
Total non-current liabilities		<u>4,708,464</u>	<u>-</u>
<b>Total liabilities</b>		<u>5,865,891</u>	<u>1,176,039</u>
<b>Net assets</b>		<u>30,341,897</u>	<u>18,897,453</u>
<b>Equity</b>			
Contributed equity	14	38,279,564	18,993,850
Share options reserve	15	2,545,407	-
Foreign currency reserve	15	(1,827,286)	66,963
Retained profits/(losses)	16	(7,947,806)	(163,360)
Equity attributable to the owners of Tlou Energy Limited		<u>31,049,879</u>	<u>18,897,453</u>
Non-controlling interest	17	(707,982)	-
<b>Total equity</b>		<u>30,341,897</u>	<u>18,897,453</u>

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





**Tlou Energy Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2011**

	<b>Issued capital</b>	<b>Accumulated losses</b>	<b>Share options reserve</b>	<b>Foreign currency reserve</b>	<b>Non-controlling interest</b>	<b>Total equity</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Consolidated</b>						
Balance at 1 July 2009	100	-	-	-	-	100
<i>Comprehensive income</i>						
Loss for the year	-	(163,360)	-	-	-	(163,360)
Exchange differences on translation of foreign operations	-	-	-	66,963	-	66,963
Total comprehensive income for the year	-	(163,360)	-	66,963	-	(96,397)
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued	20,000,000	-	-	-	-	20,000,000
Share issue costs	(1,006,250)	-	-	-	-	(1,006,250)
Balance at 30 June 2010	18,993,850	(163,360)	-	66,963	-	18,897,453
	<b>Issued capital</b>	<b>Accumulated losses</b>	<b>Share options reserve</b>	<b>Foreign currency reserve</b>	<b>Non-controlling interest</b>	<b>Total equity</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Consolidated</b>						
Balance at 1 July 2010	18,993,850	(163,360)	-	66,963	-	18,897,453
<i>Comprehensive income</i>						
Loss for the year	-	(7,784,446)	-	-	(738,010)	(8,522,456)
Exchange differences on translation of foreign operations	-	-	-	(1,894,249)	30,028	(1,864,221)
Total comprehensive income for the year	-	(7,784,446)	-	(1,894,249)	(707,982)	(10,386,677)
<i>Transactions with owners in their capacity as owners:</i>						
Share based payment expense	-	-	382,869	-	-	382,869
Share option issue	-	-	2,162,538	-	-	2,162,538
Shares issued	19,285,714	-	-	-	-	19,285,714
Balance at 30 June 2011	38,279,564	(7,947,806)	2,545,407	(1,827,286)	(707,982)	30,341,897

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

**Tlou Energy Limited**  
**Statement of cash flows**  
**For the year ended 30 June 2011**

		<b>Consolidated</b>	
	<b>Note</b>	<b>2011</b>	<b>2010</b>
		<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		-	-
Payments to suppliers and employees (inclusive of GST)		(1,615,911)	(443,184)
Interest received		151,868	310,401
Other revenue		10,018	-
GST and VAT received		192,817	130,368
		<hr/>	<hr/>
Net cash from operating activities	28	(1,261,208)	(2,415)
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Payment for subsidiaries net of cash acquired		(128,275)	-
Payments for investments		(2,817,662)	(6,271,137)
Payments for property, plant and equipment		(12,328)	-
Payments for exploration & evaluation asset		(1,759,909)	-
Advances to other projects		-	(225,259)
		<hr/>	<hr/>
Net cash used in investing activities		(4,718,174)	(6,496,396)
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	14	-	20,000,000
Share issue transaction costs	14	-	(1,006,250)
Oversubscription of share issue		-	45,000
		<hr/>	<hr/>
Net cash used in financing activities		-	19,038,750
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		(5,979,382)	12,539,939
Cash and cash equivalents at the beginning of the financial year		12,540,039	100
Effects of exchange rate changes on cash		(1,077,781)	-
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial year	6	5,482,876	12,540,039
		<hr/> <hr/>	<hr/> <hr/>

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



**Tlou Energy Limited**  
**Notes to the financial statements**  
**30 June 2011**

**Note 1. Significant accounting policies**

**Introduction**

This financial report covers the consolidated entity of Tlou Energy Limited (the "Company") and its controlled entities (together referred to as the "consolidated entity"). Tlou Energy Limited is a 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.

**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 consolidated entity.

**Authorisation of financial report**

The financial report was authorised for issue on 11 October 2011.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**New, revised or amended Accounting Standards and Interpretations adopted**

The consolidated entity adopted the following new Accounting Standards and Interpretations during the period:

- AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project. Amendments are made to AASB 5, 8, 101, 107, 117, 118, 136 & 139.'
- AASB 2009-8 'Amendments to Australian Accounting Standards – Company Cash-settled Share-based Payment Transactions'.
- AASB 2009-10 'Amendments to Australian Accounting Standards – Classification of Rights Issues'.
- Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments.

There were no material impacts on the financial statements or performance of the consolidated entity.

**Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

*Compliance with IFRS*

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

*Historical cost convention*

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

*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.

## **Note 1. Significant accounting policies (continued)**

### **Going Concern**

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. As at 30 June 2011 the consolidated entity had a working capital surplus of \$4,545,090 (2010: \$11,945,763), net assets of \$30,341,897 (2010: \$18,897,453) and had incurred a loss \$8,522,456 (2010: loss of \$163,360). However the consolidated entity's forecast cash outflows for the next 12 months exceed its current cash balances.

