

**ANNUAL REPORT 2016**



**TLOU ENERGY**



## CORPORATE DIRECTORY

### **ABN**

79 136 739 967

### **Directors**

Anthony Gilby  
Gabaake Gabaake  
Martin McIver  
Colm Cloonan

### **Company Secretary**

Solomon Rowland

### **Administration & Registered Office**

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Brisbane QLD 4000  
Telephone: +61 7 3012 9793  
Email: [info@tlouenergy.com](mailto:info@tlouenergy.com)

### **Solicitors**

Delphi Partners  
Level 23  
307 Queen Street  
Brisbane QLD 4000

### **Auditors**

BDO Audit Pty Ltd  
Level 10  
12 Creek Street  
Brisbane QLD 4000



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## CHAIRMAN'S LETTER

Dear Shareholders,

The year under review has been transformational for Tlou and has seen us make significant progress in the development of our Lesedi Coal Bed Methane ('CBM') Project in Botswana, the most advanced gas project in the country. This is of particular importance due to the chronic power shortages being experienced in the southern African region, where demand in Botswana alone is forecast to increase 37% to 1,017MW by 2025.

With this in mind, the Government of Botswana proposed the delivery of 100MW of CBM power to be incorporated into its future generation supply plans in June 2016. This news came out whilst we were waiting for the results of our tender for an initial 10MW pilot project and we are delighted that Tlou has started the new financial year with this commitment in place for the development of a 50MW CBM project. This is five times larger than anticipated and demonstrates the strength of the government's support for the development of domestic sources of power. It was always our intention to upscale from 10MW, however this expected approval from the government will fast-track the roll-out of our strategy and we are incredibly excited to have been given this opportunity.

Excellent progress on the ground at the Lesedi Project ('Lesedi') has been made during the year under review. This has included the completion of dewatering and the commencement of gas testing at the Selemo production wells. To date flow rates have been in line with our expectations and we remain hopeful that these will continue to grow. We are particularly encouraged by the Selemo 4 well which could potentially be a second key gas producer alongside Selemo 1. In April 2016 a sustained gas flow rate was reported at Selemo 1 which represents a major milestone towards achieving an economic flow rate. Together with the larger 50MW plant, this has been beneficial in our discussions with strategic partners. Indeed, we have had considerable interest from a number of larger third-parties to partner with us for the proposed plant in addition to future projects. Importantly, we are aiming to book independently certified reserves at Lesedi by the end of 2016, marking Tlou as the first in-country to do so.

In November 2015 Tlou dual listed on the London Stock Exchange's AIM Market and on listing, thanks to the UK market's strong appetite for African energy projects, we raised £1.2 million (A\$2.6 million). We submitted our full development Environmental Impact Statement ('EIS') in December 2015, which is a precursor to the award of a mining licence for Lesedi. The EIS is currently with Botswana's Government Department of Environmental Affairs ('DEA') for final review which is expected in Q4 2016. This will be the first of its kind in Botswana for a gas project and we eagerly await the final confirmation which will enable us to progress to the next step.

On a corporate level we have been very active over the last year, starting with the appointment of Solomon Rowland as Company Secretary to replace Stephen Rodgers who had been with us since 2009. In conjunction with our dual listing on AIM we appointed Grant Thornton UK LLP as our nominated adviser and Brandon Hill Capital as financial adviser and broker, and in early 2016 added Optiva Securities as a Joint Broker. Having previously been a non-executive director of Tlou since 2010, I was delighted and honoured to be appointed as Chairman to replace Nathan Mitchell in February. This came at the same time as the addition of Colm Cloonan to our Board as Finance Director. I am also pleased to announce that our Managing Director Tony Gilby's health is improving and as a result he has been participating with valuable input in Board discussions due to his significant experience in CBM projects. I would like to thank Gabaake Gabaake for stepping in as acting Managing Director in Tony's place. With a bolstered team and access to the London markets we are in a strong position to continue our development of our Botswanan projects towards commercial production.

Our long-term vision is to become a mid-tier energy provider in southern Africa and the year under review has seen us make great strides towards this future goal. We have ticked off a number of significant milestones and are well placed to book our first reserves by the end of the year. We are now in discussions with the relevant

government department to agree the terms of an off-take agreement following our selection to tender for and develop an initial 50MW plant and I look forward to providing further updates on this in due course. We are fortunate to benefit from a premium power price, a low cost operating environment, nearby power infrastructure and multiple market opportunities and I look forward to the year ahead with great enthusiasm as we continue to unlock the value in this exciting project. I would like to thank the Tlou Board, management team, advisers and shareholders for their continued support.

Yours faithfully,



**Martin McIver**  
Chairman



## MANAGING DIRECTOR'S REPORT

Dear Shareholders,

Our Lesedi CBM project has been significantly de-risked during the period under review as a result of sustained gas flows and the company is closer to our aim of booking our first reserves by the end of the year. This has involved a considerable amount of work on the ground and I am delighted with the progress we have made.

The original Selemo lateral production pod (Selemo 1) was expanded with drilling and installation of two new flanking lateral pods either side (Selemo 2 and 4) to assist with the dewatering, enhance gas deliverability and ultimately achieve reserve certification in advance of field development. We decided to expand the testing to Selemo 2 and 4 due to the excellent communication observed between all three wells whilst flowing gas from Selemo 1. This lateral well programme was completed in Q3 2015 and following the successful dewatering process a sustained gas flow was achieved in February 2016 from the main producing well, Selemo 1, with the shielding wells Selemo 2 and 4 successfully shielding water from the formation.

We have been delighted with the flow rates recorded from Selemo 1 which have been in line with our expectations and excitingly, Selemo 4 has performed much better than expected and could potentially be a second gas producer alongside Selemo 1. These gas flows will not only provide the key data in order to book initial independently certified reserves but will also provide further confidence to strategic off-takers with whom we are currently in advanced discussions with regard to gas supplies. Another factor that will bolster our position is the receipt of our Environmental Impact Statement. We submitted our full development EIS in December 2015 comprising production pods and a central processing facility for Lesedi, which is now with the Department of Environmental Affairs for the final review process.

As a validation of our strategy, in June 2016 the Government of Botswana proposed that the delivery of 100MW of CBM power be incorporated into its future generation supply plans in order to combat the severe power shortage in the country. As the 100% owner of the most advanced CBM project in Botswana, this was clearly a breakthrough for Tlou. This was followed, post period end, by our selection to tender for and develop a 50MW CBM power plant which is five times larger than we were anticipating however it complements and fast-tracks our strategy to upscale Lesedi and provides more development options. This bodes well for our on-going discussions such as our expression of interest to supply gas to the nearby 90MW power plant at the Orapa diamond mine (the largest diamond mine in the world) which is currently run on high cost imported diesel.



Whilst no operations have been conducted at our adjacent Mamba project which consists of five CBM permits, the project provides us with considerable upside, optionality and flexibility. We are also in on-going discussions with a number of relevant stakeholders with a view to securing additional prospective CBM acreage to further enhance this upside, although our current focus is on completing our production testing with a view to booking initial reserves in the near-term at Lesedi. I look forward to providing further updates at this exciting time for Tlou and would like to thank our team on the ground for all their incredibly hard work over the period.

Yours faithfully,

Handwritten signature of Anthony Gilby

**Anthony Gilby**  
Managing Director



## DIRECTORS



**Martin McIver**  
Non-Executive Chairman

### Experience

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

Martin has over 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 General Manager - Services of the Workpac group.



**Anthony Gilby**  
Managing Director

### Experience

Tony was appointed Chief Executive Officer and Managing Director in March 2012 and has over 30 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 former non-executive director of ASX listed Comet Ridge Limited.





**Gabaake Gabaake**  
Executive Director

#### Experience

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

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

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



**Colm Cloonan**  
Finance Director

#### Experience

Colm is the Company's Finance Director. Colm is a Fellow of the Association of Chartered Certified Accountants (FCCA) with over 17 years' experience in various finance roles.

Colm began his career in Ireland working with clients in different industries. He moved to Australia in 2005 and commenced working with an audit and business services firm in Brisbane then later as an independent consultant providing financial and management accounting services. Colm has significant experience working with clients in retail, travel, motor and power generation industries.

Colm joined Tlou in 2009 at the very early stages of the company's activities and has been with the company through all phases of its operations and development to date. This includes being a key member of the team involved in the company's successful 2013 ASX listing and the 2015 AIM listing.

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

## 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 2016.

### 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:

Anthony Gilby	Managing Director
Martin McIver	Non-Executive Chairman
Gabaake Gabaake	Executive Director
Colm Cloonan	Finance Director; appointed 11 February 2016
Nathan Mitchell	Non-Executive Chairman; resigned 11 February 2016

### 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

The loss for the year after income tax amounted to \$3,065,583 (30 June 2015: \$2,730,900). The loss for the year includes expenditure incurred in relation to the Company's admission to trading on the AIM Market. The Company has reduced corporate and operating costs where possible, and will continue to do so without affecting performance. As a result, cost savings have been achieved in comparison to the prior year in a number of areas including salaries, director's fees and professional fees. Net spend on exploration activities during the period amounted to approximately \$4.6 million, primarily on operations in the Selemo area. The decrease in total liabilities compared to the end of the previous reporting period is primarily due to the reduced level of operations at June 2016 as compared to June 2015.

