



TLOU ENERGY

ANNUAL REPORT 2014



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CORPORATE DIRECTORY

ABN

79 136 739 967

Directors

Nathan Mitchell
Anthony Gilby
Martin McIver
Christopher Pieters

Company Secretary

Stephen Rodgers

Administration & Registered Office

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Solicitors

McMahon Clarke
32 Charlotte Street
Brisbane QLD 4000

Auditors

BDO Audit Pty Ltd
Level 10
1 Margaret St
Sydney NSW 2000

CHAIRMAN'S LETTER



Dear Shareholders,

The past year has been a year of progression and expansion for Tlou, with the continuing development of our Lesedi CBM project in Botswana, the successful acquisition of new acreage in Botswana in the form of the Mamba project and the continuing work being done establishing entries into new acreage positions.

In December 2013, Tlou successfully conducted a capital raising on the Australian Securities Exchange of approximately \$13.4 million. We would like to thank the new and existing investors who participated in this capital raising and who continue to support us in what has been a difficult period for small cap mining companies such as Tlou in the equity markets.

In our Lesedi CBM project in Botswana, drilling operations for the 2013 horizontal pilot well drilling program were completed in December. The drilling program comprises two horizontal pods; the Selemo Pilot Pod and Lesedi Pilot Pod. Following the completion of drilling, Tlou engaged consultants, General Petroleum Oil Tools, to assist with the production testing. The results of the production testing so far has seen the Selemo Pod reach critical gas desorption pressure ("CDP") and the Lesedi Pod progressing towards CDP. The next step in the production testing process will be to test the pods for commercial gas flow rates. Commercial gas flows would in turn lead to reserves certification.

In April 2014, Tlou also completed a three core-hole drilling program in the Lesedi CBM project. This program was designed to assist with initial reserves certification and the identification of future drilling sites in the Lesedi CBM project area. The early results of the 2014 core-hole drilling program complement and are consistent with Tlou's existing knowledge of the Lesedi CBM project area.

This year also saw Tlou engage consultants, Integra Advisory Partners, to begin developing economic modelling to assess the feasibility of supplying gas from the Lesedi CBM project to potential consumers such as power stations. Tlou also continued to negotiate non-binding memoranda of understanding for gas supply agreements with these potential consumers.

The next stage of development of the Lesedi CBM project will be to lodge an application for a mining licence with the Botswana Government to allow the project to proceed to the commercial production phase. Tlou intends lodging the mining licence application in 2015.

In July 2014, Tlou was pleased to be awarded five new Prospecting Licences by the Botswana Government. The new areas comprising what is now known as the 'Mamba Project' cover approximately 4,500 km² of land adjoining the existing Lesedi CBM project area. Tlou considers that being contiguous to the Lesedi CBM project area is not only positive from a geological perspective but also from a future field development perspective.

Tlou is confident the upcoming period will reveal increased shareholder wealth through the continuation of the Lesedi CBM project development, and the maturing of exploration and new venture opportunities.

Tlou is excited by the opportunity to assist the countries in southern Africa by helping to explore and develop CBM gas opportunities within those countries.

Yours faithfully,

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

Nathan Mitchell
Chairman

MANAGING DIRECTOR'S REPORT



Dear Shareholders,

The year to 30 June 2014 has been one of steady progress and consolidation for Tlou Energy. Notwithstanding some operational setbacks and associated time delays, the company remains very well placed to capitalise on its CBM market leading advantages in Botswana.

Tlou has not only advanced several key technical aspects of the Lesedi CBM Project in Botswana, but just as importantly, has been able to enhance its commercial advantages. The near-term target is still to flow CBM gas at potentially commercial rates – rates which are relatively modest compared to other parts of the world due to a favourable cost structure and market prices that may be expected to be ultimately achieved. Considerable progress towards flowing gas has been made including the pumping of water in the Lesedi and Selemo pilots and reaching Critical (gas) Desorption Pressure (or CDP) in Selemo. This being the point at which gas begins to be liberated in a controlled manner from the coal.

Additional technical achievements include establishing relatively high gas contents and establishing relatively high methane contents in the main targeted Morupule coal seam. These factors, coupled with sufficient permeability to flow potentially commercial gas, augers very well for the future. Operational lessons learned will provide considerable efficiencies in any future drilling operations.

Owning 100% of the Lesedi CBM Project coupled with the newly awarded on-trend “Mamba” acreage consolidates Tlou’s dominant position and provides considerable flexibility in any future development. The requirement for new and cleaner sources of energy has increased in Botswana over the previous period. Tlou is the clear leader to be able to supply clean CBM gas into the market with time.

Considering that the Lesedi CBM Project is now the main focus for the Company, Tlou has correspondingly relinquished lesser opportunities so that resources can be concentrated on achieving commercial success at Lesedi.

The coming year offers great promise for Tlou, and I am looking forward to considerable progress being made.

Yours faithfully,

A handwritten signature in blue ink, which appears to read "A. Gilby". The signature is written in a cursive style and is positioned above the printed name.

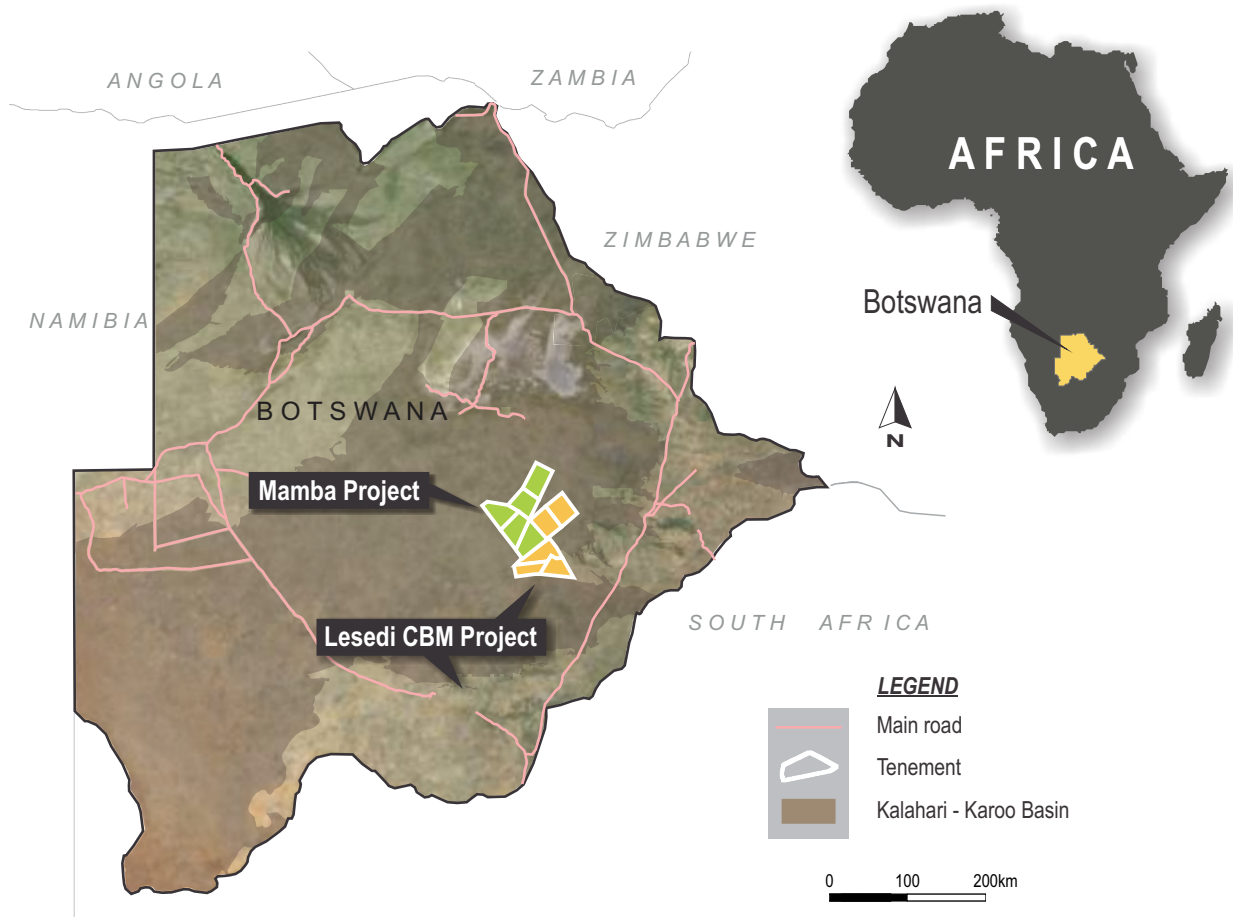
Anthony Gilby
Managing Director

ANNUAL REVIEW OF OPERATIONS

Tlou has made significant progress on its Botswanan CBM portfolio over the last 12 months. In particular the key milestones reached during the year were;

- Completing the 2013 horizontal pilot well drilling program (Selemo and Lesedi Pods);
- Commissioning the production testing for the two pilot pods; and
- Completing the 2014 core-hole drilling program in the Lesedi CBM project area.

Tlou was also successful with the award of five new prospecting licences by the Botswana Government. The new exploration permits comprising what is now known as the 'Mamba Project', cover approximately 4,500 km² of land adjoining the existing Lesedi CBM project area. Tlou considers that being contiguous to the Lesedi CBM project area is not only positive from a geological perspective but also from a future field development perspective.





The two horizontal pilot pods, Selemo and Lesedi, are currently in the production testing phase. The Selemo Pilot Pod has been completed as a single lateral and the Lesedi Pilot Pod has been completed as a dual lateral, with the lateral wells being ~750m in-seam horizontal wells drilled to intersect the vertical pumping well through the targeted basal Morupule Coal Seam. Following the completion of drilling in December 2013, Tlou engaged specialist Australian CBM production expert consultants, General Petroleum Oil Tools to assist with the planning and day to day management of the production testing operations.

In February 2014 a three (3) well HQ coring program was commenced in the Lesedi CBM Project area. The wells C1-2X, C4-2X and D3-3X were located to provide important infill data on the coal quality in and around the pilot pods to assist with both initial reserves certification and identification of additional drilling sites for an expanded pilot well program. It is anticipated that the data collected from the three core-holes, along with the data collected from the production testing operations on both the Selemo and Lesedi pilot pods, will optimise reserves certification in the Lesedi CBM Project area.

RESULTS

Lesedi CBM Project

The drilling of the two horizontal pilot pods at the Lesedi CBM Project was completed during the reporting period in December 2013. The drilling and under-reaming operations successfully confirmed the existence of a laterally continuous, gassy coal reservoir at both the Selemo and Lesedi pilot areas. The pilot program was the first to achieve the successful adoption of surface-to-inseam drilling technology with vertical intersection in Botswana and indeed all of southern Africa. Shortly after the completion of the drilling phase, all production surface facilities were installed and commissioned with production testing commenced at both the Selemo and Lesedi pods. A summary of the testing results for the Selemo and Lesedi pilot pods and the core-hole program up until the writing of this report are as follows.

Selemo Pod

The Selemo Pod reached critical gas desorption (CDP) in early July 2014. Reaching CDP is a significant production milestone in the operation indicating that gas had started to desorb from the coal as a result of the dewatering process lowering the confining hydrostatic pressure. The current production operations were temporarily suspended in July to fix a casing integrity issue. Once this issue was remedied, the dewatering process recommenced, aiming to reach CDP and allow further build-up of gas pressure in the well. Tlou is encouraged by the effective manner in which the dewatering process has been achieved. Tlou is further encouraged by the consistent build-up of gas pressure currently observed at the well which it expects will lead to flow testing and flaring of gas at the Selemo pod in due course.

