

# **Tlou Energy Limited**

A.B.N. 79 136 739 967

## **Consolidated Financial Statements for the half-year ended 31 December 2019**

## Corporate Directory

ABN	79 136 739 967
Directors	Martin McIver Anthony Gilby Gabaake Gabaake Colm Cloonan Hugh Swire Linah Mohohlo
Company Secretary	Solomon Rowland
Administration & Registered Office	210 Alice Street Brisbane QLD 4000 Australia
Telephone:	+61 7 3012 9793
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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## Managing Directors' report

The Company has recently been focused on moving the project towards first electricity sales in the near future so as to transition from an explorer to a developer. Gas fired power generation is Tlou's primary objective with a secondary objective of demonstrating best practice in integrating solar and gas as baseload power, which can be mutually beneficial for the exploitation of both resources. Tlou has already obtained full environmental approval for 20 MW gas and 20MW solar power generation. With success, this would be a first for Botswana and unlock its vast solar potential. The Company believes that gas is absolutely vital for a successful solar power generation project in Botswana and our current wells are yielding encouraging results in this regard. Details on recent developments coupled with Tlou's cleaner energy vision are outlined below.

### GAS FLOWS

**Objective:** To flow gas at commercial rates from the Lesedi Project.

**Observations:** Lesedi 3P & 4P have been flowing gas at various rates since mid-2019. Flows have become more sustained in 2020 once pressures in the vertical production wells were further reduced. A risk of the wells surging (whereby large volumes of gas and water can unexpectedly surge into the vertical well and stop production) was effectively managed during this period. The Lesedi 4 lateral wells appear to be in good communication with the vertical production wells. The Company has now established that the Lesedi 3P and 4P wells can flow gas at sustained rates for extended periods of time.

However, dewatering is taking longer than originally anticipated, which is a precursor to achieving higher gas flow rates. The Lesedi pods have been drilled in a region where dewatering operations focused on the Lower Morupule Coal (LMC) seam is occurring for the first time. Removing sufficient water from the LMC via just two production pods in such a large area is taking considerable time. Based on the gas content of the LMC and demonstrable permeability, once dewatering can be achieved, gas rates should increase significantly.

**Interim conclusion:** Sustained higher gas rates will take more time &/or require more wells.

**Potential upside:** Coal permeability is good based on the observed water flows which ultimately augers well for sustained higher gas flow rates. The prospective gas area is substantial and has multiple prospective horizons.

**Forward plan:** Continue dewatering &/or drill additional wells with time (and subject to funding) to assist the dewatering process and consequently, flow more gas.

### POWER PURCHASE AGREEMENT (PPA)

**Objectives:** To secure a PPA resulting from the gas to power tender submitted in Botswana, allowing the Company to commence development via grid connection. As part of the overall process, the Company aims to secure a Generation License. The Company believes that the sale of power to Botswana Power Corporation (BPC) remains the most cost-effective option to commercialise Tlou's gas in the near term.

**Observations:** The process is moving forward although slower than expected. Following the long silence on commencement of negotiations for the "Development of a Maximum of 100 MW of Coal Bed Methane (CBM) Fueled Pilot Power Plants in Botswana", the Government of Botswana through the office of the Permanent Secretary, Ministry of Mineral Resources, Green Technology and Energy Security (MMGE) has recently reaffirmed Government's commitment towards facilitating development of CBM in the country and seeing through the successful negotiation of a PPA with Tlou. The Permanent Secretary (PS) provided Tlou with an update that MMGE was at an advanced stage of finalising the contract for the engagement of the Transactional Advisors/Consultants that will assist with the negotiations of the project agreements. Recognising that this process has taken a long time and to further demonstrate the Government's commitment, MMGE has agreed to discuss a temporary PPA that would enable Tlou to provide power on a pilot/proof of concept approach whilst negotiations for the full PPA are ongoing. The PS further stated that BPC had been charged with the responsibility of driving the discussion and signing an agreement subject to the necessary approval and governance structures in BPC. This is a welcome development and Tlou appreciates the Government's support and facilitation of the process.

**Restrictions on providing more details:** The Government (MMGE and BPC) has requested that the full PPA and the temporary PPA negotiation details remain confidential.