Operations during the year focused on the expansion of the Company's Lesedi project which included completion of additional wells in the Selemo area. Following this, the wells commenced production testing to measure initial gas achievable from the wells as the Company moves towards independent reserve certification. Further details of operations throughout the year are available in the annual review of operations on pages 23 to 25.

At a corporate level, Tlou Energy Limited was admitted to the AIM Market of the London stock exchange ("AIM Market" or "AIM") and trading commenced on 30 November 2015. Tlou is now dual listed on the Australian Securities Exchange (trading code: TOU) and AIM Market (trading code: TLOU). Tlou's dual listing on AIM widens the appeal of the Company, particularly in the UK market where there is considerable interest in African focused projects. In the longer term the listing may also enhance stock liquidity and facilitate access to a deeper pool of funding for its future power generation plans aimed at helping the Southern African Development Community (SADC) cope with the current power crisis.

Tlou continues to make progress on its downstream plans for the development of gas-to-power projects in Botswana. This was boosted significantly following sanction from the Government for a 50MW CBM fuelled power project. This is five times larger than expected and demonstrates the strength of the government's support for the development of domestic sources of power. Tlou is in discussions with a number of power development, investor and lender groups with a strong appetite for African based energy projects. There is considerable interest from these groups to partner with Tlou to initially develop the

50MW gas-to-power project in Botswana and thereafter, expand to cover the chronic energy supply shortfalls being experienced in Botswana and throughout southern Africa.

The Company has also progressed its application for an Environmental Impact Statement (“EIS”) for project development. Tlou has submitted an environmental project brief, held public consultations, completed specialist environmental studies and submitted a scoping report which was approved by the Department of Environmental Affairs (“DEA”). Following this approval, Tlou then submitted its final EIS for field development of the Lesedi CBM project. Review and approval of the EIS by the DEA is the final stage in the process. Tlou is expecting to receive EIS approval in the near term. The EIS for the Lesedi CBM Project is a full development EIS comprising of production pods and a processing facility to process the gas and water produced from the wells. Further EIS’s will be required for transport of gas or power and the construction of a power station.

### **Significant changes in the state of affairs**

During the year ended 30 June 2016, 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**

In September 2016, the Company completed a placement to sophisticated and professional investors raising ~\$3 million with the proceeds to be used to further the operations in Botswana and provide additional working capital. 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**

Production testing is continuing in the Lesedi CBM area. The aim of this is to provide sufficient data to facilitate the booking of initial independently certified reserves. These reserves and the terms of the proposed off-take agreement for the 50MW project are key elements of the forward plan for the Company. The electricity market in southern Africa continues to suffer from chronic shortage of supply, so development of gas and gas fired power to the Botswana power grid, to industrial users and to neighbouring countries remain very 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

### 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
Interest in Shares and options	17,796,487 Ordinary Shares

### Experience

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

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

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

### Martin McIver MBA

Special Responsibilities	Non-executive Chairman Chairman of the Audit Committee Chairman of the Risk Committee Chairman of the Remuneration Committee
Interest in Shares and options	296,088 Ordinary Shares

### Experience

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

Martin has over 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 General Manager – Services of the Workpac group.

**Gabaake Gabaake B.Sc.**

Special Responsibilities	Executive Director Member of the Remuneration Committee
Interest in Shares and options	80,857 Ordinary Shares

**Experience**

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

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

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

**Colm Cloonan FCCA**

Special Responsibilities	appointed 11 February 2016 Finance Director Member of the Risk Committee Member of the Remuneration Committee
Interest in Shares and options	269,525 Ordinary Shares

**Experience**

Colm Cloonan is the Company’s Finance Director. Colm is a Fellow of the Association of Chartered Certified Accountants (FCCA) with over 17 years’ experience in various finance roles.

Colm began his career in Ireland working with clients in different industries. He moved to Australia in 2005 and commenced working with an audit and business services firm in Brisbane then later as an independent consultant providing financial and management accounting services. Colm has significant experience working with clients in retail, travel, motor and power generation industries.

Colm joined Tlou in 2009 at the very early stages of the company’s activities and has been with the company through all phases of its operations and development to date. This includes being a key member of the team involved in the company’s successful 2013 ASX listing and the 2015 AIM listing.

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

## **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 Limited has been designed to align the objectives of key management personnel with shareholder and business objectives. The Board of Tlou Energy Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the 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 reviews 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 determines payments to the Non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

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

Fees for Non-executive Directors are not linked to the performance of the 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.

**Key management personnel during the financial year ended 30 June 2016**

**Directors**

Anthony Gilby	Managing Director and Chief Executive Officer
Gabaake Gabaake	Executive Director
Martin Mclver	Non-executive Chairman
Colm Cloonan	Finance Director; appointed 11 February 2016
Nathan Mitchell	Non-executive Chairman; resigned 11 February 2016

**Executives**

Solomon Rowland	Company Secretary; appointed 19 August 2015
Stephen Rodgers	Company Secretary; resigned 19 August 2015
Glen Smith	Chief Operating Officer; ceased 13 December 2105

There were no other key management personnel of the Group at 30 June 2016.

### 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 2016

	Short-term benefits		Post Employment benefits	Long term benefits		Options	Share based payments	Total
	Salary & Fees	Cash Bonus	Superannuation	Leave Benefits	Total Cash Remuneration		Options as a % of Total Remuneration	
	\$	\$	\$	\$	\$	\$		\$
<b>Directors</b>								
N Mitchell <sup>1</sup>	15,591	-	1,481	-	17,072	-	0%	17,072
A Gilby	227,584	-	12,933	5,844	246,361	-	0%	246,361
M McIver	22,500	-	2,137	-	24,637	-	0%	24,637
G Gabaake	113,117	-	10,046	9,426	132,589	-	0%	132,589
C Cloonan	183,605	-	17,442	7,717	208,764	-	0%	208,764
<b>Total Directors</b>	<b>562,397</b>	<b>-</b>	<b>44,039</b>	<b>22,987</b>	<b>629,423</b>	<b>-</b>		<b>629,423</b>
<b>Executives</b>								
S Rowland <sup>2</sup>	115,500	-	10,973	5,076	131,549	-	0%	131,549
S Rodgers <sup>3</sup>	6,000	-	-	-	6,000	-	0%	6,000
G Smith <sup>4</sup>	201,668	-	-	-	201,668	-	0%	201,668
<b>Total Executives</b>	<b>323,168</b>	<b>-</b>	<b>10,973</b>	<b>5,076</b>	<b>339,217</b>	<b>-</b>		<b>339,217</b>
<b>Total</b>	<b>885,565</b>	<b>-</b>	<b>55,012</b>	<b>28,063</b>	<b>968,640</b>	<b>-</b>		<b>968,640</b>

1. Represents remuneration from 1 July 2015 to 11 February 2016
2. Represents remuneration from 19 August 2015 to 30 June 2016
3. Represents remuneration from 1 July 2015 to 19 August 2015
4. Represents remuneration from 1 July 2015 to 13 December 2015

During the 2016 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.



## Benefits and Payments for the Year Ended 30 June 2015

	Short-term benefits		Post Employment benefits	Long term benefits		Options	Share based payments	Total
	Salary & Fees	Cash Bonus	Superannuation	Leave Benefits	Total Cash Remuneration		Options as a % of Total Remuneration	
<b>Directors</b>	\$	\$	\$	\$	\$	\$		\$
N Mitchell	36,000	-	3,420	-	39,420	-	0%	39,420
A Gilby	491,727	-	19,476	40,977	552,180	-	0%	552,180
M McIver	36,000	-	3,420	-	39,420	-	0%	39,420
G Gabaake*	41,623	-	6,197	3,469	51,289	-	0%	51,289
C Pieters**	25,085	-	2,383	-	27,468	-	0%	27,468
<b>Total Directors</b>	<b>630,435</b>	<b>-</b>	<b>34,896</b>	<b>44,446</b>	<b>709,777</b>	<b>-</b>		<b>709,777</b>
<b>Executives</b>								
S Rodgers	38,000	-	-	-	38,000	-	0%	38,000
G Smith	458,341	-	-	-	458,341	-	0%	458,341
C Cloonan	200,000	-	19,000	16,667	235,667	-	0%	235,667
<b>Total Executives</b>	<b>696,341</b>	<b>-</b>	<b>19,000</b>	<b>16,667</b>	<b>732,008</b>	<b>-</b>		<b>732,008</b>
<b>Total</b>	<b>1,326,776</b>	<b>-</b>	<b>53,896</b>	<b>61,113</b>	<b>1,441,785</b>	<b>-</b>		<b>1,441,785</b>