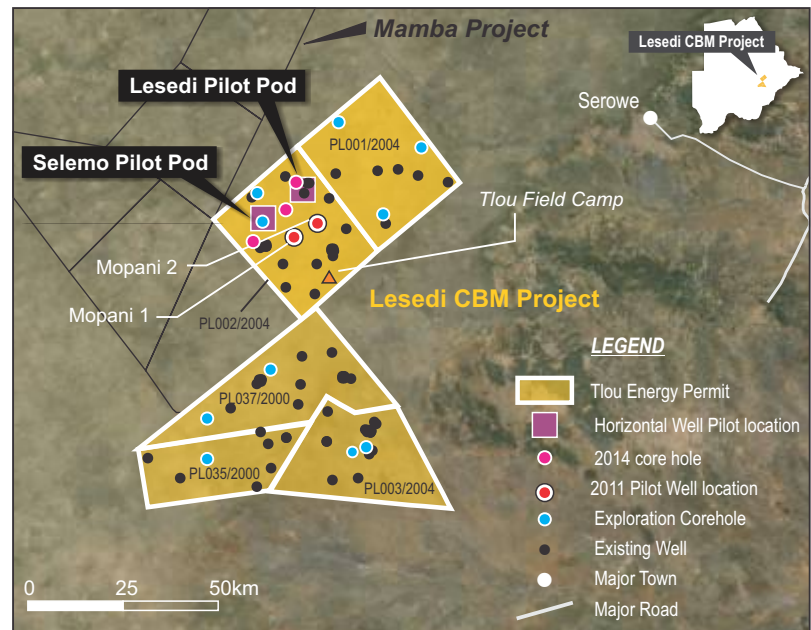
Lesedi Pod

At the Lesedi Pilot Pod, pump lift capacity was upgraded in mid-May to enhance the dewatering process given the high water flow rates being experienced. However, despite increasing the pump capacity, the new configuration did not lead to the expected increased drawdown of water levels due to an anomalous water influx. Consequently, Tlou temporarily discontinued pumping the well in order to investigate the source of the water influx and prepare a remediation plan. The objective of the remediation plan is to enable pumping operations to recommence with a dewatering profile more consistent to that of the Selemo Pod.

Core-hole program

The core holes in the 2014 program were specifically designed and completed as dual purpose wells, firstly to acquire the HQ core samples and then if required to be utilised as future gas production or pilot wells thereby providing further operational and cost efficiencies. Results from the core holes complement Tlou's existing knowledge of the Lesedi CBM project area.

The gas chemistry results also show favourable gas composition, as the main target coal seam, the Lower Morupule coal seam, is largely comprised of methane.

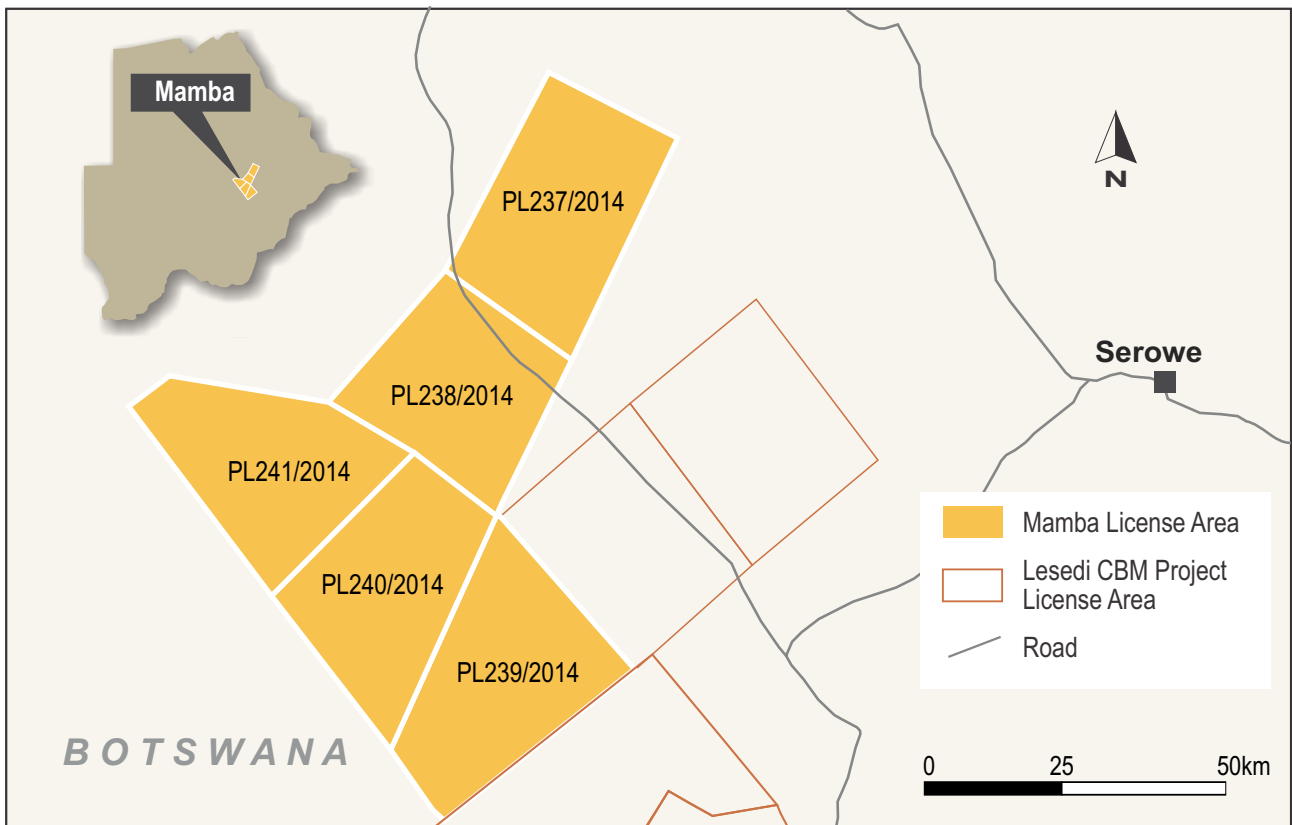






Mamba Project area exploration (PLs 237-241/2014)

In June 2012, Tlou lodged an application for a further parcel of vacant land internally referred to as the Mamba Application Area. The five Mamba application area prospecting licenses (“PLs”) were awarded to Tlou by Botswana Ministry of Mines, Energy and Water Resources (“MMEWR”) in July 2014. These five permits have been named the Mamba Project Area and cover an area of approximately 4,500 km². The Mamba permits are considered to be highly prospective as they are situated adjacent to Tlou’s Lesedi CBM Project (refer to the location map below) and are on-trend with the encouraging results observed to date at the Selemo and Lesedi Pilot Pods. In the event of a gas field development, the acquisition of the Mamba area provides the Company with considerable flexibility and optionality.



Forward Work Programs

Work programs are expected to be conducted in all of Tlou's tenement areas over the coming 12 months. The bulk of the work planned is in Tlou's Lesedi CBM Project and Mamba Project areas, where appraisal operations will continue along with near field exploration.

Work programs in other areas will be dependent on successful awarding of application areas.

Lesedi CBM Project area work program

Production testing at the Selemo and Lesedi pilot areas will continue in the Lesedi CBM Project area. Production testing will involve the measurement of gas and water flows, including pressure monitoring from down-hole and surface equipment, as well as gas and water compositional analysis. Testing operations are expected to continue into 2015. Positive results from production testing will validate the reservoir model and underpin gas reserves certification.

Production testing will assess the production potential and effectiveness of the surface to in-seam drilling technique at Selemo and Lesedi. Results from these pilot areas will ultimately feed into full-scale field development modelling and well design optimisation.

Mamba Project area work program

Tlou's forward work program for the Mamba Project area will consist of drilling and coring operations. This type of exploration will aim to define the lateral extent of the coal formations as they progress westwards from the Lesedi CBM Project area. In order to achieve cost savings and synergies, the Mamba work program will be undertaken concurrently with the Lesedi operational activities. Commencement of activities will be subject to regulatory approval, principally that from the Department of Environment (DEA) for an exploration and appraisal Environmental Management Plan ("EMP").



DIRECTOR'S



Nathan Mitchell
Non-Executive Chairman

Experience

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.

Nathan was previously CEO of Mitchell Drilling from 2001 until 2008, a period that saw international expansion to India, China, America and Zambia. After the sale of Mitchell Drilling's Australian operations in August 2008, Nathan incorporated Mitchell Group as a governing company to all existing international operations and future energy sector expansion.

Nathan is the chairman of Mitchell Services Limited – an ASX-listed company that provided contract drilling services to the coal and CBM sectors. Nathan is also a former non-executive director of ASX listed Westside Corporation Limited.



Anthony Gilby
Managing Director and
Chief Executive Officer

Experience

Tony was appointed Chief Executive Officer and Managing Director in March 2012 and has over 29 years experience in the oil and gas industry. He is a founding director of Tlou.

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

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

Experience

Martin has over 14 years experience as General Manager for mining services companies including bulk and dangerous goods logistics, and drilling services. Martin was the Executive General Manager of the Mitchell Group, a vertically integrated coal and coal seam gas company with investments and operations across Australia, Asia and Africa. Prior to joining the Mitchell Group, Martin was a Director in Mergers and Acquisitions with PricewaterhouseCoopers.

Martin was appointed Non-Executive Director in September 2010 and is currently the Chief Financial Officer of the Workpac group.

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



Martin McIver
Non-Executive Director

Experience

Christopher was a founding member of Tlou and has eight years experience in unconventional gas. Chris Pieters is managing director and co-founder of Walcot Capital Pty Ltd, a private venture capital business specialising in energy and mining investment. He was also Managing Director of Tlou Energy from inception until February 2012.

Prior to that Chris 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 QGC in 2008. Chris also held other technical and business development roles whilst at Sunshine Gas Limited.

Chris is a non-executive director of ASX-listed Australian CBM company, Comet Ridge Limited, and a number of other unlisted and private companies.

Chris holds both Bachelor of Science (Geology) and Bachelor of Business degrees from the University of Queensland, and a first class Honours degree in Petroleum Geology and Geophysics from the Australian School of Petroleum in Adelaide.



Christopher Pieters
Non-Executive Director



Owning 100% of the Lesedi CBM Project coupled with the newly awarded on-trend “Mamba” acreage consolidates Tlou’s dominant position and provides considerable flexibility in any future development

Directors' report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Tlou Energy Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at 30 June 2014.

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
 Anthony Gilby
 Martin McIver
 Christopher Pieters

Principal activities

The principal activity of the consolidated entity is the exploration and evaluation of assets in southern Africa to identify and develop Coalbed Methane (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

Details of operations throughout the year are available in the Annual Review of operations on pages ' to - .

The loss for the consolidated entity after providing for income tax amounted to \$2,289,366 (30 June 2013: \$6,087,074).

The loss for the period includes impairment of exploration and evaluation assets of ~\$2.9m during the period. This relates to the Karoo West area in Botswana and the Zimbabwe assets held by Exporien Mining Private Ltd. These assets were relinquished due to insufficient prospectivity and to allow the company to focus on its core area the Lesedi CBM project in Botswana. The Group's shareholding in Exporien Mining Private Ltd has been transferred back to the original shareholders for a nominal fee and notice of relinquishment of the Karoo West assets has been submitted to the Botswana government department. There has also been a write down of the groups deferred tax liability during the period amounting to ~\$3.1m. This follows confirmation of losses available to the group through one of its Botswana subsidiaries.