The Directors believe the going concern assumption to be appropriate for the following reasons:

- On 9 September 2011 the consolidated entity has commenced a rights issue to raise a maximum of approximately \$5.1m. Of this amount the consolidated entity has received pre-commitment deeds for approximately \$3.3m from major shareholders. The Directors believe that this will provide sufficient cash for the consolidated entity to meet its expenditure commitments for at least 12 months from the signing of the director's declaration. On this basis the consolidated entity considers the preparation of the financial statements on a going concern basis is appropriate.

### **Parent entity information**

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 24.

### **Accounting Policies**

#### **(a) Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Tlou Energy Limited ('company' or 'parent entity') as at 30 June 2011 and the results of all subsidiaries for the year then ended or in the case of subsidiaries acquired during the year, the period then ended. Tlou Energy Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.





## Note 1. Significant accounting policies (continued)

### (b) Foreign currency translation

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

#### *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.

#### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars 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 reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

### (c) 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.

#### *Rendering of services*

Rendering of services revenue from computer maintenance fees is recognised by reference to the stage of completion of the contracts.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably estimated, revenue is only recognised to the extent of the recoverable costs incurred to date.

#### *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.

### (d) 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.

## **Note 1. Significant accounting policies (continued)**

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 deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

### **(e) 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 statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

### **(f) Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if hedge becomes ineffective and is no longer a designated hedge, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

### **(g) Non-current assets or disposal groups classified as held for sale**

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.



## Note 1. Significant accounting policies (continued)

### (h) 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 directly 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 directly in the available-for-sale reserve.

### (i) 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. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

## **Note 1. Significant accounting policies (continued)**

### **(j) 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, so as 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.

### **(k) Intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangibles are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

#### *Goodwill*

Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

### **(l) Impairment of non-financial assets**

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other 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.

### **(m) Exploration and Evaluation asset**

This 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. 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.





## Note 1. Significant accounting policies (continued)

### (n) 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.

### (o) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

### (p) Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on the bank overdraft
- interest on short-term and long-term borrowings
- interest on finance leases
- unwinding of the discount on provisions

### (q) 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 and rehabilitation*

Both for close down and restoration and for environmental clean-up 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.

#### *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.

## **Note 1. Significant accounting policies (continued)**

### **(r) 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.

#### *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 government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### *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.



## **Note 1. Significant accounting policies (continued)**

### **(s) 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.

### **(t) Dividends**

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

### **(u) Business combinations**

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

### **(v) 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 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.

## **Note 1. Significant accounting policies (continued)**

### **(w) Comparative figures**

When required by accounting standards comparative figures have been adjusted to conform to changes in presentation for the current financial year. Comparative figures have also been changed where classifications of income and expenditure items have been altered from the prior year as a result of a review by directors. The new classifications have been made to reflect a more accurate view of the consolidated entity's operations.

### **(x) New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2011. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

#### *AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9*

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). 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. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

#### *AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments are a consequence of the annual improvements project and make numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provide clarification of disclosures in AASB 7 'Financial Instruments: Disclosures', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instrument; clarifies that an entity can present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial Instruments'; and provides guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

#### *AASB 2010-5 Amendments to Australian Accounting Standards*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

#### *AASB 124 Related Party Disclosures (December 2009)*

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2011. This revised standard simplifies the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. The definition now identifies a subsidiary and an associate with the same investor as related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. This revised standard introduces a partial exemption of disclosure requirement for government-related entities. The adoption of this standard from 1 July 2011 will not have a material impact on the consolidated entity.

#### *AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets*

These amendments are applicable to annual reporting periods beginning on or after 1 July 2011. These amendments add and amend disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. The adoption of these amendments from 1 July 2011 will increase the disclosure requirements on the consolidated entity when an asset is transferred but is not derecognised and new disclosure required when assets are derecognised but the consolidated entity continues to have a continuing exposure to the asset after the sale.





## **Note 1. Significant accounting policies (continued)**

### *AASB 2010-8 Amendments to Australian Accounting Standards- Deferred Tax: Recovery of Underlying Assets*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. The consolidated entity is yet to quantify the tax effect of adopting these amendments from 1 July 2012.

### *AASB 10: 'Consolidated Financial Statements'*

This standard replaces the part of IAS 27: 'Consolidated and Separated Financial Statements' and is applicable for the annual period beginning 1 January 2013. This new standard introduces a new definition of control that determines which entities are consolidated. This new definition of control may potentially lead to the consolidation of entities that were not previously included in the Consolidated Group resulting in more assets and liabilities on the books. The Consolidated Group is currently assessing the impact of this standard.

### *AASB 11: 'Joints Arrangements'*

This standard replaces IAS 31: 'Interest in Joint Ventures' and is applicable for annual periods beginning on or after 1 January 2013. This new standard introduces new rules which classify joint arrangements as either a joint operation or joint venture. Under the new standard, proportionate consolidation is not allowed and all joint ventures must be equity accounted. All joint arrangements held by the Consolidated Group will need to be reassessed to determine whether the joint operation or joint venture classification is appropriate, and therefore the potential impacts of a change on the presentation of the Financial Statements. The Consolidated Group is currently assessing the impact of this standard.

### *AASB 12: 'Disclosure of interest in other Entities'*

This standard is applicable for annual reporting periods beginning on or after 1 January 2013. This standard clarifies the disclosure requirements for all forms of interests in other entities including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Consolidated Group is assessing the impact of this standard.

### *AASB 13: 'Fair Value Measurement'*

This standard establishes a single course of guidance for determining the fair value of assets and liabilities. The Consolidated Group is currently assessing the impact of this standard.

## **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 expenditure*

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 balance date.