\* Represents remuneration from 11 March 2015 to 30 June 2015

\*\* Represents remuneration from 1 July 2014 to 11 March 2015

During the 2015 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. 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.
Solomon Rowland	Company Secretary
Term of Agreement:	Mr Rowland's services are provided in a personal capacity. The agreement has no fixed term.
Base Fee:	Based on the contracted rate the estimated annual cost to the Group is approximately \$145,000.
Termination Benefit:	No termination benefit is payable if terminated for cause.
Termination Notice:	The Company may give the Company Secretary two months' notice of its intention to terminate the Agreement.
Gabaake Gabaake	Executive Director
Term of Agreement:	Mr Gabaake's services are provided in a personal capacity. The agreement has no fixed term.
Base Fee:	Based on the contracted rate the estimated annual cost to the Group is approximately \$125,000.
Termination Benefit:	No termination benefit is payable if terminated for cause.
Termination Notice:	The Company may give the Managing Director two months' notice of its intention to terminate the Agreement.
Colm Cloonan	Finance Director
Term of Agreement:	Mr Cloonan's services are provided in a personal capacity. The agreement has no fixed term.
Base Fee:	Based on the contracted rate the estimated annual cost to the Group is approximately \$220,000.
Termination Benefit:	No termination benefit is payable if terminated for cause.
Termination Notice:	The Company may give the Finance Director two months' notice of its intention to terminate the Agreement.

### Share-based compensation

There were no Share based payments to key management personnel during the year ended 30 June 2016 (2015: Nil).

### 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:

30 June 2016	Balance at beginning of year	Granted as remuneration during the year	Additions	Disposals	Balance at date of resignation / appointment	Balance at end of year
N Mitchell	16,680,814	-	-	-	(16,680,814)	-
A Gilby	17,796,487	-	-	-	-	17,796,487
M Mclver	296,088	-	-	-	-	296,088
G Gabaake	80,857	-	-	-	-	80,857
C Cloonan	269,525	-	-	-	-	269,525
S Rowland	-	-	-	-	-	-
S Rodgers	111,666	-	-	-	(111,666)	-
G Smith	-	-	-	-	-	-
	<b>35,235,437</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(16,792,480)</b>	<b>18,442,957</b>

**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 2016	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
N Mitchell	1,500,000	-	-	(1,500,000)	-	-	-
A Gilby	4,000,000	-	-	(4,000,000)	-	-	-
M Mclver	250,000	-	-	(250,000)	-	-	-
G Gabaake	100,000	-	-	(100,000)	-	-	-
C Cloonan	250,000	-	-	(250,000)	-	-	-
S Rowland	-	-	250,000	(250,000)	-	-	-
S Rodgers	250,000	-	-	(250,000)	-	-	-
G Smith	350,000	-	-	(350,000)	-	-	-
<b>Total</b>	<b>6,700,000</b>	<b>-</b>	<b>250,000</b>	<b>(6,950,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>

**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.

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Share price at end of financial year (\$)	0.07	0.13	0.30	0.25
Market capitalisation at end of financial year (\$M)	14	24	44	26
Loss for the financial year (\$)	(3,065,583)	(2,730,900)	(2,289,366)	(6,087,074)
Cash spend on exploration programs (\$)	(5,783,800)	(4,529,184)	(8,670,411)	(2,292,295)
Director and Key Management Personnel remuneration (\$)	<u>968,640</u>	<u>1,441,785</u>	<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 2016 financial year.

### Other transactions with key management personnel

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<u>Payment for goods and services:</u>		
Payment to The Gilby McKay Alice Street Partnership	<b>46,500</b>	100,000
Office rent paid to The Gilby McKay Alice Street Partnership, a director-related entity of Anthony Gilby.		
Payment to Fleur Gilby	-	2,628
Salary paid to Fleur Gilby, related entity of Anthony Gilby.		

#### Receivable from and payable to related parties

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

#### Current payables:

Trade payables to The Gilby McKay Alice Street Partnership	<b>1,925</b>	6,600
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.

(End of Remuneration Report)

### Company secretary

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

Mr Rowland is a commercial lawyer with over 16 years' experience in various private, government and in-house legal roles. Solomon holds a Juris Doctor from the University of Queensland.

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

### Meetings of directors

The number of meetings of the consolidated entity's Board of Directors and audit committee held during the year ended 30 June 2016, and the number of meetings attended by each Director were:

	Full Board		Audit Committee		Risk & Remuneration Committees	
	Attended	Held	Attended	Held	Attended	Held
N Mitchell	8	8	-	-	-	-
A Gilby	10	12	1	1	-	-
M Mclver	12	12	2	2	-	-
G Gabaake	11	12	1	1	-	-
C Cloonan	4	4	-	-	-	-

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
30-Nov-15	29-Nov-17	\$0.140	1,500,000
14-Jan-16	14-Jan-18	\$0.140	500,000

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 2016 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 Audit Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

**Non-audit services**

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor’s expertise and experience with the Company and/or the 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 non-audit services provided during the year are set out below.

	<b>2016</b>	<b>2015</b>
	\$	\$
Non-audit services - BDO Australia		
Tax consulting and compliance services	16,132	17,176
AIM listing	36,983	-
	53,115	17,176

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  
13 September 2016

## Auditor's independence declaration



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Brisbane QLD 4000  
GPO Box 457 Brisbane QLD 4001  
Australia

### DECLARATION OF INDEPENDENCE BY D P WRIGHT TO THE DIRECTORS OF TLOU ENERGY LIMITED

As lead auditor of Tlou Energy Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'D P Wright', enclosed in a light grey rectangular box.

**D P WRIGHT**  
Director

**BDO Audit Pty Ltd**

Brisbane, 13 September 2016



## Annual Review of Operations

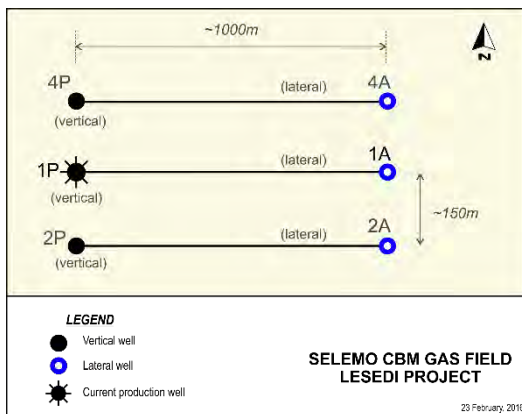
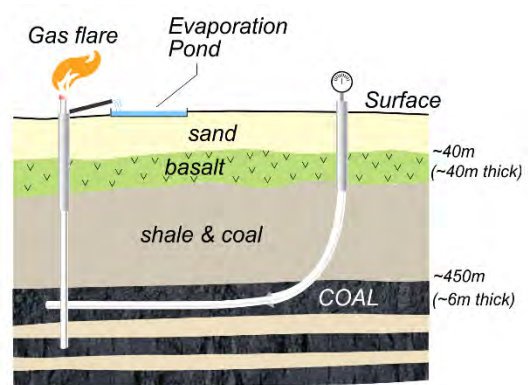
Tlou has continued to make progress on its CBM tenements in Botswana and in particular at the Lesedi CBM project. Some of the key achievements over the period have been:

- Successful completion of the Selemo expansion program;
- Commencement of production testing on all three Selemo pods, (Selemo 1, 2 and 4);
- Achieving sustained gas flow rates;
- Completion and submission of an environmental impact statement for the Lesedi CBM project; and
- Government sanctioning a 50MW CBM fired power project

### Selemo Expansion

Completion of the Selemo expanded pilot pod drilling program involved the drilling of two additional horizontal pilot well pods adjacent to the existing Selemo 1 Pilot. Tlou successfully completed the drilling of the two new lateral production wells in September 2015 with production testing operations commencing shortly thereafter.

Following these operations the Selemo area consists of three well pods, each consisting of a vertical well intersected by a lateral well. Selemo 1 is the central pod, with Selemo 2 to the south and Selemo 4 to the north. Selemo 2 and 4 were drilled as shielding wells to keep water out of the central area, around Selemo 1, allowing it to produce economic levels of gas.



Tlou was able to achieve drilling efficiencies having incorporated the experience of previous drilling campaigns. The Company is very pleased with the final cost of the wells and is confident that further efficiencies can be achieved with economies of scale from larger drilling programs.

The aim of the expanded Selemo pilot program is to provide evidence of sustainable gas production rate achievable from the field. This process will also provide vital data on well performance which can then be incorporated into field development plans.

### Selemo – Production testing

Each new vertical production well was completed with down-hole equipment to enable water level reduction and allow gas to be liberated from the coal. Dewatering operations commenced in late 2015 and proceeded in a controlled manner with all three wells reaching critical desorption pressure and steadily building wellhead pressure.

Long term testing on Selemo 1 commenced in February 2016, with Selemo 2 and 4 wells maintaining static fluid levels at the critical desorption point and shielding water from Selemo 1, the central well where initial gas has been flared. Following shielding of Selemo 1 from water influx and gaining better understanding of the water producing capacity of the coal, the Company commenced drawdown on all wells in April 2016, thereby expediting the process of achieving a sustained gas rate from the production pilot.