Other administrative costs were in line with expectations although lower than the prior year. In the prior year increased costs were incurred while the company went through its listing process and the issue of a significant number of share options.

In December 2013, the company successfully completed a capital raising comprising a placement and a 1 for 4 accelerated non-renounceable entitlement offer, at an issue price of \$0.30 per share. The capital raising was strongly supported by existing major shareholders as well as by a number of new institutional and sophisticated investors. Proceeds of the capital raising continue to fund the 2014 work program, corporate overheads and to provide additional working capital.

The increase in the value of total assets is driven mainly by the capital raised in the December 2013 placement and entitlement offer. Total spend on exploration activities during the period amounted to ~\$8.2m with an impairment charge of ~\$2.9m. The reduction in the level of total liabilities over the reporting period is as a result of the reduction in the deferred tax liability as outlined above.

Significant changes in the state of affairs

During the year ended 30 June 2014, 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 the end of the financial year

On 1 July 2014 the consolidated entity was granted further prospecting licences in Botswana. These licences have a three year term, expiring on 30 June 2017. The proposed expenditure on these licence over the term is approximately \$21.4m.

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

Likely developments and expected results of operations

Operations are currently underway at four locations, two lateral pods and two vertical wells. One lateral well and one vertical well have recently recommenced dewatering. Further details are available in the annual review of operations. In the near term gas flows are expected to commence, the results of which will dictate the forward plan for the company and a path to commercialisation. An initial proof of concept plan to provide power to a local primary school is being considered. The company is in discussions with potential off-takers in anticipation of gas flows. The electricity market in Botswana (in particular), remote mining supply or, the export of gas to other countries remain potentially attractive commercial options.

Environmental regulation

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

Information on Directors

Name and Qualifications

Nathan Mitchell

Special Responsibilities

Non-Executive Chairman

Member of the Risk Committee

Member of the Remuneration Committee

Experience

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.

Nathan was previously CEO of Mitchell Drilling from 2001 until 2008, a period that saw international expansion to India, China, America and Zambia. After the sale of Mitchell Drilling's Australian operations in August 2008, Nathan incorporated Mitchell Group as a governing company to all existing international operations and future energy sector expansion.

Nathan is the chairman of Mitchell Services Limited – an ASX-listed company that provided contract drilling services to the coal and CBM sectors.

Nathan is also a former non-executive director of ASX listed Westside Corporation Limited.

Interest in Shares and options

15,966,528 Ordinary Shares

1,500,000 Share Options

Name and Qualifications

Anthony Gilby B.Sc. (First Class Honours)

Special Responsibilities

Managing Director and Chief Executive Officer

Member of the Audit Committee

Member of the Remuneration Committee

Experience

Tony was appointed Chief Executive Officer and Managing Director in March 2012 and has over 29 years experience in the oil and gas industry. He is a founding director of Thlou.

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

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

Interest in Shares and options

15,439,344 Ordinary Shares

4,000,000 Share Options

Name and Qualifications

Martin McIver MBA

Special Responsibilities

Chairman of the Audit Committee

Member of the Remuneration Committee

Experience

Martin has over 14 years experience as General Manager for mining services companies including bulk and dangerous goods logistics, and drilling services. Martin was the Executive General Manager of the Mitchell Group, a vertically integrated coal and coal seam gas company with investments and operations across Australia, Asia and Africa. Prior to joining the Mitchell Group, Martin was a Director in Mergers and Acquisitions with PricewaterhouseCoopers.

Martin was appointed Non-Executive Director in September 2010 and is currently the Chief Financial Officer of the Workpac group.

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

Interest in Shares and options

206,403 Ordinary Shares

250,000 Share Options

Name and Qualifications

Christopher Pieters B.Sc (Hons) B.Bus

Special Responsibilities

Member of the Remuneration Committee

Experience

Christopher was a founding member of Tlou and has eight years experience in unconventional gas. Chris Pieters is managing director and co-founder of Walcot Capital Pty Ltd, a private venture capital business specialising in energy and mining investment. He was also Managing Director of Tlou Energy from inception until February 2012.

Prior to that Chris 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 QGC in 2008. Chris also held other technical and business development roles whilst at Sunshine Gas Limited.

Chris is a non-executive director of ASX-listed Australian CBM company, Comet Ridge Limited, and a number of other unlisted and private companies.

Chris holds both Bachelor of Science (Geology) and Bachelor of Business degrees from the University of Queensland, and a first class Honours degree in Petroleum Geology and Geophysics from the Australian School of Petroleum in Adelaide.

Interest in Shares and options

2,935,908 Ordinary Shares

2,000,000 Share Options

Remuneration Report - audited

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

Remuneration policy

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

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

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

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

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

Non-executive Director Remuneration

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

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

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

Performance conditions linked to remuneration

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

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

Remuneration Report - audited (continued)

Key management personnel

Directors

Nathan Mitchell	Non-executive Chairman
Anthony Gilby	Managing Director & Chief Executive Officer
Martin Mclver	Non-executive Director
Christopher Pieters	Non-executive Director

Executives

Stephen Rodgers	Company Secretary
Glen Smith	Chief Operating Officer
Colm Cloonan	Chief Financial Officer - Appointed; 16 January 2014
Don Langdon	Chief Financial Officer - Resigned; 16 January 2014

There were no other key management personnel of the Group at 30 June 2014.

Details of remuneration

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

Benefits and Payments for the Year Ended 30 June 2014

	Short-term benefits		Post Employment benefits	Long term benefits	Total Cash Remuneration	Share based payments	Options as a % of Total Remuneration	Total
	Salary & Fees	Cash Bonus	Superannuation	Leave Benefits		Options		
	\$	\$	\$	\$	\$	\$		\$
Directors								
N Mitchell	36,000	-	3,300	-	39,300	-	0%	39,300
A Gilby	441,457	-	17,447	24,790	483,694	-	0%	483,694
M Mclver	36,000	-	3,300	-	39,300	-	0%	39,300
C Pieters	36,000	-	3,300	-	39,300	-	0%	39,300
Total Directors	549,457	-	27,347	24,790	601,594	-		601,594
Executives								
S Rodgers	39,000	-	-	-	39,000	-	0%	39,000
G Smith	409,882	-	-	-	409,882	-	0%	409,882
C Cloonan*	100,000	-	9,250	3,846	113,096	-	0%	113,096
D Langdon**	4,824	-	-	-	4,824	-	0%	4,824
Total Executives	553,706	-	9,250	3,846	566,802	-		566,802
Total	1,103,163	-	36,597	28,636	1,168,396	-		1,168,396

* Represents remuneration from 16 January 2014 to 30 June 2014

** Represents remuneration from 1 July 2013 to 16 January 2014

During the 2014 year, no proportion of the remuneration of any key management personnel was performance based. No key management personnel received cash bonuses, performance related bonuses, termination benefits or non-cash benefits during the year.

Remuneration Report - audited (continued)**Benefits and Payments for the Year Ended 30 June 2013**

	Short-term benefits		Post Employment	Long term benefits	Total Cash Remuneration	Share based payments	Options as a % of Total Remuneration	Total
	Salary & Fees	Cash Bonus	Superannuation	Leave Benefits		Options		
	\$	\$	\$	\$	\$	\$		\$
Directors								
N Mitchell	48,240	-	810	-	49,050	296,920	86%	345,970
A Gilby	424,974	-	3,652	-	428,626	791,786	65%	1,220,412
M Mclver	48,240	-	810	-	49,050	49,487	50%	98,537
C Pieters	200,750	-	270	-	201,020	395,893	66%	596,913
S Comline	24,093	-	-	-	24,093	49,487	67%	73,580
H van Rooyen	7,113	-	-	-	7,113	49,487	87%	56,600
S Werger	7,113	-	-	-	7,113	-	0%	7,113
Total Directors	760,523	-	5,542	-	766,065	1,633,060		2,399,125
Executives								
S Rodgers	151,984	-	-	-	151,984	49,487	25%	201,471
G Smith	399,840	-	-	-	399,840	69,281	15%	469,121
D Langdon	25,929	-	-	-	25,929	29,692	53%	55,621
Total Executives	577,753	-	-	-	577,753	148,460		726,213
Total	1,338,276	-	5,542	-	1,343,818	1,781,520		3,125,338

During the 2013 year, no proportion of the remuneration of any key management personnel or executive was performance based. No key management personnel or executive received cash bonuses, performance related bonuses or non-cash benefits during the year.

Service agreements

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

Anthony Gilby

Managing Director and Chief Executive Officer

Term of Agreement:

Mr Gilby's services are provided in a personal capacity. The agreement has no fixed term.

Base Fee:

Based on the agreed rate the estimated annual cost to the Group is approximately \$511,000.

Termination Benefit:

No termination benefit is payable if terminated for cause.

Termination Notice:

The Company may give Mr Gilby, three months notice or pay 1.5 times base salary in lieu of notice to terminate the Agreement.

Stephen Rodgers

Company Secretary

Term of Agreement:

Mr Rodgers services are provided through his professional services Company, Cuirass Pty Ltd. The agreement has no fixed term.

Base Fee:

Based on the contracted rate the estimated annual cost to the Group is approximately \$39,000.

Termination Benefit:

No termination benefit is payable if terminated for cause.

Termination Notice:

The Company may give the Company Secretary's consulting entity, Cuirass Pty Ltd, thirty (30) days notice of its intention to terminate the Agreement.

Remuneration Report - audited (continued)

Glen Smith	Chief Operating Officer
Term of Agreement:	Mr Smith's services are provided through his professional services Company, Geopco Pty Ltd. The agreement has no fixed term.
Base Fee:	Based on the contracted rate, loaded to include relocation to Johannesburg, the estimated annual cost to the Group is approximately \$440,000.
Termination Benefit:	No termination benefit is payable if terminated for cause.
Termination Notice:	The Company may give the Chief Operating Officer's consulting entity, Geopco Pty Ltd, ninety (90) days notice of its intention to terminate the Agreement.

Colm Cloonan	Chief Financial Officer
Term of Agreement:	Mr Cloonan's services are provided in a personal capacity. The agreement has no fixed term.
Base Fee:	Based on the contracted rate the estimated annual cost to the Group is approximately \$220,000.
Termination Benefit:	No termination benefit is payable if terminated for cause.
Termination Notice:	The Company may give the Chief Financial Officer two months notice of its intention to terminate the Agreement.

Share-based compensation

There were no Share based payments to key management personnel during the year ended 30 June 2014. (2013: \$1,781,520)

Equity instruments (including options) granted as part of remuneration during the year

There were no equity instruments (including options) granted, exercised or lapsed as part of remuneration during the year.

Key management personnel shareholdings

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

	Balance at beginning of year	Granted as remuneration during the year	Additions	Disposals	Balance at date of resignation / appointment	Balance at end of year
30 June 2014						
Nathan Mitchell	14,752,012	-	1,214,516	-	-	15,966,528
Anthony Gilby	12,263,317	-	3,176,027	-	-	15,439,344
Martin Mclver	130,800	-	75,603	-	-	206,403
Christopher Pieters	2,935,908	-	-	-	-	2,935,908
Stephen Rodgers	95,000	-	16,666	-	-	111,666
Glen Smith	-	-	-	-	-	-
Colm Cloonan	-	-	67,826	-	32,174	100,000
Don Langdon	30,000	-	7,500	-	(37,500)	-
	30,207,037	-	4,558,138	-	(5,326)	34,759,849

Remuneration Report - audited (continued)

Option holdings

The number of options over ordinary shares held by each key management person of the group during the financial year is as follows:

30 June 2014	Balance at beginning of year	Granted as remuneration	Balance at date of resignation / appointment	Expired during the year	Balance at end of year	Vested	Unvested
Nathan Mitchell	1,500,000	-	-	-	1,500,000	1,500,000	-
Anthony Gilby	4,000,000	-	-	-	4,000,000	4,000,000	-
Martin McIver	250,000	-	-	-	250,000	250,000	-
Christopher	2,000,000	-	-	-	2,000,000	2,000,000	-
Stephen Rodgers	250,000	-	-	-	250,000	250,000	-
Glen Smith	850,000	-	-	(500,000)	350,000	350,000	-
Colm Cloonan	-	-	350,000	(100,000)	250,000	250,000	-
Don Langdon	150,000	-	(150,000)	-	-	-	-
Total	9,000,000	-	200,000	(600,000)	8,600,000	8,600,000	-

Shares issued on exercise of remuneration options

No shares were issued on exercise of remuneration options up to the date of this report.