### *Provision for rehabilitation*

The provision for rehabilitation requires a degree of estimation and judgement. The level of provision is assessed by taking into account costs incurred on recent rehabilitation as well as assessing the location and accessibility of each well.

### *Share-based payment transactions*

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

## Note 2. Critical accounting judgements, estimates and assumptions (continued)

### *Estimation of useful lives of assets*

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and definite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

### *Business combinations*

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

## Note 3. Revenue

	Consolidated	
	2011	2010
	\$	\$
Interest	151,867	310,402
Hire of equipment	49,226	-
	<hr/>	<hr/>
Revenue	201,093	310,402
	<hr/> <hr/>	<hr/> <hr/>

## Note 4. Expenses

	Consolidated	
	2011	2010
	\$	\$
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	127,746	-
	<hr/>	<hr/>
<i>Impairment</i>		
Exploration and evaluation	4,891,300	-
Goodwill	419,129	-
	<hr/>	<hr/>
	5,310,429	-
	<hr/> <hr/>	<hr/> <hr/>



## Note 5. Income tax expense

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Accounting profit /(loss) before income tax	(8,522,456)	(163,360)
Tax at the domestic rates applicable to profits in the country concerned	(2,307,407)	(49,008)
Non-deductible expenses	371,537	-
Non-assessable income items	-	(20,089)
Deferred tax assets not brought to account	1,935,870	69,097
Income tax expense	<u>-</u>	<u>-</u>
<b>Unrecognized temporary differences and tax losses</b>		
Net deferred tax assets not brought to account as at 30 June:	<u>2,004,967</u>	<u>69,097</u>

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilize these benefits. The calculations are based on the domestic tax rate in Australia and Botswana of 30% and 25% respectively.

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Deferred Tax Liabilities</b>		
<i>Deferred tax liabilities are attributable to the following:</i>		
Initial recognition of exploration costs on business combination	4,459,714	-
	<u>4,459,714</u>	<u>-</u>
<i>Movements:</i>		
Balance at 1 July 2010	-	-
Initial recognition of exploration costs on business combination (note 25)	4,459,714	-
Balance at 30 June 2011	<u>4,459,714</u>	<u>-</u>

**Note 6. Current assets - cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Cash on hand	1,601	-
Cash at bank	4,885,356	9,361,533
Cash on deposit	595,919	3,178,506
	<hr/>	<hr/>
	5,482,876	12,540,039
	<hr/> <hr/>	<hr/> <hr/>

**Note 7. Current assets - Other receivables**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Other receivables	3,086	328,851
GST / VAT receivable	71,696	252,912
	<hr/>	<hr/>
	74,782	581,763
	<hr/> <hr/>	<hr/> <hr/>

**Note 8. Current assets - Other**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Prepayments	61,909	-
Casing	82,950	-
	<hr/>	<hr/>
	144,859	-
	<hr/> <hr/>	<hr/> <hr/>

**Note 9. Non-current assets - Financial assets - shares**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Shares held in escrow	-	1,924
	<hr/> <hr/>	<hr/> <hr/>




**Note 10. Non-current assets - evaluation and exploration asset**

	\$
<b>Consolidated</b>	
Balance at 1 July 2009	-
Investment expenditure*	6,949,766
	<hr/>
Balance at 30 June 2010	6,949,766
	<hr/> <hr/>
<b>Consolidated</b>	
Balance at 1 July 2010	6,949,766
Investment expenditure*	2,139,032
Net expenditure	743,050
Additions through business combinations (note 25)	25,362,556
Foreign exchange translation	(562,399)
Impairment of assets	(4,891,300)
	<hr/>
Balance at 30 June 2011	29,740,705
	<hr/> <hr/>

Impairment has been recognised in relation to previously capitalised expenditure on licences which will be relinquished by the consolidated entity. These licences are not considered critical to Tlou's future operations and have little or no potential to be able to support a commercial CBM project.

\*Investment expenditure represents exploration and evaluation expenditure incurred during the farm-in period and prior to the acquisition of the entities as detailed in note 25. Prior to the acquisition, expenditure incurred by Tlou in relation to each licence area was considered an investment in each licence holding entity and was therefore classed as Investments in projects in Tlou's prior year financial report.

**Note 11. Non-current assets - property, plant and equipment**

	Consolidated	
	2011	2010
	\$	\$
Plant and equipment - at cost	892,300	-
Less: Accumulated depreciation	(127,734)	-
	<u>764,566</u>	<u>-</u>
	<u>764,566</u>	<u>-</u>

**Reconciliations**

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Plant and	Total
	equipment	
	\$	\$
<b>Consolidated</b>		
Balance at 1 July 2009	-	-
Additions	-	-
Disposals	-	-
Depreciation expense	-	-
	<u>-</u>	<u>-</u>
Balance at 30 June 2010	-	-
Additions	12,316	12,316
Additions through business combinations (note 25)	879,984	879,984
Disposals	-	-
Depreciation expense	(127,734)	(127,734)
	<u>764,566</u>	<u>764,566</u>
Balance at 30 June 2011	<u>764,566</u>	<u>764,566</u>

**Note 12. Current liabilities - trade and other payables**

	Consolidated	
	2011	2010
	\$	\$
Trade payables	895,409	1,015,185
Accruals	206,956	106,045
Other payables	55,062	54,809
	<u>1,157,427</u>	<u>1,176,039</u>



### Note 13. Non-current liabilities - provisions

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Rehabilitation	227,000	-
Botswana severance	21,750	-
	<hr/>	<hr/>
	248,750	-
	<hr/> <hr/>	<hr/> <hr/>

#### *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 consideration of the type of well and its location.

#### *Employee entitlements*

A provision has been recognised for employee entitlements relating to severance pay payable in Botswana. The measurement and recognition criteria relating to employee benefits have been included in note 1 to this report.