### **Selemo – Sustained Gas flows**

Production data to date has been very encouraging, with flow rates tracking well against the expectations of the Company's reservoir engineers prior to commencement of the testing process. A sustained gas flow was achieved at Selemo 1 initially and later at Selemo 4. This is a significant milestone and a key step in the process of achieving an economic flow rate. Gas rates are expected to grow over the coming months.

Selemo 4, although drilled as a shielding well to keep water out of the central area, having demonstrated sustained gas flows, is a very favourable outcome for the company and exceeded Tlou's expectations and could potentially be a second key gas producing well in addition to Selemo 1. Selemo 4 is expected to continue to produce enhanced gas rates with further dewatering.

### **Environmental Impact Statement submitted**

Tlou, along with its Botswana based environmental consultants Ecosurv, made significant progress on environmental matters for the Lesedi CBM Project during the year, having:

- Submitted an environmental project brief;
- Held public consultations;
- Completed specialist environmental studies;
- Submitted a scoping report; and
- Submitted the final environmental impact statement.

During the year the Scoping Report was approved by the Department of Environmental affairs (DEA). Following this approval, Tlou submitted its final Environmental Impact Statement (EIS) for the Lesedi CBM project. Review and approval of the EIS by the DEA is the final stage in the environmental process. Tlou is expecting to receive EIS approval in the near term.

The EIS for the Lesedi CBM Project is a 'full development' EIS comprising production pods and a central processing facility for the gathering and beneficiation of gas and water.

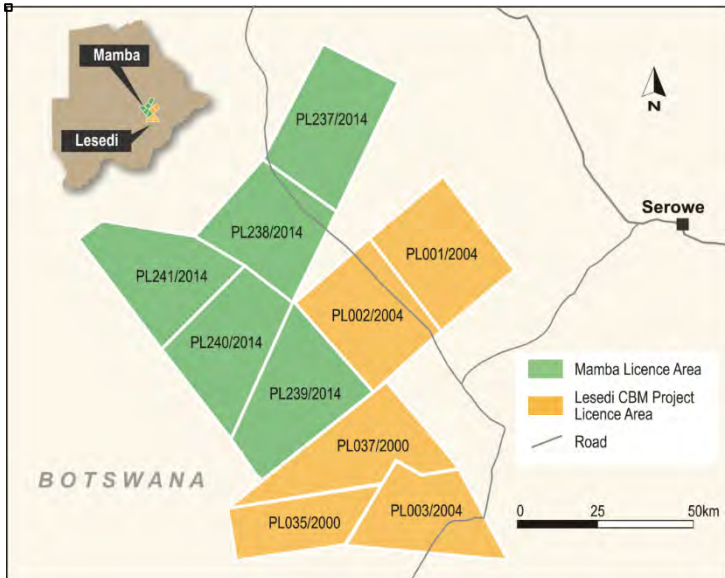
### **50MW Project**

Just after year end, Tlou received confirmation that it has been selected to tender for and develop a CBM power plant at the Company's 100% owned Lesedi CBM Project, by Botswana's Public Procurement and Asset Disposal Board ('PPADB').

In late 2015 Botswana's Government Ministry of Minerals, Energy and Water Resources issued a request to submit technical information for the supply of emergency power to address the country's chronic power deficiency and to assist fast tracking the development of the gas industry in the country. This is due to the fact that the country imports significant amounts of power due to the continued and still unsuccessful remedial work taking place at Botswana's Morupule A and B coal fired power stations.

The initial proposal submitted by Tlou was for a 10MW gas-to-power pilot project. The 50MW project sanction is a welcome development and in line with the Company's plans to expand the Lesedi project to supply 50MW of power in the medium term in modular stages.

The application process involved approval by Botswana's Government Cabinet, following which it was reviewed by the PPADB. The next step is for the Company to receive full details from the MMEWR. Once received, Tlou will commence work on a detailed proposal for the supply of CBM power, including negotiations on the terms of an off-take agreement, network access and project funding.



**Mamba Project area exploration**

Tlou holds five prospecting licences (“PLs”) in an area internally referred to as the Mamba Area. These permits cover an area of approximately 4,500km<sup>2</sup>. The Mamba permits are considered to be highly prospective and are located adjacent to Tlou’s Lesedi CBM Project.

A work program is likely to be conducted in this area in the near future following completion of the production testing operations in the Lesedi project. In the event of a gas field development, the Mamba area provides Tlou with considerable flexibility and optionality.

**Forward Work Programs**

Where possible, the Company plans to conduct work programs in both its Lesedi and Mamba areas over the coming year, with the significant portion of operations likely to be focused on the Lesedi area to advance the project towards production.

FINANCIAL REPORT

2016





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## Consolidated Statement of Comprehensive Income for the year ended 30 June 2016

	Note	Consolidated	
		June 2016 \$	June 2015 \$
Other income	3	27,857	114,133
<b>Expenses</b>			
Employee benefits expense	4	(613,809)	(1,290,766)
Depreciation and amortisation expense		(260,564)	(304,746)
Foreign exchange loss		(247,007)	120,835
Share issue costs		(779,310)	-
Professional fees		(185,566)	(205,861)
Corporate expenses		(57)	(55,732)
Occupancy costs	4	(64,601)	(169,256)
Other expenses	4	(942,526)	(939,507)
<b>LOSS BEFORE INCOME TAX</b>		<b>(3,065,583)</b>	<b>(2,730,900)</b>
Income tax	5	-	-
<b>LOSS FOR THE PERIOD</b>		<b>(3,065,583)</b>	<b>(2,730,900)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
<b>Items that may be reclassified to profit or loss</b>			
Exchange differences on translation of foreign operations		(2,395,125)	2,139,374
Tax effect		-	-
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)</b>		<b>(2,395,125)</b>	<b>2,139,374</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>		<b>(5,460,708)</b>	<b>(591,526)</b>
<b>Earnings per share</b>			
		Cents	Cents
Basic loss per share	6	(1.5)	(1.8)
Diluted loss per share	6	(1.5)	(1.8)

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

## Consolidated Statement of Financial Position as at 30 June 2016

	Note	Consolidated	
		June 2016	June 2015
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	1,224,404	7,197,813
Trade and other receivables	8	290,431	221,944
Other current assets	9	43,969	214,291
<b>TOTAL CURRENT ASSETS</b>		<b>1,558,804</b>	<b>7,634,048</b>
<b>NON-CURRENT ASSETS</b>			
Exploration and evaluation assets	11	46,183,722	43,559,315
Other non-current assets	12	946,675	1,378,017
Property, plant and equipment	10	444,358	724,334
<b>TOTAL NON-CURRENT ASSETS</b>		<b>47,574,755</b>	<b>45,661,666</b>
<b>TOTAL ASSETS</b>		<b>49,133,559</b>	<b>53,295,714</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	306,956	1,321,234
Provisions	14	160,874	274,094
<b>TOTAL CURRENT LIABILITIES</b>		<b>467,830</b>	<b>1,595,328</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	15	369,353	369,353
Provisions	14	94,000	90,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>463,353</b>	<b>459,353</b>
<b>TOTAL LIABILITIES</b>		<b>931,183</b>	<b>2,054,681</b>
<b>NET ASSETS</b>		<b>48,202,376</b>	<b>51,241,033</b>
<b>EQUITY</b>			
Contributed equity	16	73,931,569	71,606,519
Reserves	17	(4,741,113)	(380,244)
Accumulated losses		(20,988,080)	(19,985,242)
<b>TOTAL EQUITY</b>		<b>48,202,376</b>	<b>51,241,033</b>

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

## Consolidated Statement of Changes in Equity for the year ended 30 June 2016

	Contributed Equity	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2014</b>	66,532,786	4,225,291	(4,582,363)	(19,416,888)	46,758,826
Profit for the period	-	-	-	(2,730,900)	(2,730,900)
Other comprehensive income for the period	-	-	2,139,374	-	2,139,374
Total comprehensive income for the period	-	-	2,139,374	(2,730,900)	(591,526)
<b>Transactions with owners in their capacity as owners</b>					
Transfers	-	(2,162,546)	-	2,162,546	-
Shares issued, net of costs	5,073,733	-	-	-	5,073,733
	5,073,733	(2,162,546)	-	2,162,546	5,073,733
<b>Balance at 30 June 2015</b>	71,606,519	2,062,745	(2,442,989)	(19,985,242)	51,241,033
<b>Balance at 1 July 2015</b>					
	71,606,519	2,062,745	(2,442,989)	(19,985,242)	51,241,033
Loss for the period	-	-	-	(3,065,583)	(3,065,583)
Other comprehensive income	-	-	(2,395,125)	-	(2,395,125)
Total comprehensive income	-	-	(2,395,125)	(3,065,583)	(5,460,708)
<b>Transactions with owners in their capacity as owners</b>					
Share based payments	-	97,001	-	-	97,001
Transfers	-	(2,062,745)	-	2,062,745	-
Shares issued, net of costs	2,325,050	-	-	-	2,325,050
	2,325,050	(1,965,744)	-	2,062,745	2,422,051
<b>Balance at 30 June 2016</b>	73,931,569	97,001	(4,838,114)	(20,988,080)	48,202,376