Relationship between remuneration and Company performance

The factors that are considered to affect shareholder return during the last year is summarised below. Details for the previous five years are not presented as the company listed in 2013.

	2014	2013
Share price at end of financial year (\$)	0.30	0.25
Market capitalisation at end of financial year (\$M)	44	26
Profit/(loss) for the financial year (\$)	(2,289,366)	(6,087,074)
Cash spend on exploration programs (\$)	<u>(8,670,411)</u>	<u>(2,292,295)</u>
Director and Key Management Personnel remuneration	<u>1,168,396</u>	<u>3,125,338</u>

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

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

No remuneration consultants were used in the 2014 financial year.

(End of Remuneration Report)

Company secretary

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

Stephen is a lawyer with over 20 years experience and holds a Bachelor of Laws degree from Queensland University of Technology. After practicing law with several firms in Brisbane over a 12-year period he operated his own specialist commercial and property law practice for seven years. Stephen then joined 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.

During this period, Stephen gained experience in the operation and running of an ASX 200 coal seam gas company as well as being a member of the team which led the takeover negotiations and implementation of QGC's friendly acquisition of that company.

Stephen is also the Company Secretary of ASX-listed Comet Ridge Limited.

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 2014, and the number of meetings attended by each Director were:

	Full Board		Audit Committee		Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
Nathan Mitchell	7	7	-	-	2	2
Anthony Gilby	7	7	2	2	2	2
Martin McIver	7	7	2	2	2	2
Christopher Pieters	6	7	-	-	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
29/11/2010	9-May-15	\$1.25	4,945,055
1/07/2012	30-Apr-16	\$0.625	10,175,000
27/02/2014	30-Apr-16	\$0.625	400,000

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Shares issued on the exercise of options

There were no ordinary shares of Tlou Energy Limited issued during the year ended 30 June 2014 on the exercise of options granted or up to the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

Currency and rounding

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached.

Auditor

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

Non-audit services

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

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

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

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

	2014	2013
	\$	\$
Audit services		
Auditing or reviewing the financial statements - BDO Australia	43,500	41,000
Auditing or reviewing the financial statements - BDO Botswana	32,205	34,282
	<u>75,705</u>	<u>75,282</u>
Non-audit services - BDO Australia		
Tax consulting and compliance services	31,179	26,755
Investigating accountant's report	-	36,150
	<u>31,179</u>	<u>62,905</u>
Total	<u><u>106,884</u></u>	<u><u>138,187</u></u>

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

On behalf of the Directors



Anthony Gilby
Director

Brisbane
22 September 2014



FINANCIALS 2014

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DECLARATION OF INDEPENDENCE BY ALBERT LOOTS TO THE DIRECTORS OF TLOU ENERGY LIMITED

As lead auditor of Tlou Energy Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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



A S Loots
Director

BDO Audit Pty Ltd

Brisbane, 22 September 2014

Statement of Comprehensive Income for the year ended 30 June 2014

	Note	Consolidated	
		June 2014 \$	June 2013 \$
Revenue	3	193,861	74,532
Other income	3	200	65,477
Expenses			
Employee benefits expense	4	(999,567)	(1,104,890)
Depreciation and amortisation expense		(307,209)	(233,978)
Impairment - exploration and evaluation assets		(2,946,127)	-
Foreign exchange loss		(26,737)	(387,278)
Share options expense		(48,640)	(1,927,009)
Professional fees		(239,161)	(1,035,380)
Corporate expenses		(9,572)	(1,032)
Occupancy costs	4	(182,757)	(226,585)
Other expenses		(840,262)	(1,310,931)
PROFIT/(LOSS) BEFORE INCOME TAX		(5,405,971)	(6,087,074)
Income tax	5	3,116,605	-
PROFIT/(LOSS) FOR THE PERIOD		(2,289,366)	(6,087,074)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(1,767,181)	495,814
Tax effect		-	-
TOTAL OTHER COMPREHENSIVE INCOME		(1,767,181)	495,814
TOTAL COMPREHENSIVE INCOME		(4,056,547)	(5,591,260)
Loss for the year is attributable to:			
Owners of Tlou Energy Limited		(2,286,368)	(6,878,103)
Non-controlling interests		(2,998)	791,029
		(2,289,366)	(6,087,074)
Total comprehensive income attributable to:			
Owners of Tlou Energy Limited		(4,051,644)	(6,394,082)
Non-controlling interests		(4,903)	802,822
		(4,056,547)	(5,591,260)
Earnings per share			
		Cents	Cents
Basic loss per share	6	(1.8)	(8.6)
Diluted loss per share	6	(1.8)	(8.6)

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

**Statement of Financial Position
as at 30 June 2014**

	Note	Consolidated	
		June 2014 \$	June 2013 \$
CURRENT ASSETS			
Cash and cash equivalents	7	9,123,260	7,460,746
Trade and other receivables	8	93,944	197,422
Other current assets	9	722,013	712,351
TOTAL CURRENT ASSETS		9,939,217	8,370,519
NON-CURRENT ASSETS			
Exploration and evaluation assets	11	37,344,231	33,528,392
Property, plant and equipment	10	443,724	775,248
TOTAL NON-CURRENT ASSETS		37,787,955	34,303,640
TOTAL ASSETS		47,727,172	42,674,159
CURRENT LIABILITIES			
Trade and other payables	12	299,473	669,356
Provisions	13	233,520	284,066
TOTAL CURRENT LIABILITIES		532,993	953,422
NON-CURRENT LIABILITIES			
Deferred tax liabilities	14	369,353	3,485,958
Provisions	13	66,000	43,561
TOTAL NON-CURRENT LIABILITIES		435,353	3,529,519
TOTAL LIABILITIES		968,346	4,482,941
NET ASSETS		46,758,826	38,191,218
EQUITY			
Contributed equity	15	66,532,786	53,957,271
Reserves	16	(357,072)	1,851,998
Accumulated losses	17	(19,416,888)	(17,622,954)
Equity attributable to the owners of Tlou Energy Limited		46,758,826	38,186,314
Non-controlling interests	18	-	4,903
TOTAL EQUITY		46,758,826	38,191,218

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

Statement of Changes in Equity for the year ended 30 June 2014

	Contributed Equity \$	Share Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Non- controlling interest \$	Total \$
Consolidated						
Balance at 1 July 2012	42,178,814	2,654,980	(3,301,108)	(10,744,851)	(797,919)	29,989,916
Loss for the period	-	-	-	(6,878,103)	791,029	(6,087,074)
Other comprehensive income	-	-	484,021	-	11,793	495,814
Total comprehensive income	-	-	484,021	(6,878,103)	802,822	(5,591,260)
Transactions with owners in their capacity as owners						
Share based payments	-	2,014,105	-	-	-	2,014,105
Shares issued	11,778,457	-	-	-	-	11,778,457
	11,778,457	2,014,105	-	-	-	13,792,562
Balance at 30 June 2013	53,957,271	4,669,085	(2,817,087)	(17,622,954)	4,903	38,191,218
Balance at 1 July 2013						
	53,957,271	4,669,085	(2,817,087)	(17,622,954)	4,903	38,191,218
Loss for the period	-	-	-	(2,286,368)	(2,998)	(2,289,366)
Other comprehensive income	-	-	(1,765,276)	-	(1,905)	(1,767,181)
Total comprehensive income	-	-	(1,765,276)	(2,286,368)	(4,903)	(4,056,547)
Transactions with owners in their capacity as owners						
Share based payments	-	48,640	-	-	-	48,640
Transfers	-	(492,434)	-	492,434	-	-
Shares issued	12,575,515	-	-	-	-	12,575,515
	12,575,515	(443,794)	-	492,434	-	12,624,155
Balance at 30 June 2014	66,532,786	4,225,291	(4,582,363)	(19,416,888)	-	46,758,826

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

**Statement of Cash Flows
for the year ended 30 June 2014**

Note	Consolidated	
	June 2014 \$	June 2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
	-	-
	(3,425,705)	(4,211,042)
	182,461	74,532
	976,182	234,259
28	(2,267,062)	(3,902,251)
CASH FLOWS FROM INVESTING ACTIVITIES		
	(8,670,411)	(2,292,295)
	(3,480)	(522,004)
	(8,673,891)	(2,814,299)
CASH FLOWS FROM FINANCING ACTIVITIES		
	13,425,327	12,009,466
	(849,812)	(1,018,541)
	12,575,515	10,990,925
	1,634,562	4,274,375
	7,460,746	3,157,485
	27,952	28,886
7	9,123,260	7,460,746

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

Notes to the financial statements

Note 1. Significant accounting policies

Introduction

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

Tlou Energy Limited is a public company, incorporated and domiciled in Australia. Its registered office and principal place of business is:

210 Alice Street
BRISBANE QLD 4000

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 parent entity.

Authorisation of financial report

The financial report was authorised for issue on 22 September 2014.

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

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Basis of preparation

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

Compliance with IFRS

The consolidated financial statements of 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.

Early adoption of standards

The group has not elected to apply any pronouncements before their operative date in preparation of these financial statements.

Note 1. Significant accounting policies (continued)**Going Concern**

The consolidated financial statements have been prepared on a going concern basis which contemplates that the group will continue to meet its commitments and can therefore continue normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Because of the nature of the operations, exploration companies, such as Tlou Energy Limited, find it necessary on a regular basis to raise additional cash funds to fund future exploration activity and meet other necessary corporate expenditure. At the date of this financial report, the ability of the group to execute its currently planned exploration and evaluation activities requires the group to raise additional capital within the next 12 months. Accordingly, the group is in the process of investigating various options for the raising of additional funds which may include but is not limited to an issue of shares or the sale of exploration assets where increased value has been created through previous exploration activity.

At the date of this financial report, none of the above fund raising options have been concluded and no guarantee can be given that a successful outcome will eventuate. The directors have concluded that as a result of the current circumstances there exists a material uncertainty that may cast significant doubt regarding the group's and the company's ability to continue as a going concern and therefore the group and company may be unable to realise their assets and discharge their liabilities in the normal course of business. Nevertheless, after taking into account the current status of the various funding options currently being investigated and making other enquiries regarding other sources of funding, the directors have a reasonable expectation that the group and the company will have adequate resources to fund its future operational requirements and for these reasons they continue to adopt the going concern basis in preparing the financial report.

The financial report does not include adjustments relating to the recoverability or classification of recorded assets amounts or to the amounts or classification of liabilities that might be necessary should the group not be able to continue as a going concern.

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 31.

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

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

The acquisition method of accounting is used to account for business combinations by the Consolidated Entity.

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Note 1. Significant accounting policies (continued)

(b) Foreign currency translation

The financial report is presented in Australian dollars, which is Tru 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 functional currency using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into functional currency using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in the foreign currency 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.

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.

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

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

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

(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.