#### *Movements in Provisions*

Movements in each class of provision during the current financial year are set out below:

	Rehabilitation	Botswana Severance
	\$	\$
<b>Consolidated</b>		
Carrying amount at the start of the year	-	-
Additional provisions recognised	629,000	21,750
Amounts realised during the year	(402,000)	-
	<hr/>	<hr/>
Carrying amount at the end of the year	227,000	21,750
	<hr/> <hr/>	<hr/> <hr/>

**Note 14. Equity - contributed**

	Consolidated		Consolidated	
	2011 Shares	2010 Shares	2011 \$	2010 \$
Opening Balance	44,500,000	100	18,993,850	100
Issue of ordinary shares during the year	19,285,714	44,499,900	19,285,714	20,000,000
Share issue costs	-	-	-	(1,006,250)
Ordinary shares - fully paid	63,785,714	44,500,000	38,279,564	18,993,850

*Movements in ordinary share capital*

Details	Date	No of shares	Issue price	\$
Balance	1-Jul-09	100		100
Issue of shares:	11-Aug-09	24,499,900	\$0.00	-
	15-Sep-09	20,000,000	\$1.00	20,000,000
Share issue transaction costs, net of tax	15-Sep-09	-		(1,006,250)
Balance	30-Jun-10	44,500,000		18,993,850
Issue of shares	29-Nov-10	19,285,714	\$1.00	19,285,714
Share issue transaction costs, net of tax		-		-
Balance	30-Jun-11	63,785,714		38,279,564

*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.

*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 Statement of Changes in Equity.

When managing capital, management's objective is to ensure the 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 group may seek to issue new shares. Consistent with other exploration companies, the group and the parent entity monitor 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.



**Note 17. Equity - non-controlling interest**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Contributed equity	22	-
Reserves	30,006	-
Retained profits	(738,010)	-
	<hr/>	
	(707,982)	-
	<hr/> <hr/>	

The non-controlling interest has a 15% (2010: n/a) equity holding in Narren (Proprietary) Limited.

**Note 18. Financial instruments*****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, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives (finance) under policies approved by the Board of Directors. These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

***Market risk******Foreign currency risk***

The consolidated entity undertakes certain transactions denominated in foreign currency and are exposed to foreign currency risk through foreign exchange rate fluctuations.

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 carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date was as follows:

	<b>Assets</b>		<b>Liabilities</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Consolidated</b>				
US dollars	4,493,648	5,597,240	107	163,153
Botswana Pula	284,113	349,390	825,688	536,095
South African Rand	19,836	-	45,116	46,664
	<hr/>			
	4,797,597	5,946,630	870,911	745,912
	<hr/> <hr/>			





## Note 18. Financial instruments (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Consolidated</b>				
AUD:USD	0.99	0.88	1.06	0.86
AUD:BWP	6.46	5.91	6.93	6.16
AUD:ZAR	6.90	6.67	7.16	6.55

### Sensitivity analysis for movement in foreign exchange rates

	10% increase	10% decrease
	\$	\$
<i>Effect in AUD</i>		
Effect on surplus & equity for 2011	(1,758,040)	2,148,714
Effect on surplus & equity for 2010	(450,201)	550,246

The analysis assumes that all other variables remain constant.

### Price risk

The consolidated entity is not exposed to any significant price risk.

### Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate debt. For further details on interest rate risk refer to the tables below:

	Floating interest rate	Fixed interest rate	Non-interest bearing	Total carrying amount	Weighted average effective interest rate
	2011	2011	2011	2011	2011
	\$	\$	\$	\$	%
<i>Financial assets</i>					
Cash and cash equivalents	595,919	-	4,886,957	5,482,876	4.75%
Trade and other receivables	-	-	74,782	74,782	-
Total financial assets	595,919	-	4,961,739	5,557,658	

### Financial liabilities

Trade and other payables	-	-	895,409	895,409	-
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	Floating interest rate	Fixed interest rate	Non-interest bearing	Total carrying amount	Weighted average effective interest rate
	2010	2010	2010	2010	2010
	\$	\$	\$	\$	%
<i>Financial assets</i>					
Cash and cash equivalents	3,636,360	3,178,505	5,725,174	12,540,039	4.92%
Trade and other receivables	-	-	581,763	581,763	-
Total financial assets	3,636,360	3,178,505	6,306,937	13,121,802	

### Financial liabilities

Trade and other payables	-	-	1,015,185	1,015,185	-
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## Note 18. Financial instruments (continued)

The consolidated entity has performed a sensitivity analysis relating to its exposure to interest rate risk. This sensitivity demonstrates the effect on the current year results and equity which could result from a change in these risks. At 30 June 2011 the effect on profit and equity as a result of changes in the interest rate would be as follows:

	Consolidated	
	2011	2010
	\$	\$
Change in profit		
- Increase in interest rate by 1%	5,959	68,149
- Decrease in interest rate by 1%	(5,959)	(68,149)
Change in equity		
- Increase in interest rate by 1%	5,959	68,149
- Decrease in interest rate by 1%	(5,959)	(68,149)

The above analysis assumes all other variables remain constant.

### ***Credit risk***

Credit risk is managed on a consolidated entity basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity does not have any significant credit risk.