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



## Consolidated Statement of Cash Flows for the year ended 30 June 2016

	Note	Consolidated	
		June 2016 \$	June 2015 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees (inclusive of GST)		(2,896,862)	(2,377,461)
Interest received		27,857	114,133
GST and VAT received		565,759	392,645
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	27	<b>(2,303,246)</b>	<b>(1,870,683)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for exploration and evaluation assets		(5,783,800)	(4,529,184)
Payment for property, plant and equipment		(24,102)	(531,520)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(5,807,902)</b>	<b>(5,060,704)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		2,292,540	5,516,206
Share issue costs		(227,676)	(377,563)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		<b>2,064,864</b>	<b>5,138,643</b>
Net decrease in cash held		(6,046,284)	(1,792,745)
Cash at the beginning of the period		7,197,813	9,123,260
Effects of exchange rate changes on cash		72,875	(132,703)
<b>CASH AT THE END OF THE PERIOD</b>	7	<b>1,224,404</b>	<b>7,197,813</b>

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

## Notes to the financial statements

### Note 1. Significant accounting policies

#### Introduction

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

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 13 September 2016.

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.

## Note 1. Significant accounting policies (continued)

**Basis of preparation**

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

*Compliance with IFRS*

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

*Historical cost convention*

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

**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 for future exploration activity and meet other necessary corporate expenditure. The company has recently completed a capital raising which is expected to fund ongoing operations and working capital requirements for the next 12 months. Subject to the results of these operations the group may need to raise additional capital to expand and develop the project further. 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 30.

## Note 1. Significant accounting policies (continued)

**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, consolidated statement of changes in equity and consolidated statement of financial position respectively.

**(b) Foreign currency translation**

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

*Foreign currency transactions*

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

*Foreign operations*

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

**(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.

## Note 1. Significant accounting policies (continued)

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

**(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.

## Note 1. Significant accounting policies (continued)

**(g) Investments and other financial assets**

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

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

*Financial assets at fair value through profit or loss*

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

*Available-for-sale financial assets*

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

*Impairment of financial assets*

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

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

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

**(h) 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.

## Note 1. Significant accounting policies (continued)

**(i) 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.

**(j) 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.

**(k) 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.

**(l) 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.

## Note 1. Significant accounting policies (continued)

**(m) 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, a provision is made in the accounting period when the related disturbance occurs, based on the net present value of estimated future costs. The amortisation or 'unwinding' of the discount applied in establishing the net present value of provision is charged as a finance cost to the consolidated statement of comprehensive income in each accounting period.

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

**(n) 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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Severance pay*

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

*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.



## Note 1. Significant accounting policies (continued)

**(n) Employee benefits (continued)**

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.

**(o) 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.

**(p) Dividends**

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

**(q) Earnings per share***Basic and diluted earnings per share*

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

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

**(r) Goods and Services Tax ('GST') and other similar taxes**

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

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

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

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

**(s) Comparative figures**

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

## Note 1. Significant accounting policies (continued)

**(t) New Accounting Standards and Interpretations**

The Consolidated Entity has adopted all new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2015. The Consolidated Entity did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

**(u) New Standards and Interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods. The Consolidated Entity has decided against early adoption of these standards. The Consolidated Entity's assessment of the impact of these new standards and interpretations is set out below:

**AASB 9 Financial Instruments**

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

**AASB 16: Leases**

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

The main changes introduced by the new Standard include:

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

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application. The 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 reporting 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 2016 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)

**Note 3. Other Income**

	Consolidated	
	June 2016	June 2015
	\$	\$
Interest	27,857	114,133
	<b>27,857</b>	<b>114,133</b>

**Note 4. Expenses**

Loss before income tax includes the following specific expenses:

## Employee benefits expense

• Defined contribution superannuation expense	46,535	79,277
• Other employee benefits expense	567,274	1,211,489
	<b>613,809</b>	<b>1,290,766</b>

## Occupancy costs

• Rental expense relating to operating leases – minimum lease rentals	64,601	169,247
• Other occupancy costs	-	9
	<b>64,601</b>	<b>169,256</b>

Other expenses include the following specific items:

• Travel and accommodation costs	140,462	318,376
• Consultants	365,460	228,755
• Stock exchange and secretarial fees	198,707	169,560
• Insurance	70,705	71,006
	<b>775,334</b>	<b>787,697</b>

Notes to the financial statements (continued)

**Note 5. Income Tax**

	Consolidated	
	June 2016	June 2015
	\$	\$
Loss before income tax	<b>(3,065,583)</b>	(2,730,900)
Tax at the domestic tax rates applicable to profits in the country concerned	<b>(919,675)</b>	(819,270)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Other non-deductible items	<b>244,706</b>	(35,835)
Difference in overseas tax rates	<b>329,015</b>	(305,225)
Previously unrecognised tax losses used to reduce deferred tax expense	-	-
Deferred tax asset not recognised	<b>345,954</b>	1,160,330
Income tax benefit	-	-
<b>Recognised deferred tax assets</b>		
Unused tax losses	<b>5,937,794</b>	6,890,812
<b>Recognised deferred tax liabilities</b>		
Assessable temporary differences	<b>6,307,147</b>	7,260,165
<b>Net deferred tax liability recognised</b>	<b>369,353</b>	369,353
<b>Unrecognised temporary differences and tax losses</b>		
Unused tax losses and temporary differences for which no deferred tax asset has been recognised	<b>25,426,397</b>	19,948,905

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.

**Note 6. Earnings per share**

	Consolidated	
	June 2016	June 2015
	\$	\$
(a) Reconciliation of earnings used in calculating basic and diluted loss per share:		
Loss for the year attributable to owners of Tlou Energy Limited	<b>(3,065,583)</b>	(2,730,900)
Loss used in the calculation of the basic and dilutive loss per share	<b>(3,065,583)</b>	(2,730,900)
(b) Weighted average number of ordinary shares used as the denominator		
Number used in calculating basic and diluted loss per share	Number 197,910,139	Number 147,862,795

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.

Notes to the financial statements (continued)

**Note 7. Cash and Cash Equivalents**

	Consolidated	
	June 2016	June 2015
	\$	\$
Cash at bank	1,224,404	6,897,813
Cash on deposit	-	300,000
	<b>1,224,404</b>	<b>7,197,813</b>

**Note 8. Trade and Other Receivables**

**Current**

Other receivables	244,369	239
GST/VAT receivable	46,062	221,705
	<b>290,431</b>	<b>221,944</b>

The carrying values of Trade and Other Receivables approximate fair values due to short-term nature of the amounts. These are non-interest bearing.

**Note 9. Other Current Assets**

Prepayments	43,969	214,291
	<b>43,969</b>	<b>214,291</b>

**Note 10. Property, Plant and Equipment**

	Consolidated	
	June 2016	June 2015
	\$	\$
Plant and equipment at cost	1,782,697	1,871,960
Accumulated depreciation	(1,338,339)	(1,147,626)
	<b>444,358</b>	<b>724,334</b>

**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	724,334	443,724
Additions	24,140	532,818
Disposals	(1,069)	(1,298)
Depreciation	(260,564)	(304,746)
Foreign exchange movements	(42,483)	53,836
Carrying amount at the end of year	<b>444,358</b>	<b>724,334</b>

Notes to the financial statements (continued)

**Note 11. Exploration and Evaluation Assets**

	Consolidated	
	June 2016	June 2015
	\$	\$
Exploration and evaluation assets	46,183,722	43,559,315
	<u>46,183,722</u>	<u>43,559,315</u>
<b>Movements in exploration and evaluation assets</b>		
Balance at the beginning of period	43,559,315	37,344,231
Exploration and evaluation expenditure during the year	4,572,815	4,184,820
Impairment expense	-	-
Foreign currency translation	(1,948,408)	2,030,264
Balance at the end of period	<u>46,183,722</u>	<u>43,559,315</u>

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

**Note 12. Other non-current assets**

	Consolidated	
	June 2016	June 2015
	\$	\$
Inventory and well consumables	946,675	1,378,017
	<u>946,675</u>	<u>1,378,017</u>

Inventory and well consumables has been reclassified as a non-current asset. In the prior year it was reported under current assets.

**Note 13. Trade and Other Payables**

	Consolidated	
	June 2016	June 2015
	\$	\$
<b>Current</b>		
Trade payables	151,133	869,390
Accruals	145,793	415,984
Other payables	10,030	35,860
	<u>306,956</u>	<u>1,321,234</u>

The carrying values of Trade and Other Payables approximate fair values due to short-term nature of the amounts. These are non-interest bearing.