**Company outlook:** Tlou remains confident that both PPA's will be secured with time.

### PROJECT FINANCE

**Objective:** To raise sufficient project finance to primarily connect the Lesedi Project to the existing power grid at Serowe. This will enable the Company to turn current and future gas flows into revenue by selling gas "via wires".

**Recent activities:** The Company has met with numerous potential financiers / investors located predominantly in Botswana.

**Project finance sought will be used for:** Connection to the grid, additional gas fired power generation, solar power generation (if appropriate) and additional gas production wells (subject to requirements). Further exploration, working capital and advancing Environmental, Social and Governance (ESG) objectives is also desirable.

**Observations:** Botswana based asset managers have significant funds under management that they are mandated to invest mainly in local projects. With their most recent investments of choice being in the finance industry and real estate development sectors, which are considered close to being saturated, the Tlou project is ideally placed to source project finance from local sources.

It is noted that Tlou's largest shareholder is the Botswana Public Officers Pension Fund (BPOPF) hence current and future pensioners of Botswana have a direct financial interest in the success of the Company. If necessary, the Company has the flexibility to reduce costs while waiting on key events to occur.

## Managing Directors' report continued

### POTENTIAL SOLAR POWER

**Objective:** To potentially include solar in Tlou's energy generation mix. The Company recognises the enormous appetite for solar power which exists in Botswana and elsewhere. This is an extension of a global move towards cleaner power generation.

**Observations:** Potential investors have often requested that Tlou include solar in its generation mix. Gas and solar work very well together for reliable base load power. Solar can complement and add to the power generated by gas while flows are building and assist with Botswana transitioning to being a cleaner and greener power producer for both local consumption and export via the Southern African Power Pool (SAPP). Solar adds a potentially new value driver for the Company and shareholders (subject to meeting regulatory and other requirements). Tlou already has environmental approval for 20MW of gas and 20MW of solar power generation.

### MARKET OPPORTUNITY

BPC needs locally generated power and was reported as importing over 50% (>500MWh) in 3Q19 from outside the country.

The regional power market is enormous, particularly for so-called low carbon generation options (a gas/solar mix is ideal). Once connected to the grid, Tlou could also sell electricity via the SAPP (subject to meeting membership requirements).

Eskom is the main electricity supplier into the SAPP and continues to suffer ever increasing challenges so the regional requirement for power remains strong.

### ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

Tlou is involved in a number of ongoing community projects in Botswana adding real value to peoples' lives in a region with sparse services and where few opportunities exist for the local population. Two examples are outlined below:

- Tlou is sponsoring the Moralane Community to become self-sustaining in farming to create opportunities for self-employment and wealth creation.
- Tlou is in discussions with the Western Sandvelt Farmers Association to supply electricity and potentially water to an existing Farmers Association site that is situated very close to Tlou's Lesedi Project to potentially accommodate:
  - An abattoir;
  - A health clinic;
  - A police station;
  - A wildlife (anti-poaching) post;
  - A school for early childhood development.

Electricity could also be supplied to the local farmers from the Lesedi Project to add value and significantly improve productivity of their investments and improve their daily lives.

### TLOU'S CURRENT FOCUS

- Continuing to flow gas and dewater the Lesedi gas production pods.
- Potentially drill more wells to assist in dewatering the LMC and flow more gas (subject to funding).
- Securing a PPA and generation license.
- Securing project finance with an emphasis on funds sourced from Botswana.
- Constructing electricity transmission lines to primarily connect to the existing grid.
- Producing power from gas at Lesedi.
- Progressing solar power generation as a valuable and much needed process to compliment gas.
- Develop the Mamba and Boomslang projects to add to the gas from Lesedi and provide another significant growth opportunity for the Company.
- Discussions on supplying gas to Orapa (owned by Debswana) have recently recommenced as part of another broader growth strategy. This is to supplement their cleaner power generation (including solar) objectives.

### SUMMARY

Gas is being produced at Lesedi and is likely to continue.

Gas production should increase as dewatering progresses either independently of more drilling or as a result of more drilling with time.

The plan still remains to connect to the electricity grid as soon as possible and generate power.

Gas produces significantly lower carbon emissions than coal-fired power generation and provides flexibility to balance the electricity market's supply/demand profile.

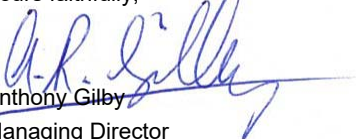
Combining gas and solar power generation has the potential to significantly enhance the financial viability of the project including in the early stages while gas flows are building.