Note 1. Significant accounting policies (continued)**(f) Trade and other receivables**

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

Collectability of trade and other 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 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 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.

(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.

(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 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.

Note 1. Significant accounting policies (continued)**(h) Investments and other financial assets (continued)***Impairment of financial assets*

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

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

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

(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
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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.

(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.

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

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

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

(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.

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.

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.

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.

(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.

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

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.

(w) Comparative figures

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

(x) New Accounting Standards and Interpretations

The Consolidated Entity adopted the following new Accounting Standard and Interpretations during the year:

- AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards;
- AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period;
- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13;
- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011);
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle, and
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities.

Note 1. Significant accounting policies (continued)**(y) New Standards and Interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The Consolidated Entity has decided against early adoption of these standards. The Consolidated Entity's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 Financial Instruments

This standard and its consequential amendments are currently applicable to annual reporting periods beginning on or after 1 January 2017. 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 does not expect any material impacts when the standard is adopted.

Note 2. Critical accounting judgements, estimates and assumptions

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

Exploration & evaluation assets

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

Deferred Tax assets

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

In addition, the group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity, which is not part of the tax consolidated group, to satisfy certain tests at the time the losses are recouped. Due to the parent entity acquiring the entity that holds the losses it is expected that the entity will fail to satisfy the continuity of ownership test and therefore has to rely on the same business test. As at 30 June 2014 the group has received advice that the losses are available, however should this change in the future the group may be required to derecognise these losses.

Notes to the financial statements (continued)

	Consolidated	
	June 2014	June 2013
	\$	\$
Note 3 - Revenue and Other Income		
Interest	193,861	74,532
Other Income	200	65,477
	194,061	140,009
Note 4 - Expenses		
Loss before income tax includes the following specific expenses:		
Employee benefits expense		
<ul style="list-style-type: none"> ● Defined contribution superannuation expense ● Other employee benefits expense 	56,362 943,205	21,586 1,083,304
	999,567	1,104,890
Occupancy costs		
<ul style="list-style-type: none"> ● Rental expense relating to operating leases - minimum lease rentals ● Other occupancy costs 	182,699 58	221,616 4,969
	182,757	226,585
Other expenses include the following specific items:		
<ul style="list-style-type: none"> ● Travel and accommodation costs ● Consultants ● ASX and secretarial fees ● Insurance 	229,060 196,450 137,674 83,006	339,357 498,969 167,281 66,190
	646,190	1,071,797
Note 5 - Income Tax		
Numerical reconciliation of income tax expense to prima facie tax on accounting profit/(loss)		
Profit/(loss) before income tax	(5,405,971)	(6,087,074)
Tax at the domestic tax rates applicable to profits in the country concerned	(1,621,791)	(1,826,122)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Share based payments	14,592	578,103
Other non-deductible items	268,324	7,008
Difference in overseas tax rates	797,638	426,095
Previously unrecognised tax losses used to reduce deferred tax expense	(2,712,552)	-
Deferred tax asset not recognised	137,184	814,916
Income tax benefit	(3,116,605)	-
Recognised deferred tax assets		
Unused tax losses	4,189,563	4,168,300
	4,189,563	4,168,300
Recognised deferred tax liabilities		
Assessable temporary differences	4,558,916	7,654,258
	4,558,916	7,654,258
Net deferred tax liability recognised		
	369,353	3,485,958
Unrecognised temporary differences and tax losses		
Unused tax losses and temporary differences for which no deferred tax asset has been recognised	17,297,304	9,435,220

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

Notes to the financial statements (continued)

Note 6 - Earnings per share

(a) Reconciliation of earnings used in calculating basic and diluted loss per share:

	Consolidated	
	June 2014	June 2013
	\$	\$
Loss for the year attributable to owners of Tlou Energy Limited	(2,286,368)	(6,878,103)
Loss used in the calculation of the basic and dilutive loss per share	<u>(2,286,368)</u>	<u>(6,878,103)</u>

(b) Weighted average number of ordinary shares used as the denominator

	Number	Number
Number used in calculating basic and diluted loss per share	<u>127,096,603</u>	<u>80,059,849</u>

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

Note 7 - Cash and Cash Equivalents

	Consolidated	
	June 2014	June 2013
	\$	\$
Cash at bank	8,823,260	7,160,746
Cash on deposit	300,000	300,000
	<u>9,123,260</u>	<u>7,460,746</u>

Note 8 - Trade and Other Receivables

Current

Other receivables	13,336	3,463
GST/VAT receivable	80,608	193,959
	<u>93,944</u>	<u>197,422</u>

Note 9 - Other Assets

Prepayments	421,909	224,229
Inventory and well consumables	300,104	488,122
	<u>722,013</u>	<u>712,351</u>

Note 10 - Property, Plant and Equipment

Plant and equipment at cost	1,249,601	1,311,928
Accumulated depreciation	(805,877)	(536,680)
	<u>443,724</u>	<u>775,248</u>

Movements in Carrying Amounts

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

Balance at the beginning of year	775,248	482,563
Additions	27,632	522,003
Disposals	(1,989)	-
Depreciation	(307,209)	(233,978)
Foreign exchange movements	(49,958)	4,660
Carrying amount at the end of year	<u>443,724</u>	<u>775,248</u>

Notes to the financial statements (continued)

	Consolidated	
	June 2014	June 2013
	\$	\$
Note 11 - Exploration and Evaluation Assets		
Exploration and evaluation assets	37,344,231	33,528,392
	37,344,231	33,528,392
Movements in exploration and evaluation phase		
Balance at the beginning of period	33,528,392	30,443,857
Exploration and evaluation expenditure during the year	8,257,583	2,802,231
Impairment expense	(2,946,127)	-
Foreign currency translation	(1,495,617)	282,304
Balance at the end of period	37,344,231	33,528,392

Impairment has been recognised in relation to previously capitalised expenditure on licences in Zimbabwe and in the Karoo West area of Botswana which have been sold or relinquished by the consolidated entity. These licences were not considered critical to Thlou's future operations.

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phase is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

	Consolidated	
	June 2014	June 2013
	\$	\$
Note 12 - Trade and Other Payables		
Current		
Trade payables	158,841	540,488
Accruals	112,246	107,903
Other payables	28,386	20,965
	299,473	669,356

Note 13 - Provisions

Current		
Employee benefits	164,756	147,116
Employee benefits - Botswana severance	68,764	136,950
	233,520	284,066
Non-current		
Rehabilitation	66,000	43,561
	66,000	43,561
	299,520	327,627

Movements in rehabilitation provision during the year

Balance at the beginning of the year	43,561	53,078
Rehabilitation required on wells drilled during the year	24,000	12,000
Completed during the year	(1,561)	(21,517)
Carrying amount at the end of the year	66,000	43,561

Rehabilitation

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

Employee benefits

A provision has been recognised for employee benefits 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.

Notes to the financial statements (continued)

	Consolidated	
	June 2014	June 2013
	\$	\$
Deferred tax liabilities	369,353	3,485,958

	June 2014		June 2013	
	Shares	Shares	\$	\$
Opening balance	103,003,758	70,331,320	53,957,271	42,178,814
Issue of ordinary shares during the year	44,751,088	32,672,438	13,425,327	12,796,998
Share issue costs			(849,812)	(1,018,541)
Ordinary shares - fully paid	147,754,846	103,003,758	66,532,786	53,957,271

Movements in ordinary shares

	Date	Issue price	No of shares	\$
Balance	30-Jun-12		70,331,320	42,178,814
Rights Issue	30-Jan-13	\$0.20	10,047,332	2,009,466
Issue of shares in settlement of amounts owed	31-Jan-13	\$0.30	2,625,106	787,532
Issue of shares at IPO	9-Apr-13	\$0.50	20,000,000	10,000,000
Share issue transaction costs, net of tax			-	(1,018,541)
Balance	30-Jun-13		103,003,758	53,957,271
Rights Issue	9-Dec-13	\$0.30	19,000,000	5,700,001
Placement and entitlement issue	27-Dec-13	\$0.30	25,751,088	7,725,326
Share issue transaction costs, net of tax			-	(849,812)
Balance	30-Jun-14		147,754,846	66,532,786

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of, and amounts paid on, the shares held. The fully paid ordinary shares have no par value. On a show of hands every member present at a meeting, in person or by proxy, shall have one vote and upon a poll, each share shall have one vote.

The company does not have authorised capital or par value in respect of its issued shares.

Options

At 30 June 2014, the following options for ordinary shares in Tlou Energy Limited were on issue:

Number		Exercise Price	Expiry Date
2014	2013		
4,945,055	4,945,055	\$1.25	9/05/2015
-	250,000	\$1.25	14/04/2014
-	250,000	\$2.00	14/04/2014
-	50,000	\$1.00	30/06/2014
-	50,000	\$2.00	30/06/2014
10,575,000	10,175,000	\$0.625	30/04/2016
15,520,055	15,720,055		

Notes to the financial statements (continued)**Capital risk management**

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

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

The group is not subject to externally imposed capital requirements.

	Consolidated	
	June 2014	June 2013
	\$	\$
Note 16 - Reserves		
Foreign currency translation	(4,582,363)	(2,817,087)
Share based payments	4,225,291	4,669,085
	<u>(357,072)</u>	<u>1,851,998</u>
Movements in reserves		
Foreign currency translation reserve		
Opening balance	(2,817,087)	(3,301,108)
Currency translation differences arising during the year	(1,765,276)	484,021
Closing balance	<u>(4,582,363)</u>	<u>(2,817,087)</u>
Share based payments reserve		
Opening balance	4,669,085	2,654,980
Recognition of share-based expense for options granted to Directors, employees and consultants	48,640	2,014,105
Transfer of expired share based payments to accumulated losses	(492,434)	-
Closing balance	<u>4,225,291</u>	<u>4,669,085</u>

Foreign Currency Translation Reserve

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

Share Based Payments Reserve

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

	Consolidated	
	June 2014	June 2013
	\$	\$
Note 17 - Accumulated losses attributable to Tlou Energy		
Accumulated loss at the beginning of the financial year	(17,622,954)	(10,744,851)
Loss after income tax expense for the year	(2,286,368)	(6,878,103)
Transfer of expired share based payments to accumulated losses	492,434	-
Accumulated loss at the end of the financial year	<u>(19,416,888)</u>	<u>(17,622,954)</u>

Note 18 - Non-controlling interests

	June 2014	June 2013
	\$	\$
Interests in:		
Share capital	144,599	144,599
Reserves	(51,463)	(49,558)
Retained earnings	(93,136)	(90,138)
	<u>-</u>	<u>4,903</u>

The group allocates loss attributable to non-controlling interests based on the applicable company's standalone profit, prior to the elimination of transactions with other companies in the group (except for transactions where unrealised profit remains in the company that has a non-controlling interest).

Notes to the financial statements (continued)

Note 19 - Share-based payments

Employee Share Options

Options may be granted to certain personnel of the company on terms determined by the directors or otherwise approved by the company at a general meeting. The options are granted for no consideration. Options and entitlements to the options are vested on a time basis and/or on specific performance based criteria such as share price increases or reserves certification.

Options granted as described above carry no dividend or voting rights. When exercisable, each option is convertible to one ordinary share.

The expense recognised in the statement of comprehensive income in relation to share based payments amounts to \$48,640 (2013: \$1,927,009). The amount assessed as fair value at the grant date of the options is allocated equally over the period from grant date to vesting date. The fair value of options at grant date is determined using generally accepted valuation techniques that take into account exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option/performance right and an appropriate probability weighting to factor the likelihood of the satisfaction of non-vesting conditions.