## Notes to the financial statements (continued)

**Note 14. Provisions**

	Consolidated	
	June 2016	June 2015
	\$	\$
<b>Current</b>		
Employee benefits	49,136	153,390
Employee benefits - Botswana severance	111,738	120,704
	<u>160,874</u>	<u>274,094</u>
<b>Non-current</b>		
Rehabilitation	94,000	90,000
	<u>94,000</u>	<u>90,000</u>
<b>Movements in rehabilitation provision during the year</b>		
Balance at the beginning of the year	90,000	66,000
Rehabilitation required on wells drilled during the year	4,000	24,000
Completed during the year	-	-
Carrying amount at the end of the year	<u>94,000</u>	<u>90,000</u>

**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.

**Note 15. Deferred Tax Liabilities**

	Consolidated	
	June 2016	June 2015
	\$	\$
Deferred tax liabilities	<u>369,353</u>	<u>369,353</u>



## Notes to the financial statements (continued)

**Note 16. Contributed equity**

	June 2016 Shares	June 2015 Shares	Consolidated	
			June 2016 \$	June 2015 \$
Opening balance	187,156,319	147,754,846	71,606,519	66,532,786
Issue of ordinary shares during the year*	18,462,973	39,401,473	2,584,816	5,516,206
Share issue costs	-	-	(259,766)	(442,473)
Ordinary shares <input checked="" type="checkbox"/> fully paid	<b>205,619,292</b>	187,156,319	<b>73,931,569</b>	71,606,519

\*15,973,306 shares were issued on 30 November 2015 and 2,489,667 shares were issued on 3 December 2015. All shares issued during the year were at \$0.14 per share.

**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 2016, the following options for ordinary shares in Tlou Energy Limited were on issue:

Number		Exercise Price	Expiry Date
2016	2015		
-	10,575,000	\$0.625	30/04/2016
1,500,000	-	\$0.14	29/11/2017
500,000	-	\$0.14	14/01/2018
<b>2,000,000</b>	<b>10,575,000</b>		

**Capital risk management**

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

When managing capital, management's objective is to ensure the parent entity continues as a going concern and to maintain a structure that ensures the lowest cost of capital available and to ensure adequate capital is available for exploration and evaluation of tenements. In order to maintain or adjust the capital structure, the 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.

**Note 17. Reserves****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.

Notes to the financial statements (continued)

**Note 18. 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 consolidated statement of comprehensive income in relation to share based payments amounts to \$16,900 (2015: nil). 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.

Inputs used to calculate the value of options granted during the year are as follows:

Grant date	30/11/15	14/01/16
Dividend yield (%)	-	-
Expected volatility (%)	68	68
Risk-free interest rate (%)	1.94	1.94
Expected life of options (years)	2	2
Weighted average share price (\$)	\$0.14	\$0.14
Model used	Black Scholes	Black Scholes

The following table shows the number, movements and weighted average exercise price of employee share options outstanding for the 2016 year:

<i>Grant Date</i>	<i>Expiry date</i>	<i>Exercise price</i>	<b>Opening Balance July 2015</b>	<b>Exercised During the Year</b>	<b>Granted During the Year</b>	<b>Expired During the year</b>	<b>Closing Balance June 2016</b>	<b>Vested &amp; Exercisable</b>
01/07/12	30/04/16	\$0.625	10,175,000	-	-	(10,175,000)	-	-
01/04/14	30/04/16	\$0.625	400,000	-	-	(400,000)	-	-
30/11/15	29/11/17	\$0.14	-	-	1,500,000	-	1,500,000	1,500,000
14/01/16	14/01/18	\$0.14	-	-	500,000	-	500,000	500,000
<b>Total</b>			<b>10,575,000</b>	<b>-</b>	<b>2,000,000</b>	<b>(10,575,000)</b>	<b>2,000,000</b>	<b>2,000,000</b>
Weighted average exercise price			\$0.63	-	\$0.14	\$0.63	\$0.14	\$0.14

The weighted average remaining contractual life of share options outstanding at the end of the year was 1.4 years.

The following table shows the number, movements and weighted average exercise price of employee share options outstanding for the 2015 year:

<i>Grant Date</i>	<i>Expiry date</i>	<i>Exercise price</i>	<b>Opening Balance July 2014</b>	<b>Exercised During the Year</b>	<b>Granted During the Year</b>	<b>Expired During the year</b>	<b>Closing Balance June 2015</b>	<b>Vested &amp; Exercisable</b>
01/07/12	30/04/16	\$0.625	10,175,000	-	-	-	10,175,000	10,175,000
01/04/14	30/04/16	\$0.625	400,000	-	-	-	400,000	400,000
<b>Total</b>			<b>10,575,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,575,000</b>	<b>10,575,000</b>
Weighted average exercise price			\$0.63	-	-	-	\$0.63	\$0.63

The weighted average remaining contractual life of share options outstanding at the end of the year was 0.8 years.

Notes to the financial statements (continued)

Note 18 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 2016	June 2015
	\$	\$
Options expensed	16,900	-
Options capitalised	80,101	-
	97,001	-

**Note 19. Commitments**

**Operating lease commitments**

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

	Consolidated	
	June 2016	June 2015
	\$	\$
Payable - minimum lease payments		
• not later than 12 months	5,250	18,000
• between 12 months and 5 years	-	-
	5,250	18,000

**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:

	Consolidated	
	June 2016	June 2015
	\$	\$
Minimum expenditure requirements		
• not later than 12 months	25,668,594	15,051,886
• between 12 months and 5 years	-	16,986,978
	25,668,594	32,038,864

**Note 20. 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 21. 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:

	<b>Consolidated</b>	
	<b>June 2016</b>	<b>June 2015</b>
<b>Financial Assets</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	<b>1,224,404</b>	7,197,813
Trade and other receivables	<b>290,431</b>	221,944
	<b>1,514,835</b>	7,419,757
<b>Financial Liabilities</b>		
Trade and other payables	<b>306,956</b>	1,321,234
	<b>306,956</b>	1,321,234

**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 21 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
	\$	\$	\$	\$
<b>Consolidated - 30 June 2016</b>				
Cash and cash equivalents	12,244	(12,244)	12,244	(12,244)
<b>Consolidated - 30 June 2015</b>				
Cash and cash equivalents	71,978	(71,978)	71,978	(71,978)

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 \$1,224,404 (2015: \$7,197,813).

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

	Within	Between	Total Contractual	Carrying
	1 Year	1 & 2 years	Cash Flows	Amount
	\$	\$	\$	\$
<b>Consolidated - 30 June 2016</b>				
Trade and other payables	306,956	-	306,956	306,956
<b>Consolidated - 30 June 2015</b>				
Trade and other payables	1,321,234	-	1,321,234	1,321,234

Notes to the financial statements (continued)

Note 21 Financial instruments (continued)

**(c) Foreign exchange risk**

As a result of activities overseas, the group's consolidated 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.

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

	2016 USD \$	2016 Pula \$	2016 SA Rand \$	2015 USD \$	2015 Pula \$	2015 SA Rand \$
<b>Financial Assets</b>						
Cash and cash equivalents	21,279	100,871	8,976	176,331	69,954	27,051
Trade and other receivables	-	28,313	-	-	177,007	-
<b>Financial Liabilities</b>						
Trade and other payables	-	(154,024)	-	-	(992,476)	-
<b>Net Financial Instruments</b>	<b>21,279</b>	<b>(24,840)</b>	<b>8,976</b>	<b>176,331</b>	<b>(745,515)</b>	<b>27,051</b>

**Foreign currency rate sensitivity**

Based on financial instruments held at 30 June 2016, 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 \$
<b>2016</b>				
US dollar	(2,182)	2,182	(2,182)	2,182
Bw Pula	2,484	(2,484)	2,484	(2,484)
South African Rand	(898)	898	(898)	898
<b>2015</b>				
US dollar	(17,633)	17,633	(17,633)	17,633
Bw Pula	74,552	(74,552)	74,552	(74,552)
South African Rand	(2,705)	2,705	(2,705)	2,705

## Notes to the financial statements (continued)

## Note 21 Financial instruments (continued)

**(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 and a balance payable to the group by Brandon Hill Capital. 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 2016 \$nil (2015: \$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.

**Note 22. Key Management Personnel**

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

Detailed remuneration disclosures are provided in the remuneration report on pages 12 to 18.

**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:

	<b>Consolidated</b>	
	<b>June 2016</b>	<b>June 2015</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	<b>885,565</b>	1,326,776
Post-employment benefits	<b>55,012</b>	53,896
Other long-term benefits	<b>28,063</b>	61,113
	<b>968,640</b>	1,441,785
Share based payments	-	-
	<b>968,640</b>	1,441,785

Notes to the financial statements (continued)

**Note 23. Auditors' Remuneration**

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

	Consolidated	
	June 2016	June 2015
	\$	\$
Audit services		
Auditing or reviewing the financial statements - BDO Australia	48,500	45,575
Auditing or reviewing the financial statements - BDO Botswana	25,088	28,744
	<b>73,588</b>	<b>74,319</b>
Non-audit services - BDO Australia		
Tax consulting and compliance services	16,132	17,176
AIM listing	36,983	-
	<b>53,115</b>	<b>17,176</b>
Total	<b>126,703</b>	<b>91,495</b>

**Note 24. Contingent Liabilities**

The Directors are not aware of any contingent liabilities (2015: \$nil).