Solar is a clean and a very achievable option when combined with gas for the region.

Significant upside potential continues to exist for Tlou shareholders based on a successful development.

Local community projects currently underway can make a very positive impact on the lives of the local population and represents another way that the Company and its shareholders can make a positive impact.

Yours faithfully,



Anthony Gilby  
Managing Director

## Directors' report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the "consolidated entity") consisting of Tlou Energy Limited (referred to hereafter as the "Company" or "Tlou") and the entities it controlled at 31 December 2019.

### Directors

The names of the directors who held office at any time during the half-year and up to the date of this report are:

Martin Mclver	Non-Executive Chairman
Anthony Gilby	Managing Director & Chief Executive Officer
Gabaake Gabaake	Executive Director
Colm Cloonan	Finance Director
Hugh Swire	Non-Executive Director
Linah Mohohlo	Non-Executive Director

Directors have been in office since the start of the half-year to the date of this report unless otherwise stated.

### Principal Activities

The principal activity of the consolidated entity is to provide gas-to-power solutions for southern Africa through the exploration and evaluation of assets in the region to identify and develop coalbed methane ("CBM") gas resources suitable for power generation. No revenue from this activity has been earned to date. The consolidated entity is in the appraisal or pre-development stage of its operations.

There have been no significant changes in the nature of the group's principal activities during the half-year.

### Review and results of operations

The loss for the half-year after income tax amounted to \$1,569,687 (December 2018: loss \$1,520,139). Information on operations and results during the period are set out below.

#### Project areas

The Company has three project areas in Botswana:

- Lesedi Project – *Development, Exploration*
- Mamba Project – *Exploration*
- Boomslang Project – *Exploration*

#### Lesedi CBM Project Area, Botswana

Licences: Mining Licence 2017/18L, Prospecting Licences 001 & 003/2004 and 35 & 37/2000

Ownership: Tlou Energy Limited 100%

The Lesedi project covers an area of approximately 3,800 Km<sup>2</sup> and consists of four Coal and CBM Prospecting Licences (PL) and a Mining Licence. The Mining Licence area is currently the focal point for the Company's operations and includes the gas producing Lesedi 3 and 4 development wells or 'pods'.

The Lesedi project is the Company's most advanced project, with plans in place to install gas-fired electricity generators and connect to the power grid in Botswana. Subject to results, the first electricity sales could commence in late 2020.

The project has full environmental approval which includes gas extraction, electricity generation and construction of transmission lines. In addition, the Company has approval for 20MW of solar generation. Clean CBM power is ideal for use in conjunction with solar projects.

Tlou has the only CBM Mining Licence in Botswana. A mining licence is required by an operator to develop a CBM asset. This licence spans a large 900 Km<sup>2</sup> area and is valid until 2042 so the Company has security of tenure over the project.

Tlou has the only independently certified CBM gas reserves in Botswana, with 252 Billion Cubic Feet (BCF) of 3P gas Reserves certified in the Lesedi project area. In addition, the 3C Contingent Gas Resources are approximately 3 Trillion Cubic Feet (TCF). The potential upside from further successful development of this area is substantial.

The status of the Lesedi area licences is as follows:

Licence	Expiry	Status
Mining Licence 2017/18L	August 2042	Current
PL 001/2004	March 2021	Current
PL 003/2004	March 2021	Current
PL 035/2000	September 2020	Current
PL 037/2000	September 2020	Current

## Directors' report continued

### Mamba Project Area, Botswana

Licences: Prospecting Licences 237-241/2014  
Ownership: Tlou Energy Limited 100%

The Mamba project consists of five Coal and CBM PL's covering an area of approximately 4,500 Km<sup>2</sup>. The Mamba area is considered to be highly prospective being situated adjacent to Tlou's Lesedi CBM Project and being on-trend with the asset that has produced the encouraging results observed to date. In the event of a gas field development by Tlou, the Mamba area provides the Company with considerable flexibility and optionality. Geographically, the Mamba Project area is approximately 50 km closer to the Orapa Power station than the Lesedi Project area.

Independently certified 3P Gas Reserves of 175 BCF are already in place at the Mamba project. Further core-hole drilling and a proposed seismic survey of the area could significantly expand the reserves footprint across the Mamba project area.