### ***Liquidity risk***

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. At the end of the reporting period the group held cash at call of \$5,482,876 (2010: \$12,540,039)



## Note 18. Financial instruments (continued)

The table below analyses the group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities	Less than 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets)/ liabilities
At 30 June 2011	\$	\$	\$	\$	\$	\$	\$
<i>Non-derivatives</i>							
Trade payables	895,409	-	-	-	-	895,409	895,409
<b>Total non-derivatives</b>	<b>895,409</b>	-	-	-	-	<b>895,409</b>	<b>895,409</b>
At 30 June 2010							
<i>Non-derivatives</i>							
Trade payables	1,015,185	-	-	-	-	1,015,185	1,015,185
<b>Total non-derivatives</b>	<b>1,015,185</b>	-	-	-	-	<b>1,015,185</b>	<b>1,015,185</b>

## Note 19. Key management personnel disclosures

### Directors

The following persons were directors of Tlou Energy Limited during the financial year:

Nathan Mitchell	Non-Executive Chairman
Christopher Pieters	Managing Director
Martin McIver	Non-Executive Director / Alternate Director
Anthony Gilby	Non-Executive Director
Stuart Comline	Non-Executive Director
Henri van Rooyen	Non-Executive Director
Deidre Mitchell	Non-Executive Director / Alternate Director
James McKay	Alternate Director
Sean Werger	Alternate Director

### Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

Stephen Rodgers	Company Secretary and Legal Counsel
Glen Smith	Chief Operating Officer
Colm Cloonan	Financial Controller
Bruce Jagga	Chief Financial Officer (resigned 4 Feb 2011)

**Note 19. Key management personnel disclosures (continued)**

*Compensation*

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

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	936,662	498,044
Post-employment benefits	63,278	29,815
	<u>999,940</u>	<u>527,859</u>

*Shareholding*

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<b>2011</b>					
<i>Ordinary shares</i>					
Nathan Mitchell	11,136,364	-	-	-	11,136,364
Christopher Pieters	2,227,272	-	-	-	2,227,272
Anthony Gilby	4,454,546	-	-	-	4,454,546
Stephen Rodgers	70,000	-	-	-	70,000
James McKay	4,454,546	-	-	-	4,454,546
	<u>22,342,728</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,342,728</u>
<b>2010</b>					
<i>Ordinary shares</i>					
Nathan Mitchell	-	-	11,136,364	-	11,136,364
Christopher Pieters	-	-	2,227,272	-	2,227,272
Anthony Gilby	-	-	4,454,546	-	4,454,546
Stephen Rodgers	-	-	70,000	-	70,000
James McKay	-	-	4,454,546	-	4,454,546
	<u>-</u>	<u>-</u>	<u>22,342,728</u>	<u>-</u>	<u>22,342,728</u>



## Note 19. Key management personnel disclosures (continued)

### Option holding

The number of options over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<b>2011</b>					
Options over ordinary shares					
Glen Smith	-	500,000	-	-	500,000
Colm Cloonan	-	100,000	-	-	100,000
Bruce Jagga	-	250,000	-	-	250,000
	-	850,000	-	-	850,000

	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
<b>2011</b>			
Options over ordinary shares			
Glen Smith	250,000	-	250,000
Colm Cloonan	50,000	-	50,000
Bruce Jagga	250,000	-	250,000
	550,000	-	550,000

### 2010

There were no options over ordinary shares in the parent entity held during the year ended 30 June 2010 by any director or other members of key management personnel of the consolidated entity, including their personally related parties.

### Related party transactions

Related party transactions are set out in note 23.

## Note 20. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PKF, the auditor of the consolidated entity, and its related practices:

	Consolidated	
	2011	2010
	\$	\$
<i>Audit services</i>		
PKF East Coast Practice	39,000	19,000
PKF (Jhb) Inc.	35,000	-
<i>Other services - PKF East Coast Practice</i>		
Tax advice and preparation of returns	6,300	6,624
	80,300	25,624

## Note 21. Contingent assets and liabilities

There are no contingent assets or contingent liabilities at 30 June 2011.

## Note 22. Commitments for expenditure

The consolidated entity has certain obligations to expend minimum amounts on exploration in prospecting licence areas. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the consolidated entity.

	Consolidated	
	2011	2010
	\$	\$
<i>Exploration obligations</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	3,907,240	-
One to five years	1,099,654	-
	<hr/>	<hr/>
	5,006,894	-
	<hr/>	<hr/>

Failure to meet the above expenditure requirements may result in the consolidated entity, being required to relinquish all or part of the licence area or, may impact on the likelihood of the consolidated entity successfully renewing the affected licence on subsequent expiry.

	Consolidated	
	2011	2010
	\$	\$
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	11,834	11,270

Non-cancellable operating lease relates to office rental which expires in October 2011.





## Note 23. Related party transactions

### *Parent entity*

Tlou Energy Limited is the parent entity.

### *Subsidiaries*

Interests in subsidiaries are set out in note 26.

### *Key management personnel*

Disclosures relating to key management personnel are set out in note 19.

### *Transactions with related parties*

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Payment for goods and services:		
Payment for services from Mitchell Energy group companies (director-related entities of Nathan Mitchell)	619,624	1,013,588
Payment for services from Walcot Capital Pty Ltd (director-related entity of Christopher Pieters and Anthony Gilby)	372,871	1,279,081
Payment to The Gilby McKay Alice Street Partnership (director-related entity of Anthony Gilby)	40,177	30,746

### *Receivable from and payable to related parties*

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

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Current payables:		
Trade payables to Walcot Capital Pty Ltd (director-related entity of Christopher Pieters and Anthony Gilby)	37,000	30,000

### *Loans to/from related parties*

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

### *Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market rates.

## Note 24. Parent entity information

Set out below is the supplementary information about the parent entity.