The following table shows the number, movements and weighted average exercise price of employee share options outstanding for the 2014 year:

<i>Grant Date</i>	<i>Expiry date</i>	<i>Exercise price</i>	Opening Balance July 2013	Exercised During the Year	Granted During the Year	Expired During the year	Closing Balance June 2014	Vested & Exercisable
20-Jul-10	20-Jul-13	\$1.00	250,000	-	-	(250,000)	-	-
15-Apr-11	14-Apr-14	\$1.25	250,000	-	-	(250,000)	-	-
15-Apr-11	14-Apr-14	\$2.00	250,000	-	-	(250,000)	-	-
1-Feb-11	30-Jun-14	\$1.00	50,000	-	-	(50,000)	-	-
1-Feb-11	30-Jun-14	\$2.00	50,000	-	-	(50,000)	-	-
1-Jul-12	30-Apr-16	\$0.625	10,175,000	-	-	-	10,175,000	10,175,000
1-Apr-14	30-Apr-16	\$0.625	-	-	400,000	-	400,000	400,000
Total options			11,025,000	-	400,000	(850,000)	10,575,000	10,575,000
Weighted average exercise price			\$0.69	-	\$0.63	\$1.43	\$0.63	\$0.63

The weighted average remaining contractual life of share options outstanding at the end of the year was 1.8 years.

The following table shows the number, movements and weighted average exercise price of employee share options issued for the 2013 year:

<i>Grant Date</i>	<i>Expiry date</i>	<i>Exercise price</i>	Opening Balance July 2012	Exercised During the Year	Granted During the Year	Expired During the year	Closing Balance June 2013	Vested & Exercisable
20-Jul-10	20-Jul-13	\$1.00	250,000	-	-	-	250,000	250,000
15-Apr-11	14-Apr-14	\$1.25	250,000	-	-	-	250,000	250,000
15-Apr-11	14-Apr-14	\$2.00	250,000	-	-	-	250,000	250,000
1-Feb-11	30-Jun-14	\$1.00	50,000	-	-	-	50,000	50,000
1-Feb-11	30-Jun-14	\$2.00	50,000	-	-	-	50,000	50,000
1-Jul-12	30-Apr-16	\$0.625	-	-	10,175,000	-	10,175,000	10,175,000
Total options			850,000	-	10,175,000	-	11,025,000	11,025,000
Weighted average exercise price			\$1.43	-	\$0.63	-	\$0.69	\$0.69

The weighted average remaining contractual life of share options outstanding at the end of the year was 1.8 years.

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2014 were as follows:

Number of Options	Grant Date	Exercise Price Per Option \$	Expiration Date	Value Per Option \$
400,000	1-Apr-14	\$0.625	30-Apr-16	\$0.12

Notes to the financial statements (continued)

Note 19 - Share-based payments (continued)

Expenses arising from share-based payment transactions

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

	Consolidated	
	June 2014	June 2013
	\$	\$
Options expensed	48,640	1,927,009
Options capitalised	-	87,096
	48,640	2,014,105

Note 20 - Commitments

(a) Operating lease commitments

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

Payable - minimum lease payments

- not later than 12 months
- between 12 months and 5 years

	Consolidated	
	June 2014	June 2013
	\$	\$
	85,018	83,027
	-	195,103
	85,018	278,130

(b) Exploration expenditure

In order to maintain an interest in the exploration tenements in which it is involved, the group is required to meet certain conditions imposed by the various statutory authorities granting the exploration tenements or that are imposed by the joint venture agreements entered into by the group. These conditions include minimum expenditure commitments. The timing and amount of minimum exploration expenditure obligations of the group may vary significantly from the forecast based on the results of the work performed, which will determine the prospectivity of the relevant area of interest. The group's minimum expenditure obligations, which are not provided for in the financial statements are as follows:

Minimum expenditure requirements

- not later than 12 months
- between 12 months and 5 years

	Consolidated	
	June 2014	June 2013
	\$	\$
	4,652,691	6,953,549
	-	8,380,419
	4,652,691	15,333,968

Refer to note 30 for further expenditure commitments relating to licences granted after 30 June 2014.

Note 21 - Dividends and franking credits

There were no dividends paid or recommended during the financial year and there are no franking credits available to shareholders of the company.

Notes to the financial statements (continued)

Note 22 - Financial instruments

Overview

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

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

The group holds the following financial instruments:

	Consolidated	
	June 2014	June 2013
	\$	\$
Financial Assets		
Cash and cash equivalents	9,123,260	7,460,746
Trade and other receivables	93,944	197,422
	9,217,204	7,658,168
Financial Liabilities		
Trade and other payables	299,473	669,356
	299,473	669,356

Financial risk management objectives

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

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

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

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

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

Notes to the financial statements (continued)

Note 22 - Financial instruments (continued)

(a) Interest rate risk

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

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

Interest rate sensitivity

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

	Profit or loss		Equity	
	1% increase	1% decrease	1% increase	1% decrease
	\$	\$	\$	\$
2014 - Consolidated				
Cash and cash equivalents	91,233	(91,233)	91,233	(91,233)
2013 - Consolidated				
Cash and cash equivalents	74,607	(74,607)	74,607	(74,607)

Interest rate risk on other financial instruments is immaterial.

(b) Liquidity risk

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

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The group manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. This is based on the undiscounted cash flows of the financial liabilities based on the earliest date on which they are required to be paid. At the end of the reporting period the group held cash of \$9,123,260 (2013: \$7,460,746).

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

	Within 1 year	Between 1 & 2 years	Total Contractual Cash Flows	Carrying Amount
	\$	\$	\$	\$
Consolidated - 30 June 2014				
Trade and other payables	299,473	-	299,473	299,473
Consolidated - 30 June 2013				
Trade and other payables	669,356	-	669,356	669,356

(c) Foreign exchange risk

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

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

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

Notes to the financial statements (continued)

Note 22 - Financial instruments (continued)

(c) Foreign exchange risk (continued)

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

	2014 USD \$	2014 Pula \$	2014 SA Rand \$	2013 USD \$	2013 Pula \$	2013 SA Rand \$
Financial Assets						
Cash and cash equivalents	832,626	81,185	7,487	4,815	14,894	14,923
Trade and other receivables	-	42,274	-	-	147,438	-
Financial Liabilities						
Trade and other payables	-	(102,737)	-	-	(572,986)	-
Net Financial Instruments	832,626	20,722	7,487	4,815	(410,654)	14,923

Foreign currency rate sensitivity

Based on financial instruments held at 30 June 2014, had the Australian dollar strengthened/weakened by 10% the group's profit or loss and equity would be impacted as follows:

	Profit or loss		Equity	
	10% Increase \$	10% Decrease \$	10% Increase \$	10% Decrease \$
2014				
US dollar	(83,263)	83,263	(83,263)	83,263
Bw Pula	(2,072)	2,072	(2,072)	2,072
South African Rand	(749)	749	(749)	749
2013				
US dollar	(481)	481	(481)	481
Bw Pula	41,065	(41,065)	41,065	(41,065)
South African Rand	(1,492)	1,492	(1,492)	1,492

(d) Credit risk

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

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

Credit Risk Exposures

Trade and other receivables

Trade and other receivables comprise primarily of VAT and GST refunds due. Where possible the group trades with recognised, creditworthy third parties. The receivable balances are monitored on an ongoing basis. The group's exposure to bad debts is not significant. At 30 June 2014 \$nil (2013: \$nil) of the group's receivables were past due.

Cash and cash equivalents

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

Notes to the financial statements (continued)

Note 23 - Key Management Personnel

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

Detailed remuneration disclosures are provided in the remuneration report on pages 16 to 20.

Key management personnel compensation

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

	Consolidated	
	June 2014	June 2013
	\$	\$
Short-term employee benefits	1,103,163	1,338,276
Post-employment benefits	36,597	5,542
	1,139,760	1,343,818
Share based payments	-	1,781,520
	1,139,760	3,125,338

Note 24 - Auditors' Remuneration

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

	Consolidated	
	June 2014	June 2013
	\$	\$
Audit services		
Auditing or reviewing the financial statements - BDO Australia	43,500	41,000
Auditing or reviewing the financial statements - BDO Botswana	32,205	34,282
	75,705	75,282
Non-audit services - BDO Australia		
Tax consulting and compliance services	31,179	26,755
Investigating accountant's report	-	36,150
	31,179	62,905
Total	106,884	138,187

Note 25 - Contingent Liabilities

The Directors are not aware of any contingent liabilities (2013: \$nil).

Notes to the financial statements (continued)

Note 26 - Related Party Transactions

Parent entity

The legal parent entity is Thlou Energy Limited.

Subsidiaries

Interests in subsidiaries are set out in note 29.

Key management personnel

Disclosures relating to key management personnel are set out in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2014	2013
	\$	\$
<u>Payment for goods and services:</u>		
Payment for services from Mitchell Group	1,209,196	-
Operations services provided by the Mitchell group, a director-related entity of Nathan Mitchell.		
Payment for services from Wood Duck Holdings	-	197,750
Consultancy services provided by Wood Duck Holdings, a director-related entity of Christopher Pieters.		
Payment to The Gilby McKay Alice Street Partnership	120,000	116,236
Office rent paid to The Gilby McKay Alice Street Partnership, a director-related entity of Anthony Gilby.		
Payment to Fleur Gilby	3,556	3,523
Salary paid to Fleur Gilby, related entity of Anthony Gilby.		
Payment to Gilby Resources Pty Ltd	-	18,736
Administration services provided by Gilby Resources Pty Ltd, a director-related entity of Anthony Gilby.		
<u>Receipts for goods and services:</u>		
Receipts from Gilby Resources Pty Ltd	3,771	1,848
Administration services provided to Gilby Resources Pty Ltd, a director-related entity of Anthony Gilby.		
<u>Receivable from and payable to related parties</u>		
The following balances are outstanding at the reporting date in relation to transactions with related parties:		
<u>Current payables:</u>		
Trade payables to The Gilby McKay Alice Street Partnership	11,000	11,000
Office rent payable to The Gilby McKay Alice Street Partnership, a director-related entity of Anthony Gilby.		

Loans to/from related parties

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

Terms and conditions

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

Notes to the financial statements (continued)**Note 27 - Segment Reporting****Reportable Segments**

Operating segments are identified on the basis of internal reports that are regularly reviewed by the executive team in order to allocate resources to the segment and assess its performance.

The Company currently operates in one segment, being the exploration, evaluation and development of Coalbed Methane resources in southern Africa.

Segment revenue

As at 30 June 2014 no revenue has been derived from its operations (2013: \$nil).