The Mamba area has the potential to become a separate revenue generating development project in addition to the proposed development at Lesedi.

The status of the Mamba area licences is as follows:

Licence	Expiry	Status
PL 237/2014	September 2021	Current
PL 238/2014	September 2021	Current
PL 239/2014	September 2021	Current
PL 240/2014	September 2021	Current
PL 241/2014	September 2021	Current

### Boomslang Project Area, Botswana

Licence: Prospecting Licence 011/2019  
Ownership: Tlou Energy Limited 100%

The Company's most recently acquired Prospecting Licence, PL011/2019 designated "Boomslang", is valid for an initial term of 3 years. The licence area is approximately 1,000 Km<sup>2</sup> and is situated adjacent to the Company's existing licences. The Boomslang area is also located on-trend with the asset that has produced the encouraging results observed to date at the Lesedi project and considered to be highly prospective.

The Boomslang licence area provides the Company further flexibility and optionality for development of different projects.

The Company is awaiting confirmation of environmental approval to commence exploration operations in the Boomslang area. This is expected to be granted in mid-2020, thereafter and subject to funding initial exploration operations are planned for this area.

The status of the Boomslang area licence is as follows:

Licence	Expiry	Status
PL 011/2019	March 2022	Current

### **Lesedi CBM project – Production testing**

During 2019, the Company commenced production testing at two Pods in the Lesedi project, namely Lesedi 3 and Lesedi 4. The aim of the production testing is to establish a commercial gas flow rate from one or both of these pods. During the period the Company announced initial gas flow rates of approximately 20 Mscfd (thousand standard cubic feet per day) from each of Lesedi 3 and Lesedi 4. The Company is aiming for a minimum sustained gas flow rate in the region of 80-100 Mscfd from each production pod.

The Company is operating in a region where commercial CBM had not been produced before so there is no comparable data from this operating environment regarding how long it may take, or if it is even possible, for a commercial gas flow to be achieved. Based on information to date, the Company has no reason to believe that the targeted commercial gas flow rates will not be achieved with time.

CBM gas production testing involves the extraction of water and gas from a coal seam. Typically, the water rate starts high and as this reduces, the gas rate increases. Since the Lesedi 3 and 4 pods have been in production, water rates have reduced with the aim of taking as much water as possible out of the underground coal seam reservoir. Once this is achieved, the coal is expected to be more gas saturated and therefore the gas flow rate should increase significantly.

## Directors' report continued

### Power Purchase Agreement (PPA)

The Company submitted a tender to Botswana's Ministry of Minerals Resources, Green Technology and Energy Security (MMGE) for the Development of a CBM-fueled power plant in Botswana and was subsequently selected as a preferred bidder. If successful, ongoing negotiations will result in the Company agreeing a Power Purchase Agreement (PPA) with the Government of Botswana, whereby Botswana Power Corporation (BPC), the national electricity utility in Botswana, would purchase the power produced by Tlou at the Lesedi CBM project.

Tlou's project is consistent with the Government's objective of a Botswana which is energy secure, has diversified and cleaner energy sources, and is a net energy exporter. The Government will also benefit from the development of a new industry, additional employment opportunities and a cleaner source of local independently produced power, ultimately leading to energy security for Botswana.

In addition to the planned CBM development, Tlou also has environmental approval for 20MW of solar power generation. Solar and CBM electricity generation can work extremely well together, with CBM providing base load power when solar is not available.

### Project Finance

The Company is in consultation with potential financiers and investors, located predominantly in Botswana, in relation to primarily financing the first phase of the Company's planned power project.

### Significant changes in the state of affairs

During the half-year ended 31 December 2019, 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 half-year

Other than the matters discussed in this report, there has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the group, the results of those operations or the state of affairs of the group in subsequent financial periods.

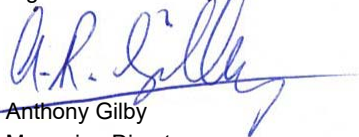
### Likely developments and expected results of operations

The Company is pursuing options to secure a purchaser for Tlou's gas or power. This could be via the Government of Botswana's re-tender process outlined above or an agreement with one or more parties. The Company will also require commercial gas flow rates and further funding to bring the project into development. The results of these matters are not yet known and cannot be determined with certainty. Commencement of planned power projects may depend on the successful outcome of some or all of these items.