### Statement of comprehensive income

	Parent	
	2011	2010
	\$	\$
Profit after income tax	(2,970,258)	(96,397)
Total comprehensive income	(2,970,258)	(96,397)

### Statement of financial position

	Parent	
	2011	2010
	\$	\$
Total current assets	5,280,496	12,772,411
Total assets	38,112,538	19,724,101
Total current liabilities	(354,215)	(826,648)
Total liabilities	(354,215)	(826,648)
Equity		
Contributed equity	38,279,564	18,993,850
Reserves	2,545,414	0
Retained profits	(3,066,655)	(96,397)
Total equity	37,758,323	18,897,453

### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2011 and 30 June 2010.

### Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2011 and 30 June 2010.

### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment.



## Note 25. Business combinations

### Saber Assets

On 30 November 2010, Tlou acquired part of Saber Energy Inc.'s (SEI) southern African coal bed methane (CBM) assets. The entities acquired are as follows:

Name of entity	Country of incorporation	2011 %	2010 %
Technoleads International Inc.	Barbados	100	-
Sable Energy Holdings Inc.	Barbados	100	-
Mica Investments Inc.	Barbados	100	-
Copia Resources Inc.	Barbados	100	-
Apex Resources No. 2 Inc.	Barbados	100	-

The acquisition of the above entities gives Tlou control over Saber Energy Inc.'s (SEI's) southern African CBM assets, of which Tlou was previously committed to fund by way of a farm-in agreement. No goodwill has been recognised as fair value of consideration transferred equals fair value of net identifiable assets of the acquired companies.

The consideration for acquisition was made up of

- Previous equity interests earned under farm in of \$9,088,798 (of which \$6,949,766 was previously recognised as "investments in projects" in the 30 June 2010 financial report)
- Cash paid for initial investment of \$1,924
- 19,285,714 shares issues with fair value of \$19,285,714, valued at \$1 per share consistent with the most recently available price obtained on oversubscribed capital raising in August 2009
- 4,945,055 share options granted with an exercise price of \$1.25, expiring 30 June 2013 with a fair value of \$2,162,545. Key valuation assumptions are; Volatility 72% and risk free interest rate 4.9%

Major assets received and liabilities assumed are as follows:

	\$
Trade and other payables	(1,238,699)
Trade and other receivables	1,343,254
Cash	191,802
Capitalised exploration expenditure	34,451,354
Deferred tax liability	(4,459,714)
Plant and equipment	250,984
	<hr/>
Total	30,538,981
	<hr/> <hr/>

A separate transaction was entered into, whereby Tlou acquired further plant & equipment, with an agreed value of \$629,000. In return, Tlou agreed to complete rehabilitation work on wells previously drilled by SEI in each of the three licence areas now controlled by Tlou. These assets were taken to account by offsetting the agreed cost of the assets acquired against previously capitalised exploration and evaluation expenditure.

In relation to both of the transactions above the consolidated entity incurred expenditure of \$311,217 including legal, secretarial, and consultant costs.

Following the acquisition the non-controlling interest in Narren (Proprietary) Limited is 15%. At 30 June 2011 this represents net liabilities of \$707,982.

## Note 25. Business combinations (continued)

Since acquisition the entities acquired have incurred a loss of \$5,864,439. In the period from 1 July 2010 to 30 November 2010 the acquired entities had a loss of \$1,297,537.

### *Z E Australia Pty Ltd*

On 4 February 2011, Tlou acquired Z E Australia Pty Ltd, an Australian registered entity set up to develop assets in Zimbabwe. Tlou had previously funded this entity by way of a loan. On acquisition this loan was deemed consideration for all the shares in Z E Australia Pty Ltd.

	\$
Consideration	419,729
Value of shares acquired	(600)
	<hr/>
Goodwill on acquisition	419,129
	<hr/> <hr/>

Goodwill on acquisition was impaired in full during the financial year. Since acquisition Z E Australia Pty Ltd incurred a loss of \$19,095. In the period from 1 July 2010 to 4 February 2011 the loss was \$130,224

## Note 26. Subsidiaries

Subsidiaries of Tlou Energy Limited are listed below. Where applicable entities indirectly controlled by Tlou are listed in italics below each directly controlled entity, along with the country of incorporation and the percentage shareholding held by the direct parent:

Name of entity	Country of incorporation	2011 %	2010 %
Tlou Energy Botswana (Proprietary) Ltd	Botswana	100	100
Z E Australia Pty Ltd	Australia	100	-
Agua Energy Limitada*	Mozambique	100	-
Technoleads International Inc	Barbados	100	-
- <i>Saber Energy Botswana (Proprietary) Limited</i>	Botswana	100	-
Sable Energy Holdings (Barbados) Inc	Barbados	100	-
- <i>Saber Energy (Proprietary) Limited</i>	Botswana	100	-
Mica Investments (Barbados) Inc	Barbados	100	-
- <i>Narren (Proprietary) Limited</i>	Botswana	85	-
Copia Resources Inc	Barbados	100	-
- <i>Saber Energy Corp Services Botswana (Proprietary) Limited</i>	Botswana	100	-
Apex Resources No. 2 Inc	Barbados	100	-
- <i>Apex Resources Holdings No. 2 Corp</i>	British Virgin Islands	100	-

\*Agua Energy Limitada was incorporated on 10 September 2010. Tlou Energy Limited directly holds 66.67% of the ordinary share capital and also controls the other 33.33% which is held by Apex Resources Holdings No. 2 Corp.



### Note 27. Events occurring after the reporting date

On 9 September 2011 the consolidated entity announced a rights issue, being a renounceable entitlement offer of two new shares for every 15 shares currently held. If fully subscribed the offer will raise approximately \$5.1m. The maximum number of shares to be issued under the offer are 8,504,726, and if fully subscribed the total shares in issue following the offer will be 72,290,440.