**Note 25. Related Party Transactions****Parent entity**

The legal parent entity is Tlou Energy Limited.

**Subsidiaries**

Interests in subsidiaries are set out in note 28.

**Transactions with related parties**

The following transactions occurred with related parties:

	Consolidated	
	2016	2015
	\$	\$
<u>Payment for goods and services:</u>		
Payment to The Gilby McKay Alice Street Partnership	46,500	100,000
Office rent paid to The Gilby McKay Alice Street Partnership, a director-related entity of Anthony Gilby.		
Payment to Fleur Gilby	-	2,628
Salary paid to Fleur Gilby, related entity of Anthony Gilby.		

Receivable from and payable to related parties

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

Current payables:

Trade payables to The Gilby McKay Alice Street Partnership	1,925	6,600
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 26. 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 2016 no revenue has been derived from its operations (2015: \$nil).

Segment assets

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

	June 2016	June 2015
	\$	\$
Botswana	47,574,122	44,281,700
Australia	633	1,949
	<hr/>	<hr/>

**Note 27. Cash Flow Information**

	Consolidated	
	June 2016	June 2015
	\$	\$
<b>Reconciliation of cash flow from operations</b>		
Loss for the period	(3,065,583)	(2,730,900)
Depreciation	260,564	304,746
Share-based payments	97,001	-
Salaries and fees paid in equity	(97,000)	-
Net exchange differences	247,007	217,466
Changes in operating assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
Decrease/(increase) in trade and other receivables	(68,487)	(128,000)
Decrease/(increase) in other assets	431,342	(1,077,913)
Increase/(decrease) in trade payables and accruals	(165,192)	1,271,726
Decrease/(increase) in employee benefits	170,322	207,618
Increase/(decrease) in provisions	(113,220)	64,574
	<hr/>	<hr/>
	(2,303,246)	(1,870,683)

## Notes to the financial statements (continued)

**Note 28. Subsidiaries**

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

Name of entity	Country of incorporation	Class of shares	Equity holding %	
			June 2016	June 2015
Tlou Energy Botswana (Proprietary) Ltd	Botswana	Ordinary	100	100
Techleads International Inc	Barbados	Ordinary	100	100
Tlou Energy Exploration (Proprietary) Limited	Botswana	Ordinary	100	100
Sable Energy Holdings (Barbados) Inc	Barbados	Ordinary	100	100
Tlou Energy Resources (Proprietary) Limited	Botswana	Ordinary	100	100
Copia Resources Inc	Barbados	Ordinary	100	100
Tlou Energy Corp Services Botswana (Proprietary) Limited	Botswana	Ordinary	100	100
Madra Holdings (Barbados) Inc	Barbados	Ordinary	100	100
Tlou Energy Solutions (Proprietary) Limited	Botswana	Ordinary	100	100
Agua Energy Limitada	Mozambique	Ordinary	100	100
Mica Investments (Barbados) Inc	Barbados	Ordinary	100	100
SK Holdings (Barbados) Inc	Barbados	Ordinary	100	100
Tlou South Karoo (Proprietary) Limited	Botswana	Ordinary	100	100
Apex Resources No. 2 Inc	Barbados	Ordinary	100	100
Apex Resources Holdings No. 2 Corp	British Virgin Islands	Ordinary	100	100
Tembo Holdings Inc	British Virgin Islands	Ordinary	100	100

**Note 29. Subsequent Events**

In September 2016, the company completed a placement to sophisticated and professional investors raising ~\$3 million with the proceeds to be used to further the operations in Botswana and provide additional working capital.

No other matter or circumstance has arisen since 30 June 2016 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)

**Note 30. Parent entity disclosures**

	Parent	
	June 2016	June 2015
	\$	\$
Current assets	1,411,310	7,308,112
Non-current assets	30,214,384	34,814,162
<b>Total assets</b>	<b>31,625,694</b>	<b>42,122,274</b>
Current liabilities	173,688	413,722
Total liabilities	173,688	413,722
<b>Net assets</b>	<b>31,452,006</b>	<b>41,708,552</b>
Contributed equity	73,931,569	71,606,519
Share based payment	2,159,745	4,225,292
Accumulated losses	(44,639,308)	(34,123,259)
<b>Total equity</b>	<b>31,452,006</b>	<b>41,708,552</b>
Loss for the period	2,598,498	2,090,072
<b>Total comprehensive income</b>	<b>2,598,498</b>	<b>2,090,072</b>

**Commitments, Contingencies and Guarantees of the Parent Entity**

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

## Directors' declaration

In the Directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2016 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 2016 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

A handwritten signature in blue ink, appearing to read 'A. R. Gilby', with a horizontal line underneath.

Anthony Gilby  
Director

Brisbane  
13 September 2016

## 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 consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated 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 2016 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.

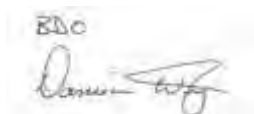
### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 18 of the directors' report for the year ended 30 June 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.

### BDO Audit Pty Ltd



**D P Wright**  
**Director**

Brisbane, 13 September 2016

## Corporate Governance Statement

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

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

The Council’s recommendations are not prescriptive and, if certain recommendations are not appropriate for the Company given its circumstances, it may elect not to adopt that particular practice in limited circumstances. The Company believes that during the reporting period ending 30 June 2016 its practices are largely consistent with those of the 3<sup>rd</sup> Edition Recommendations and where they do not follow a recommendation this statement identifies those that have not been followed and details reasons for non-adherence. Even where there is a deviation from the recommendations the Company continues to review and update its policies and practices in order that it keeps abreast of the growth of the Company, the broadening of its activities, current legislation and good practice.

This Corporate Governance statement reports on the main practices of Tlou Energy as at the 8<sup>th</sup> of September 2016 and has been approved by the Board of Directors.

### Role of the Board

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

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

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

(ASX Recommendation 1.1)

## The Board of Directors

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

<b>Name of Director</b>	<b>Board Membership</b>	<b>Date of Appointment/Resignation</b>
Martin Mclver	Non-executive Chairman	16 September 2010
Anthony Gilby	Managing Director	23 April 2009
Nathan Mitchell	Non-executive Chairman	23 April 2009/11 February 2016
Gabaake Gabaake	Executive Director	11 March 2015
Colm Cloonan	Finance Director	11 February 2016

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

(ASX Recommendation 1.2)

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

(ASX Recommendation 1.3)

## Company Secretary

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

(ASX Recommendation 1.4)

## Diversity Policy

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

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

(ASX Recommendation 1.5)

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

This process will involve the Chairman circulating to members of the Board a detailed questionnaire on performance indicators and collating the data from the same before discussing with each member of the Board and reviewing performance indicators



such as time engaged on Company business, so as to assess the effectiveness of processes structure and contributions made by individual directors.

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

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

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

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

### **Structure of Board to Add Value**

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

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

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

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

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

ASX Recommendation 2.4 requires a majority of the Board to be independent Directors. In addition, ASX Recommendation 2.5 requires the Chairman of the Company to be independent. The Council defines 'independence' as being a non-executive director who is not a member of management and who is free from any business or other relationship that could materially

interfere with or could reasonably be perceived to materially interfere with the independent exercise of their judgment. Based on this definition the current Directors, excluding Martin Mclver could not be considered independent by virtue of them being either executives, substantial shareholders of the Company or Directors or Officers of Companies that are substantial shareholders of the Company.

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

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

Notwithstanding that these 3<sup>rd</sup> Edition Recommendations in respect to the composition of the Board are not strictly followed it 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.

(ASX Recommendation 2.3)

The Board has established a Nomination and Remuneration Committee which regularly reviews Board membership. This includes considering what other skills that might be necessary for the Company to reach its strategic objectives. Due to the size of the Company the composition of the Committee does not comply with the ASX Recommendation 2.1. A copy of the Remuneration and Nominations Committee Charter is located on the website.

The Committee's members, the number of times that they have met throughout the reporting period and the member's attendance at those meetings is recorded in the section of the 2016 Annual Report headed "Directors Report".

(ASX Recommendation 2.1)

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

(ASX Recommendation 2.2)

Given the size of the Company there is no formal induction process for new directors. Rather any new Director will be provided with a personalised induction which will be dependent upon the skills and experience that any new Director might possess. Any new Director induction will include comprehensive meetings with senior management and the provision of relevant materials such as all the Company's policies and procedures as well as instruction in relation to these.