### Auditor's Independence Declaration

The auditor's independence declaration for the half-year ended 31 December 2019 has been received and is attached to this report.

Signed in accordance with a resolution of the Board of Directors.



Anthony Gilby  
Managing Director

Brisbane  
25 February 2020



**Auditor's independence  
declaration**



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

As lead auditor for the review of Tlou Energy Limited for the half-year ended 31 December 2019, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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 'T R Mann', with a long horizontal flourish extending to the right.

**T R Mann**  
Director

**BDO Audit Pty Ltd**

Brisbane, 25 February 2020

**Consolidated statement of comprehensive income  
for the half-year ended 31 December 2019**

	Note	Dec 2019 \$	Dec 2018 \$
Interest income		340	5,446
<b>Expenses</b>			
Employee benefits expense		(624,243)	(587,147)
Depreciation expense		(311,775)	(238,742)
Foreign exchange gain/(loss)		42,885	82,659
Performance rights expense		(49,881)	(128,060)
Professional fees		(67,730)	(44,485)
Corporate expenses		-	(5,369)
Occupancy costs		(30,748)	(33,543)
Other expenses	2	(528,535)	(570,898)
<b>LOSS BEFORE INCOME TAX</b>		<b>(1,569,687)</b>	<b>(1,520,139)</b>
Income tax		-	-
<b>LOSS FOR THE PERIOD</b>		<b>(1,569,687)</b>	<b>(1,520,139)</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		167,611	597,713
Tax effect		-	-
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)</b>		<b>167,611</b>	<b>597,713</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>		<b>(1,402,076)</b>	<b>(922,426)</b>
<b>Earnings per share</b>			
		Cents	Cents
Basic loss per share		(0.3)	(0.4)
Diluted loss per share		(0.3)	(0.4)

*Notes to the consolidated financial statements are attached.*

**Consolidated statement of financial position  
as at 31 December 2019**

	Note	Dec 2019 \$	June 2019 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		2,957,884	5,204,948
Trade and other receivables		230,948	430,351
Other current assets		45,795	77,535
<b>TOTAL CURRENT ASSETS</b>		<b>3,234,627</b>	<b>5,712,834</b>
<b>NON-CURRENT ASSETS</b>			
Exploration and evaluation assets	3	62,116,011	60,896,127
Other non-current assets		808,220	770,750
Property, plant and equipment	4	1,700,185	1,867,025
<b>TOTAL NON-CURRENT ASSETS</b>		<b>64,624,416</b>	<b>63,533,902</b>
<b>TOTAL ASSETS</b>		<b>67,859,043</b>	<b>69,246,736</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		166,280	221,404
Provisions		162,983	140,357
<b>TOTAL CURRENT LIABILITIES</b>		<b>329,263</b>	<b>361,761</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		369,353	369,353
Provisions		112,000	115,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>481,353</b>	<b>484,353</b>
<b>TOTAL LIABILITIES</b>		<b>810,616</b>	<b>846,114</b>
<b>NET ASSETS</b>		<b>67,048,427</b>	<b>68,400,622</b>
<b>EQUITY</b>			
Contributed equity	6	99,753,504	99,753,504
Reserves		(954,562)	(1,172,054)
Accumulated losses		(31,750,515)	(30,180,828)
<b>TOTAL EQUITY</b>		<b>67,048,427</b>	<b>68,400,622</b>