No other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

### Note 28. Reconciliation of profit after income tax to net cash from operating activities

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Profit after income tax expense for the year	(8,522,456)	(96,397)
Adjustments for:		
Depreciation and amortisation	127,746	-
Impairment of exploration asset	4,891,300	-
Impairment of goodwill	419,129	-
Share-based payments	382,868	-
Foreign exchange differences	1,061,112	(66,963)
Change in operating assets and liabilities:		
Increase/(Decrease) in trade and other receivables	147,884	192,486
Increase in inventories	(40,973)	-
Increase in prepayments	(58,690)	-
(Increase)/decrease in trade and other payables	330,872	(31,541)
	<hr/>	<hr/>
Net cash from operating activities	(1,261,208)	(2,415)
	<hr/> <hr/>	<hr/> <hr/>

## Note 29. Share-based payments

The consolidated entity may, at the discretion of the Board, grant options over ordinary shares in the parent entity to certain personnel of the consolidated entity. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Board.

Set out below are summaries of options granted:

### 2011

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
20/07/2010	20/07/2013	\$1.00	-	250,000	-	-	250,000
29/11/2010	30/06/2013	\$1.25	-	4,945,055	-	-	4,945,055
15/04/2011	14/04/2014	\$1.25	-	250,000	-	-	250,000
15/04/2011	14/04/2014	\$2.00	-	250,000	-	-	250,000
1/02/2011	30/06/2014	\$1.00	-	50,000	-	-	50,000
1/02/2011	30/06/2014	\$2.00	-	50,000	-	-	50,000
			-	5,795,055	-	-	5,795,055
Weighted average exercise price			N/A	\$1.28	N/A	N/A	\$1.28

### 2010

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
N/A	N/A	N/A	-	-	-	-	-
			-	-	-	-	-
Weighted average exercise price			N/A	N/A	N/A	N/A	N/A

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.1 years (2010: N/A).

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Cert #	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
20/07/2010	20/07/2013	001	\$1.00	\$1.00	100%	0%	4.68%	\$0.64
29/11/2010	30/06/2013	002	\$1.00	\$1.25	72%	0%	4.89%	\$0.44
15/04/2011	14/04/2014	003	\$1.00	\$1.25	100%	0%	5.14%	\$0.60
15/04/2011	14/04/2014	004	\$1.00	\$2.00	100%	0%	5.14%	\$0.50
1/02/2011	30/06/2014	005	\$1.00	\$1.00	100%	0%	4.42%	\$0.64
1/02/2011	30/06/2014	006	\$1.00	\$2.00	100%	0%	4.42%	\$0.50





## Directors' Declaration

In the Directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the 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 2011 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors

**Christopher Pieters**  
Director

Brisbane  
11 October 2011

## Independent Auditor's Report

To the members of Tlou Energy Limited

### Report on the Financial Report

We have audited the accompanying financial report of Tlou Energy Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information, and the directors' declaration of Tlou Energy Limited (the company) and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 entity'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.

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

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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*Opinion*

In our opinion:

- (a) the financial report of the consolidated entity is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.



**PKF**



**Albert Loots**  
**Partner**

Dated at Brisbane this 11<sup>th</sup> day of October 2011

## Corporate Governance Statement

The Directors of Tlou Energy Limited (the Board) remain 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 Principles of Good Corporate Governance and Best Practice Recommendations (2<sup>nd</sup> Edition) established by the ASX Corporate Governance Council (the Council).

The Board guides and monitors the business and affairs of Tlou Energy Limited (“Tlou” or the “Company”) on behalf of the shareholders whom they are accountable to. 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 will review the implementation and application 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](http://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 six (6) Directors. Details of the Directors who have held office during the year under review are namely:-

<b>Name of Director</b>	<b>Board Membership</b>	<b>Date of Appointment</b>
Nathan Mitchell	Non-executive Chairman	23 April 2009
Christopher Pieters	Managing Director	23 April 2009
Anthony Gilby	Non-executive Director	23 April 2009
Deidre Mitchell *	Non-executive Director	23 April 2009
Martin McIver	Non-executive Director	16 September 201
Henri van Rooyen	Non-executive Director	29 November 2010
Stuart Comline	Non-executive Director	29 November 2010

\* *Deidre Mitchell resigned as a Director on 14 September 2010*

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, 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. Shareholders will be notified if the position is changed and once one is adopted.

### **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).

The Board has this year delegated the specific responsibility of overseeing the Company's audit obligations to an Audit Committee. The Audit Committee is responsible for overseeing the external and internal auditing functions of the Company's activities. The Committee is made up of the following members:

- Martin McIver - Chairman
- Anthony Gilby
- Henri van Rooyen

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 other matters that an ASX listed entity might otherwise have.

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 remaining mentioned 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, including the makeup of the Audit Committee. 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.

The Directors' remuneration is disclosed in the audited accounts of the Company.

### **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.

### **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 formalized. 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" before the Company's securities are quoted.

## **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.

Recent amendments to the ASX principles require listed entities to adopt a Gender Diversity Policy and report to shareholders the measurable objectives that have been adopted to implement such, as well as detailing the number of females employed within the organisation.

Given the size of the Company and the extent of its operations it has not yet adopted such a policy. There are currently no women on the Board or employed in senior management roles. Tlou has only one fulltime employee at this time and the Board considers the practicalities of adopting a Gender Diversity Policy and introducing measurable objectives as not practical.