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

(ASX Recommendation 2.6)

## **Board Charter**

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

## **Conflicts of Interest**

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

## **Independence of Professional Advice**

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

## **Committees**

### **Audit Committee, Risk Committee and Remuneration & Nomination Committee**

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

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

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

- Martin Mclver – Chairman
- Anthony Gilby – Committee Member

## **Act Ethically and Responsibly**

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

(ASX Recommendation 3.1)

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

All Directors and Senior Executives will: -

1. Actively promote the highest standards of ethics and integrity in carrying out their duties for the Company;
2. Disclose any actual or perceived conflicts of interest of a direct or indirect nature of which they become aware and which they believe could compromise in any way the reputation or performance of the Company;
3. Respect confidentiality of all information of a confidential nature which is acquired in the course of the Company's business and not disclose or make improper use of such confidential information to any person unless specific authorisation is given for disclosure or disclosure is legally mandated;
4. Deal with the Company's suppliers, contractors, competitors and each other with the highest level of honesty, fairness and integrity and to observe the rule and spirit of the legal and regulatory environment in which the Company operates;
5. Report any breach of this code of conduct or other inappropriate or unethical conduct to the appropriate authority within the Group; and
6. This Code of Conduct is in addition to the Code of Conduct for all employees which has been adopted by the Board of the Company, 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 the Company's securities by people who work for or are associated with Company and assist in maintaining market confidence in the integrity of dealings in Tlou Energy securities. The Policy is posted on the Company's website to ensure that there is public confidence and understanding of the Company's policies governing trading by "potential insiders".

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

## **Safeguard Integrity in Financial Reporting**

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

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

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

## **Structure of the Audit Committee and Charter**

ASX Recommendation 4.1 states that the audit committee should have at least 3 members consisting only of non-executive directors, a majority of which should be independent with the Chair of the Committee being one of the independent directors who is not the chair of the Company. 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 only one is considered independent in accordance with the definition of independence prescribed by the ASX Corporate Governance Independence Criteria. The Company does not comply with this Recommendation due to the number on the Board and the current size and status of the Company.

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 Chair of the Committee is Martin McIver who is an independent non-executive director. He is however 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 members of the Committee have direct access to any employee, the auditors and financial and legal advisers without management present. The Committee meets as often as is required but no less than twice a year.

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

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

The role of the Audit Committee is to: -

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

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

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

(ASX Recommendation 4.2)

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

(ASX Recommendation 4.3)

## **Make Timely and Balanced Disclosure**

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

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

Methods of communication currently employed include:

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

## **Continuous Disclosure**

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

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

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

The Officers of the Company are committed to:

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

The Company uses its website [www.tlouenergy.com](http://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 including online voting. (ASX Recommendation 5.1)

## **Respect the Rights of Security Holders**

The Company keeps shareholders and other interested parties informed of performance and major developments via communications through its website. This includes details of the Governance framework adopted by the Company including copies of the Corporate Governance Policies and Charters. The link to which is: <http://tlouenergy.com/corporate-governance> (ASX Recommendation 6.1)

The Company has a Shareholder Communications and Engagement Policy that outlines the processes followed to ensure communication with shareholders and the investment community is effective, consistent and adheres to the principles of continuous disclosure. This is one of the policies available on the Governance page of the Company's website. (ASX Recommendation 6.2)

The policy regarding shareholder communication and engagement sets out the processes the Company has in place to facilitate and encourage the participation of shareholders and other investors at meetings and to engage with management. These include encouraging shareholders to attend the AGM and allowing them to vote on line if they are unable to attend the meeting. (ASX Recommendation 6.3)

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 and its activities. (ASX Recommendation 6.4)

## **Recognition and Management of Risk**

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

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

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

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

Specific functions of the Risk Committee are to: -

- (a) review and oversee the Company's risk profiles as developed and reported by management;
- (b) identify material business risks and monitor emerging risks and changes in the Company's risk profile;
- (c) monitor and review the risk management performance of the Company, including conducting specific investigations where deemed necessary;
- (d) review any legal matters which could significantly impact the Company's risk management and internal control systems, and any significant compliance and reporting issues, including any recent internal regulatory compliance reviews and reports;



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

(ASX Recommendation 7.1)

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

The Company has a qualified Compliance and Risk Manager who has been engaged to oversee the design and implementation of the risk control programme. The Company's Risk Management Policy requires the Board, being guided by the Risk Committee to at least annually undertake a risk review to determine if the existing risk framework is satisfactory considering the material risks faced by the Company. In the reporting period the Board did not complete a structured and comprehensive review of the Company's risk management framework as the timing of the appointment of the Compliance and Risk Manager has not allowed for the same. However, the Board has initiated this review which should be completed by the end of the year.

(ASX Recommendation 7.2)

The Company does not have a formal internal audit function. Management led by the Chief Financial Officer periodically undertakes an internal review of financial systems and processes and where systems are considered to require improvement these systems are developed. Delegations of Authority are reviewed annually by the Audit Committee.

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

(ASX Recommendation 7.3)

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

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

(ASX Recommendation 7.4)

## Remunerate Fairly and Responsibly

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

Given the size of the Board, the Directors have determined that the Non-executive Directors will execute the functions of a Remuneration & Nomination Committee and have adopted a Remuneration and Nomination Charter. Due to the size and the composition of the Board it is not possible to have a majority of independent directors forming the Committee.

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

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

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

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

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

(ASX Recommendation 8.1)

The Company's policies and practices regarding the remuneration of Non-executive Directors, executive Directors and senior executives is set out in the Remuneration & Nominations Committee Charter and in the Remuneration Report contained in the 2016 Annual Report.

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

(ASX Recommendation 8.2)

The Company has an equity based remuneration scheme, although no shares have been issued through the same since the listing of the Company. The Company's Policy for Trading in the Company's Securities does not specifically prohibit Directors entering into transactions or arrangements which would limit the economic risk of unvested entitlements.

However, all dealings in the Company's Securities do need to be first approved by the Company. The Company is in the process of reviewing the Policy in light of recent changes to the ASX Guidance Note on the issue and it is expected that the revised Policy will restrict participants of any scheme from entering into such arrangements.

(ASX Recommendation 8.3)

## Additional Information

### 1. Shareholder Information

The shareholder information set out below was applicable as at 31 August 2016 and relates to shares held on the ASX. Depository Interests on London's AIM market are include as one holder 'Computershare Clearing Pty Ltd'.

### 2. Ordinary Share Capital

205,619,292 fully paid ordinary shares.

### 3. Number of Equity Holders

Ordinary Share Capital held by 438 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	No. of Holders	Units	% of Issued Ordinary Capital
1	-	1,000	9	2.05
1,001	-	5,000	40	9.13
5,001	-	10,000	48	10.96
10,001	-	50,000	139	31.74
50,001	-	100,000	73	16.67
100,001	-	maximum	129	29.45
			<u>438</u>	<u>100</u>
			205,619,292	

## 6. Substantial Shareholders

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

	Ordinary Fully Paid Shares Held	% of Issued Ordinary Capital
Investor Group - Anthony Gilby	17,796,487	8.65
Investor Group - Nathan Mitchell	16,680,814	8.11

## 7. The 20 Largest Holders of Ordinary Shares

	Ordinary Fully Paid Shares Held	% of Issued Ordinary Capital
Computershare Clearing Pty Ltd <CCNL DI A/C>	46,316,053	22.53
J P Morgan Nominees Australia Limited	21,218,710	10.32
Hsbc Custody Nominees (Australia) Limited	12,236,964	5.95
Mitchell Group Holdings Pty Ltd	11,136,364	5.42
Gilby Super Pty Ltd <Gilby Superannuation Fund>	10,704,240	5.21
Citicorp Nominees Pty Limited	8,038,450	3.91
National Nominees Limited	6,832,172	3.32
Avanteos Investments Limited <2477966 DNR A/C>	5,192,129	2.53
Gilby Resources Pty Ltd <Gilby Investment A/C>	4,775,105	2.32
Mr Christopher John Blamey & Mrs Anne Margaret Blamey <ACB Super Fund A/C>	3,844,401	1.87
Jesus College Cambridge	3,781,584	1.84
Dynamic Supplies Investments Pty Ltd	3,674,809	1.79
Mitchell Family Investments (Qld) Pty Ltd <Mitchell Family Inv A/C>	2,913,650	1.42
Liath Pty Ltd <The Liath A/C>	2,750,000	1.34
Nathan Mitchell <Mitchell Family Super Fund>	2,500,000	1.22
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,488,439	1.21
Rag Superannuation Pty Ltd	1,758,159	0.86
David Royds	1,750,476	0.85
Anthony Gilby	1,695,330	0.82
Shanray Pty Ltd	1,514,444	0.74
<b>Total</b>	<b>155,121,479</b>	<b>75.44</b>
Balance of register	50,497,813	24.56
<b>Grand total</b>	<b>205,619,292</b>	<b>100.00</b>

## 8. Restricted Securities

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

**9. Interests in Prospecting Licences (PL)**

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

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

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

*Our long-term vision is to become a mid-tier energy provider in southern Africa and the year under review has seen us make great strides towards this future goal.*



**TLOU ENERGY**

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