Segment assets

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

	June 2014	June 2013
	\$	\$
Botswana	37,784,971	34,080,059
Zimbabwe	-	218,678
Australia	2,984	4,903

Note 28 - Cash Flow Information**(a) Reconciliation of cash flow from operations**

	Consolidated	
	June 2014	June 2013
	\$	\$
Profit/(Loss) for the period	(2,289,366)	(6,087,074)
Depreciation	307,209	233,979
Share-based payments	48,640	1,927,009
Impairment charge - exploration and evaluation assets	2,946,127	-
Salaries and fees paid in equity	-	787,532
Transfer from inventory to fixed assets	(22,163)	-
Net exchange differences	(264,878)	203,699
Changes in operating assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
Decrease/(increase) in trade and other receivables	103,478	(97,887)
Decrease/(increase) in other assets	188,018	(405,173)
Increase/(decrease) in trade payables and accruals	58,265	(859,745)
Decrease/(increase) in prepayments	(197,680)	310,980
Increase/(decrease) in provisions	(28,107)	84,429
	(2,267,062)	(3,902,251)
(b) Non-cash financing and investing activities		
Issue of shares in settlement of amounts owed to staff, directors and consultants	-	787,532

Notes to the financial statements (continued)**Note 29 - Subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1. 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	Class of shares	Equity holding %	
			June 2014	June 2013
Tlou Energy Botswana (Proprietary) Ltd	Botswana	Ordinary	100	100
Z E Australia Pty Ltd	Australia	Ordinary	100	100
Aguia Energy Limitada*	Mozambique	Ordinary	100	100
Technoleads International Inc	Barbados	Ordinary	100	100
- <i>Tlou Energy Exploration (Proprietary) Limited</i>	Botswana	Ordinary	100	100
Sable Energy Holdings (Barbados) Inc	Barbados	Ordinary	100	100
- <i>Tlou Energy Resources (Proprietary) Limited</i>	Botswana	Ordinary	100	100
Mica Investments (Barbados) Inc	Barbados	Ordinary	100	100
- <i>Narren (Proprietary) Limited</i>	Botswana	Ordinary	-	85
Copia Resources Inc	Barbados	Ordinary	100	100
- <i>Tlou Energy Corp Services Botswana (Proprietary) Limited</i>	Botswana	Ordinary	100	100
Apex Resources No. 2 Inc	Barbados	Ordinary	100	100
- <i>Apex Resources Holdings No. 2 Corp</i>	British Virgin Islands	Ordinary	100	100
SK Holdings (Barbados) Inc	Barbados	Ordinary	100	100
- <i>Tlou South Karoo (Proprietary) Limited</i>	Botswana	Ordinary	100	100
Madra Holdings (Barbados) Inc	Barbados	Ordinary	100	100
- <i>Tlou Energy Solutions (Proprietary) Limited</i>	Botswana	Ordinary	100	100
Exporien Mining (Private) Limited	Zimbabwe	Ordinary	-	49
Tembo Holdings Inc	British Virgin Islands	Ordinary	100	100

*Tlou Energy Limited directly holds 66.67% of the ordinary share capital of Aguia Energy Limitada and also controls the other 33.33% which is held by Apex Resources Holdings No. 2 Corp.

During the year the parent sold its 49% shareholding in Exporien Mining (Private) Ltd for a nominal fee and Narren Proprietary Limited was deregistered. The net assets of each entity at the date of sale and deregistration was nil.

Note 30 - Subsequent Events

On 1 July 2014 the consolidated entity was granted further prospecting licences in Botswana. These licences have a three year term, expiring on 30 June 2017. The proposed expenditure on these licence over the term is approximately \$21.4m.

No other matter or circumstance has arisen since 30 June 2014 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.

Notes to the financial statements (continued)

	Parent	
	June 2014	June 2013
	\$	\$
Note 31 - Parent entity disclosures		
Current assets	9,132,885	7,540,542
Non-current assets	30,377,073	40,054,435
Total assets	39,509,958	47,594,977
Current liabilities	292,633	153,136
Total liabilities	292,633	153,136
Net assets	39,217,325	47,441,841
Contributed equity	66,532,786	53,957,271
Share based payment	4,717,726	4,669,085
Accumulated losses	(32,033,187)	(11,184,515)
Total equity	39,217,325	47,441,841
Loss for the period	20,848,672	5,761,794
Total comprehensive income	20,848,672	5,761,794

Commitments, Contingencies and Guarantees of the Parent Entity

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

Directors' declaration

In the Directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the 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 2014 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- the remuneration report as set out in the directors report for the year ended 30 June 2014 comply with section 300A of the *Corporations Act 2001*; and

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

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

On behalf of the Directors



Anthony Gilby
Director

Brisbane
22 September 2014

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 2014, 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 and other explanatory information, and the directors' declaration of the consolidated entity comprising 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 gives a true and fair view and 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 company's preparation of the financial report that gives a true and fair view 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 company'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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Tlou Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- A. the financial report of Tlou Energy Limited 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 2014 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.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the consolidated entity's tenements, and/or sale of non-core assets. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 20 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Tlou Energy Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd



A S Loots

Director

Brisbane, 22 September 2014

Corporate Governance Statement

The Directors of Tlou Energy Limited (the “Board”) are committed to the implementation of the highest standards of corporate governance. In determining what these standards should be, the Board references guidance and supports, where appropriate, the Corporate Governance Principles and Recommendations with 2010 amendments (2nd Edition) (“Recommendations”) established by the ASX Corporate Governance Council (the “Council”). The Corporate Governance Principles and Recommendations with 2014 amendments (3rd Edition) (“3rd Edition Recommendations”) and related listing rule changes take effect for the first full financial year commencing on or after 1 July 2014. The Board advises that it will report against the 3rd addition for the next year’s report for the financial year ending 30 June 2015. However this report for the financial year ending 30 June 2014 will be against the 2nd Edition Recommendations only.

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. The Board has formally adopted a suite of corporate governance policies and charters, copies of which are listed below and these are available on the Company’s website. This statement contains specific information and discloses the extent to which the Company intends to or is able to follow the ASX recommendations.

The Company’s practices are largely consistent with those of the ASX Guidelines and where they do not follow a recommendation this report identifies those recommendations that have not been followed and details reasons for non-adherence. Even where there is a deviation from the recommendations the Company continues to review and update its policies and practices in order that it keeps abreast of the growth of the Company, the broadening of its activities, current legislation and good practice.

The Council’s recommendations are not prescriptive and, if certain recommendations are not appropriate for the Company given its circumstances, it may elect not to adopt that particular practice in limited circumstances. Where the Company’s Corporate Governance practices do not correlate with the practices recommended by the Council, the Company does not consider that the practices are appropriate due to either the size of the Board or the management team or due to the current activities and operations being carried on by and within the Company.

Tlou’s Corporate Governance statement should be read with reference to the Council’s 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, and to secure a copy of the Council’s Recommendations please visit the ASX website at www.asx.com.au

Role of the Board

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

The Board’s role and the Company’s Corporate Governance practices are continually being reviewed and updated to reflect the Company’s circumstances and growth.

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

(ASX Recommendation 1.1)

The Board of Directors

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

Name of Director	Board Membership	Date of Appointment / Resignation
Nathan Mitchell	Non-executive Chairman	Appointed 23-Apr-09
Anthony Gilby	Managing Director	Appointed 23-Apr-09
Martin McIver	Non-executive Director	Appointed 16-Sept-10
Christopher Pieters	Non-executive Director	Appointed 23-Apr-09

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.

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 Council defines "independence" as being a non-executive director who is not a member of management and who is free from any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the independent exercise of their judgment. Based on this definition the current Directors 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.

Nathan Mitchell is the Chairman and is not considered independent applying the criteria of independence defined by the Council, as his family group of companies hold a substantial shareholding in the Company.

Notwithstanding the Board believes that given the history of the Company and the formation of the Board reflects certain founding members, 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 arise.

Board Charter

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

Conflicts of Interest

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

Independence of Professional Advice

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

Process for Evaluating the Performance of Key Executives

Improvement in Board processes and effectiveness is a continuing objective and the purpose of the annual Board evaluation is to identify ways to improve performance. The Board has appointed the Chairman as the person responsible for conducting an annual review of the Board's performance. A review had been undertaken to take place during the reporting period but this did not occur. However at the time of writing this report the Chairman was in the process of conducting such a review.

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

The Board will assess annually or as necessary the performance of the Managing Director benchmarking his performance against the role description in the employment contract and general industry standards expected of a Managing Director carrying on that role.

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

(ASX Recommendation 1.2)

Committees

Audit Committee, Risk Committee and Remuneration & Nomination Committee

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

An Audit Committee, which is responsible for overseeing the external and internal auditing functions of the Company's activities;

A Risk Committee, which comprises representatives of the Board and staff to advise and assist the Board in assessing risk factors associated with the operation of the Company; and

A Remuneration & Nomination Committee, which is responsible for making recommendations to the Board on recruitment and remuneration packages for executives.

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

Martin McIver - Chairman
Anthony Gilby

A Majority of the Directors should be Independent Directors

The names of the Directors of the Company in office at the date of this report and their qualifications are set out in the section of the Annual Report headed "Director's Report".

Under the Constitution, the maximum number of Directors is nine (9). Further, the Constitution mandates that there be a minimum of four Directors, at least two of whom must reside in Australia. Under the provisions of the Constitution one third of the directors will be required to retire annually on rotation but will be free to seek re-election by shareholders.

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

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

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

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

Recommendation 2.1 is that the majority of the Directors are independent. When determining the independent status of a Director, the Board considers, having regard to the ASX Council's Independence criteria, whether the Director:-

- a) is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- b) within the last three years has been employed or has previously been employed in an executive capacity by the Company or another Group member, or been a director after ceasing to hold such employment;
- c) within the last three years has been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with the service provided;
- d) is a material supplier or customer of the Company or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- e) has a material contractual relationship with the Company or another Group member other than as a Director of the Company.

The Board believes that given its current composition, it will not be able to satisfy the requirements in relation to the requirements regarding independent directors and members of the respective committees' as, applying the Council's criteria, there are no Independent Directors. Nevertheless, with this in mind, the Board will continue to monitor and review this issue as the activities or status of the Company evolves. *(ASX Recommendation 2.1)*

The Chairperson should be an Independent Director

The Chairman (Nathan Mitchell) if applying the independence criteria in the Principles is not considered to be independent, due to his family company being a substantial shareholder of the Company. However the Board considers that the Chairman is the most appropriate person for the role due to his commercial experience in such a capacity and that the interests of the Company and its shareholders are being more than adequately met by the current appointee.

(ASX Recommendation 2.2)

The Roles of Chairperson and Chief Executive Officer should not be shared by the same person

The roles of the Chairperson and the Chief Executive Officer were not shared at any time during the year under review. The role of the Chairman was fulfilled by Nathan Mitchell, while the role of the Managing Director has been filled by Anthony Gilby for the whole of the period. The roles of the Chairperson and the Managing Director are set out in the Board Charter.

(ASX Recommendation 2.3)

Remuneration and Nomination Committee

The purpose of this committee is to assist the Board and make recommendations to it in relation to the appointment and remuneration of new Directors both executive and non-executive and senior executives. The committee is to have (membership of the Board permitting) a minimum of three members. At any time the composition of the Board permits, the committee shall also consist only of non-executive directors, and a majority of independent directors, and will be chaired by an independent chair appointed by the Board. Committee members will be appointed for periods of no more than one year, with members being generally eligible for re-appointment so long as they remain directors of the Board. It is intended that due to the size and composition of the Board that initially the committee will comprise the non-executive directors of the Board with the role of the Chair of the committee being filled by the Chair of the Board.

The remuneration and nomination committee will meet as often as necessary, but must meet at least twice a year and one of those meetings must take place at least two months prior to each annual general meeting. The Chair may invite other persons to attend meetings if appropriate.

(ASX Recommendation 2.4)

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

Disclose Process for Evaluating the Performance of the Board, its Committees and Individual Directors

The Company has, as disclosed above, a formal process for the evaluation of the effectiveness, processes and structure of the Board. The Board is committed to regular assessment of its effectiveness and believes that the contribution of individual Directors is essential to improve the governance and guidance of the Company.

The review of the Board Directors will focus on matters such as the structure, the effectiveness and contributions made by each Director and the progress towards the strategic objectives of the Company. The Chairman is responsible for conducting the annual review of the Board's Performance, which will involve open and constructive dialogue between the respective parties.

(ASX Recommendation 2.5)

Director, Senior Executive and Employee Codes of Conduct

The Company has adopted a Corporate Code of Conduct which sets out ethical standards and a Code of Conduct to which all Directors and Senior Executives will adhere whilst conducting their duties.