## **Safeguard Integrity in Financial Reporting**

The Board has had established for the majority 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 review the effectiveness of the Company's internal audit function (if any);
- Monitoring and review 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**

The Committee has been appointed by the Board and comprises three (3) Non-executive Directors of which none are independent in accordance with the definition of independence prescribed by the ASX Corporate Governance Independence Criteria.

The members of the Audit Committee during the year appear previously in this statement. The Chair of the Committee is Martin McIver who is a non-executive director and not the Chairman of the Board of Directors.

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 Committee has a documented charter which is regularly reviewed and updated if necessary. The current Charter was approved by the Board and sets out the specific responsibilities delegated to the Committee by the Board.

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 reports to the Board on the following:-

- a) Assessment of whether external reporting is consistent with Committee members' information and knowledge and is adequate for shareholder needs;
- b) Assessment of the management processes supporting external reporting;
- c) Procedures for the selection and appointment of the external auditor, rotation of external audit engagement partners, appointment and removal of the external auditors, review of the terms of engagement;
- d) Approving the audit plan of the external auditors, monitoring the effectiveness and independence of the external auditor, obtaining assurances that the audit is conducted in accordance with the Auditing Standards and all other relevant accounting policies and standards;
- e) Providing recommendations to the Board as to the role of the internal auditor/internal audit function, if any and recommendations for the appointment or, if necessary, the dismissal of the head of internal audit;
- f) Evaluating the adequacy, effectiveness and appropriateness of the Company's administrative, operating and accounting control systems and policies;
- g) Reviewing and evaluating controls and processes in place to ensure compliance with the approved policies, controls, and with applicable accounting standards and other requirements relating to the preparation and presentation of financial results;
- h) Overseeing the Company's financial reporting and disclosure processes and the outputs of that process;
- i) Determining the reliability, integrity and effectiveness of accounting policies and financial reporting and disclosure practices; *and*
- j) Reviewing the appropriateness of the accounting principles adopted by management in the composition and presentation of financial reports and approving all significant accounting policies.

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

### 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.

### 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 25 September 2011.

### 2. Ordinary Share Capital

63,785,714 fully paid ordinary shares.

### 3. Number of Equity Holders

Ordinary Share Capital held by 97 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	3778	0.006%
5,001 - 10,000	6	51,667	0.081%
10,001 - 100,000	53	2,315,355	3.630%
100,001 - maximum	37	61,414,914	96.283%
	<b>97</b>	<b>63,785,714</b>	<b>100.000%</b>

### 6. Substantial Shareholders

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

Name	Number of Shares Held	Percentage Interest
Talon Metals Corp	19,285,714	30.235%
Arcturus Capital Pty Ltd	11,136,364	17.459%
Berne 132 Nominees Pty Ltd	4,570,000	7.165%
Waterford Atlantic Pty Ltd	4,454,546	6.984%
Gilby Resources Pty Ltd	4,454,546	6.984%

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	Talon Metals Corp	19,285,714	30.235%
2	Arcturus Capital Pty Ltd	11,136,364	17.459%
3	Berne 132 Nominees Pty Ltd	4,570,000	7.165%
4	Waterford Atlantic Pty Ltd	4,454,546	6.984%
5	Gilby Resources Pty Ltd	3,909,000	6.128%
6	Pieters Capital Pty Ltd	2,227,272	3.492%
7	Matopos Holdings Limited	2,220,000	3.480%
8	Taheh International Holdings Ltd	2,188,922	3.432%
9	David Royds	1,550,000	2.430%
10	RAG Superannuation Pty Ltd	775,000	1.215%
11	Rensburg Nominees Limited	762,750	1.196%
12	Citicorp Nominees Pty Ltd	581,250	0.911%
13	Gilby Resources Pty Ltd	545,546	0.855%
14	Liath Pty Ltd	500,000	0.784%
15	HSBC Global Custody Nominees (UK) Ltd	465,000	0.729%
16	Financial Consultants (Jersey) Limited	465,000	0.729%
17	Jesus College Cambridge	445,000	0.698%
18	JTC Trustees Limited	434,000	0.680%
19	Hero Nominees Limited	426,250	0.668%
20	Ucan Nominees Pty Ltd	387,500	0.608%
	<b>Total</b>	<b>57,329,114</b>	<b>89.878%</b>

## 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	85%	Tlou Energy Limited
149/2007	Masama	85%	Tlou Energy Limited
150/2007	Masama	85%	Tlou Energy Limited
151/2007	Masama	85%	Tlou Energy Limited
152/2007	Masama	85%	Tlou Energy Limited
153/2007	Masama	85%	Tlou Energy Limited
154/2007	Masama	85%	Tlou Energy Limited
230/2007	Karoo West	100%	Tlou Energy Limited
231/2007	Karoo West	100%	Tlou Energy Limited
232/2007	Karoo West	100%	Tlou Energy Limited
233/2007	Karoo West	100%	Tlou Energy Limited
348/2008	Karoo West	100%	Tlou Energy Limited
349/2008	Karoo West	100%	Tlou Energy Limited
1/2004	Karoo Central	100%	Tlou Energy Limited
2/2004	Karoo Central	100%	Tlou Energy Limited
3/2004	Karoo Central	100%	Tlou Energy Limited
35/2000	Karoo Central	100%	Tlou Energy Limited
37/2000	Karoo Central	100%	Tlou Energy Limited

\*The interest shown in each of the licences, represents the percentage that Tlou holds in the corporate holder of the licence as a result of the transaction effected with Saber Energy Inc. in October 2010.



**TLOU ENERGY**

ANNUAL REPORT 2011

# TLOU ENERGY

## **Tlou Energy Limited**

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