(ASX Recommendation 3.1)

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

All Directors and Senior Executives will:-

1. Actively promote the highest standards of ethics and integrity in carrying out their duties for the Company;
2. Disclose any actual or perceived conflicts of interest of a direct or indirect nature of which they become aware and which they believe could compromise in any way the reputation or performance of the Company;
3. Respect confidentiality of all information of a confidential nature which is acquired in the course of the Company's business and not disclose or make improper use of such confidential information to any person unless specific authorisation is given for disclosure or disclosure is legally mandated;
4. Deal with the Company's suppliers, contractors, competitors and each other with the highest level of honesty, fairness and integrity and to observe the rule and spirit of the legal and regulatory environment in which the Company operates;
5. Report any breach of this code of conduct or other inappropriate or unethical conduct to the appropriate authority within the Group; and
6. This Code of Conduct is in addition to the Code of Conduct for all employees which has been adopted by the Board of the Company, a copy of which will be available on the Company's website.

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

(ASX Recommendation 3.1)

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

All persons covered by the Policy may not deal in the securities in the Company without first seeking and obtaining a written acknowledgement from the Chairman (or in his absence the Company Secretary) or the Company Secretary (or in his absence the Managing Director) prior to any trade, at which time they must confirm that they are not in possession of any unpublished price-sensitive information. The Company Secretary maintains a register of notifications and acknowledgements given in relation to trading in the Company's securities.

Establish a Policy Concerning Diversity and Disclose the Policy and a Summary

The Company is committed to diversity within the workplace and providing an environment in which employees have equal access to opportunities. The Company recognises that a commitment to diversity and inclusiveness will increase the probability of the Company achieving its strategic objectives. The Board has in accordance with Recommendation 3.2 adopted a Diversity Policy, a summary of which is available on the company's website.

(ASX Recommendation 3.2)

The Board is responsible for establishing measurable objectives for achieving diversity. At this stage of the Company's development and the activities that it undertakes the Board has not decided upon definitive measurable objectives but appreciates that as the Company grows measurable objectives to achieving diversity is an essential aspect of implementing a robust Diversity environment and the Remuneration and Nomination Committee will review annually the need to introduce the same. The objectives and progress will be published in the Annual Report each year.

(ASX Recommendation 3.3)

The Company has given careful consideration to the adoption of measurable objectives for achieving gender diversity. At this stage of the Company's development the Board is of the view that there is no practical advantage in prescribing measurable objectives as the opportunity for achieving these are unlikely to be achieved given the small number of Australian based staff and contractors.

As the Company grows in size and the extent of its activities increase the Board believes that the opportunity to pursue these objectives can be realised. Accordingly the position will be reviewed annually by the Remuneration and Nomination Committee to determine what changes can be implemented.

The Board is currently constituted by 3 Non-Executive Directors and 1 Executive Directors. None of the Directors is a woman.

The Board considers that the Senior Executive roles are the positions of the Chief Operating Officer, Chief Financial Officer and Company Secretary. There are no women currently employed or engaged as a consultant within the group in a Senior Executive role.

There are five women working in our African operations representing 20% of our African based workforce.

Safeguard Integrity in Financial Reporting

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

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

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

Structure of the Audit Committee and Charter

ASX Recommendation 4.2 states that the audit committee should have at least 3 members consisting only of non-executive directors, a majority of which should be independent with the Chair of the Committee being one of the independent directors who is not the chair of the Company. The Committee appointed by the Board does not comply with this recommendation as it comprises one Non-executive Director and one executive director of which none are considered independent in accordance with the definition of independence prescribed by the ASX Corporate Governance Independence Criteria.

Anthony Gilby is the member of the Committee who is not currently a non-executive director. At the time of his appointment to the Committee he was a non-executive director but has since been appointed the Managing Director. 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 on 12 October 2010 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 Chair shall report any significant issues arising from the Committee Meetings at the next meeting of the Board.

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

The role of the Audit Committee is to:-

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

(ASX Recommendation 4.3)

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.

Disclosure and Communication with Shareholders

The Company appreciates the considerable importance of communications with Shareholders and once listed the market as a whole. 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
- Quarterly Reports
- Half Yearly Reports
- Annual Reports; and
- Face to face Shareholder presentations

Continuous Disclosure

The Company has adopted an updated Continuous Disclosure Policy in compliance with ASX Recommendation 5.1 and 5.2 and ASX Guidance Note 8: Continuous Disclosure. Each employee and consultant engaged by the Company will be provided with a copy of the same while impressing upon them during their induction the importance of the same.

The Company Secretary has primary responsibility for discharging the Company's continuous disclosure obligations to the ASX. All officers and employees must immediately notify the Company Secretary of any material information which may need to be disclosed under Listing Rule 3.1-3.1B.

The Officers of the Company are committed to:

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

In addition the website contains a function to allow interested parties to subscribe to receive electronic notification of public releases and other relevant material concerning the Company.

In accordance with ASX Recommendation 6.1 the Company has adopted a Shareholder Communication Strategy to ensure that Shareholders have access to balanced and understandable information about the Company and its activities.

The Company uses its website www.tlouenergy.com as its primary communication tool for distribution of the annual report, market announcements and media disclosures. External communication which may have a material effect on the price or value of the Company's securities will not be released unless it has been announced previously to the ASX. Effective participation by Shareholders is encouraged at general meetings and procedures have been designed to facilitate this.

Recognition and Management of Risk

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

The Company has established a Risk Committee that is focussed on ensuring that the Company maintains an effective system of internal control and risk management. The Committee's structure, roles and responsibilities are detailed in the Risk Committee Charter. Flowing from this, the Company has adopted a Risk Management Policy that governs the Company's approach to managing financial and non-financial risks.

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

Specific functions of the Risk Committee are to:-

- a) review and oversee the Company's risk profiles as developed and reported by management;
- b) identify material business risks and monitor emerging risks and changes in the Company's risk profile;
- c) monitor and review the risk management performance of the Company, including conducting specific investigations where deemed necessary;
- d) review any legal matters which could significantly impact the Company's risk management and internal control systems, and any significant compliance and reporting issues, including any recent internal regulatory compliance reviews and reports;
- e) review the effectiveness of the compliance function at least annually, including the system for monitoring compliance with laws and regulations and the results of management's investigations and follow-ups (including disciplinary action) of any fraudulent acts or non-compliance;
- f) be satisfied that all regulatory compliance matters have been considered in the preparation of the Company's official documents;
- g) review the findings of any examinations by regulatory agencies and oversee all liaison activities with regulators;
- h) review and discuss media releases, ASX announcements and any other information provided to analysts;
- i) review corporate legal reports of evidence of a material violation of the Corporations Act, the ASX Listing Rules or breaches of fiduciary duties;
- j) review the Company's insurance strategy, including the coverage and limits of the insurance policies, in order to, if thought fit, recommend to the Board for approval;
- k) review the Company's Authorization for Expenditure (AFE) documents, as proposed by management, against the strategic and financial objectives and the risk profile of the Company; and
- l) promote an awareness of a risk based culture in the balance of pursuit of business objectives whilst managing risks.
(ASX Recommendation 7.1)

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

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.

Board to Disclose Extent of CEO/CFO Assurances under s295A of Corporations Law

The Board has received declarations from the Managing Director acting in the capacity of Chief Executive Officer and from the Chief Financial Officer pursuant to s295A of the Corporations Act which state that the financial statements are founded on sound risk management and internal controls and that the system is operating effectively in all material respects in relation to financial reporting risks.

(ASX Recommendation 7.3)

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 29 August 2014.

2. Ordinary Share Capital

147,754,846 fully paid ordinary shares.

3. Number of Equity Holders

Ordinary Share Capital held by 485 individual shareholders.

4. Voting Rights

In accordance with the Company's Constitution, for a show of hands, every shareholder present in person or by a proxy, attorney or representative of a shareholder has one vote and for a poll, every shareholder present in person or by a proxy, attorney or representative has in respect of fully paid shares, one vote for every share held. No class of option holder 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			Number of Holders	Units	Percentage of Issued Capital
1	-	1,000	3	922	0.00%
1,001	-	5,000	44	162,197	0.11%
5,001	-	10,000	56	484,443	0.33%
10,001	-	50,000	193	5,082,773	3.44%
50,001	-	100,000	79	6,111,056	4.14%
100,001	-	maximum	110	135,913,455	91.99%
			485	147,754,846	100.00%

The numbers of shareholders holding less than a marketable parcel (being 1,667 units or less) were 4 holders (1,994 Shares).

6. Substantial Shareholders

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

Name	Number of Shares Held	Percentage Interest
Investor Group - Nathan Mitchell	15,966,528	10.806%
Investor Group - Anthony Gilby	15,574,162	10.541%
Talon Metals Corp	14,285,714	9.669%
Acorn Capital Ltd	6,666,667	4.512%

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*
J P Morgan Nominees Australia Limited	17,801,298	12.048%
Talon Metals Corp	14,285,714	9.669%
National Nominees Limited	13,233,703	8.957%
Mitchell Group Holdings Pty Ltd	11,136,364	7.537%
HSBC Custody Nominees (Australia) Limited	7,062,870	4.780%
Gilby Super Pty Ltd <Gilby Superannuation Fund>	5,788,371	3.918%
Citicorp Nominees Pty Limited	4,880,049	3.303%
Gilby Resources Pty Ltd <Gilby Investment A/C>	4,775,105	3.232%
Avanteos Investments Limited	3,412,809	2.310%
Mr CJ Blamey & Mrs AM Blamey <ACB Super Fund A/C>	3,035,053	2.054%
Waterford Atlantic Pty Ltd <McKay Family A/C>	2,545,145	1.723%
Pieters Capital Pty Ltd <Pieters Investment A/C>	2,524,241	1.708%
Mr Nathan Mitchell <Mitchell Family Super Fund A/C>	2,500,000	1.692%
Gilby Resources Pty Ltd <Gilby Superannuation A/C>	2,415,486	1.635%
Jesus College Cambridge	2,353,882	1.593%
Mitchell Family Investments (Qld) Pty Ltd	2,199,364	1.489%
Mr David Royds	1,871,428	1.267%
Mr Anthony Gilby	1,695,330	1.147%
Dynamic Supplies Investments Pty Ltd	1,659,999	1.123%
Liath Pty Ltd	1,310,290	0.887%
Total	106,486,501	72.070%

* percentages are rounded up to the nearest one thousandth

8. Restricted Securities

As at the date of the Director's Report, there were 41,473,904 fully paid ordinary shares that were restricted securities. These are made up of:

- 41,473,904 ordinary fully paid restricted securities with the ASX restriction expiry date of 09/04/2015.

9. Interests in Prospecting Licences (PL)

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

PL	Region	interest % *	Operator
1/2004	Lesedi Project	100%	Tlou Energy Botswana Pty Ltd
2/2004	Lesedi Project	100%	Tlou Energy Botswana Pty Ltd
3/2004	Lesedi Project	100%	Tlou Energy Botswana Pty Ltd
35/2000	Lesedi Project	100%	Tlou Energy Botswana Pty Ltd
37/2000	Lesedi Project	100%	Tlou Energy Botswana Pty Ltd
237/2014	Mamba Project	100%	Tlou Energy Botswana Pty Ltd
238/2014	Mamba Project	100%	Tlou Energy Botswana Pty Ltd
239/2014	Mamba Project	100%	Tlou Energy Botswana Pty Ltd
240/2014	Mamba Project	100%	Tlou Energy Botswana Pty Ltd
241/2014	Mamba Project	100%	Tlou Energy Botswana Pty Ltd

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



TLOU ENERGY



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