*Notes to the consolidated financial statements are attached.*

**Consolidated statement of changes in equity  
for the half-year ended 31 December 2019**

	<b>Contributed Equity</b>	<b>Share Based Payments Reserve</b>	<b>Foreign Currency Translation Reserve</b>	<b>Accumulated Losses</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance at 1 July 2018</b>	90,463,822	309,401	(3,214,369)	(26,964,133)	60,594,721
Loss for the period	-	-	-	(1,520,139)	(1,520,139)
Other comprehensive income, net of tax	-	-	597,713	-	597,713
Total comprehensive income	-	-	597,713	(1,520,139)	(922,426)
<b>Transactions with owners in their capacity as owners</b>					
Share based payments	-	128,060	-	-	128,060
Shares issued, net of costs	5,228,938	-	-	-	5,228,938
	5,228,938	128,060	-	-	5,356,998
<b>Balance at 31 December 2018</b>	95,692,760	437,461	(2,616,656)	(28,484,272)	65,029,293
<b>Balance at 1 July 2019</b>					
	<b>99,753,504</b>	<b>686,706</b>	<b>(1,858,760)</b>	<b>(30,180,828)</b>	<b>68,400,622</b>
Loss for the period	-	-	-	(1,569,687)	(1,569,687)
Other comprehensive income, net of tax	-	-	167,611	-	167,611
Total comprehensive income	-	-	167,611	(1,569,687)	(1,402,076)
<b>Transactions with owners in their capacity as owners</b>					
Share based payments	-	49,881	-	-	49,881
Shares issued, net of costs	-	-	-	-	-
	-	49,881	-	-	49,881
<b>Balance at 31 December 2019</b>	<b>99,753,504</b>	<b>736,587</b>	<b>(1,691,149)</b>	<b>(31,750,515)</b>	<b>67,048,427</b>

*Notes to the consolidated financial statements are attached.*

**Consolidated statement of cash flows  
for the half-year ended 31 December 2019**

	Dec 2019 \$	Dec 2018 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees (inclusive of GST and VAT)	(1,271,026)	(1,478,025)
Interest received	340	5,247
GST and VAT received	306,397	323,943
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(964,289)</b>	<b>(1,148,835)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for exploration and evaluation assets	(1,078,191)	(3,782,387)
Payment for property, plant and equipment	(151,196)	(1,771,253)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,229,387)</b>	<b>(5,553,640)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	-	5,488,927
Share issue costs	-	(259,989)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>-</b>	<b>5,228,938</b>
Net (decrease)/increase in cash held	(2,193,676)	(1,473,537)
Cash at the beginning of the period	5,204,948	7,019,344
Effects of exchange rate changes on cash	(53,388)	(25,193)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>2,957,884</b>	<b>5,520,614</b>

*Notes to the consolidated financial statements are attached.*

## Notes to the consolidated financial statements for the half-year ended 31 December 2019

### Note 1. Significant accounting policies

#### Introduction

Tlou Energy Limited (Tlou) is a company domiciled and incorporated in Australia. The Financial Report for the half-year ended 31 December 2019 consists of the Financial Statements of Tlou Energy Limited and the entities it controlled during the period ('Consolidated Entity').

#### Compliance with accounting standards

The half-year financial report is a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting.

The half-year financial report does not include all the notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report of the group.

#### Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs. The financial report is presented in Australian dollars.

The accounting policies and methods of computation applied by the Consolidated Entity in the consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated financial report as at and for the year ended 30 June 2019, except as noted below.

#### New and revised standards

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies as a result of adopting AASB 16 Leases. The impact of the adoption of this standard and the new accounting policies are disclosed below. The other standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

##### AASB 16 Leases

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2019. This standard replaces the 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. This means that for most leases, a right-to-use asset and a liability will be recognised, with the right-to-use asset being depreciated and the liability being unwound in principal and interest components over the life of the lease.

Upon adoption of this standard, the Consolidated Entity's transitioned using the modified retrospective approach, where the right-of-use asset is recognised at the date of initial application at an amount equal to the lease liability, using the entity's current incremental borrowing rate. Comparative figures are not restated. Based on the transition approach and the entity's current leasing arrangements, there were no material impacts in the current or future reporting periods and on foreseeable future transactions.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## **Notes to the consolidated financial statements for the half-year ended 31 December 2019 continued**

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

#### **Going Concern**

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

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

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

The interim financial report does not include adjustments relating to the recoverability or classification of recorded assets amounts nor to the amounts or classification of liabilities that might be necessary should the group not be able to continue as a going concern.

#### **Fair values**

The fair values of Consolidated Entity's financial assets and financial liabilities approximate their carrying values. No financial assets or financial liabilities are readily traded on organised markets in standardised form.

#### **Accounting estimates and judgements**

Critical estimates and judgements are continually evaluated and are consistent with those disclosed in the previous annual report.

#### **Exploration & evaluation assets**

During a prior period the Consolidated Entity converted a prospecting licence into a mining licence. A mining licence allows the commencement of commercial development. Despite this management believe that it is not practical to commence amortisation of the exploration and evaluation assets held in relation to the mining licence as the Consolidated Entity has not yet entered into production of a commercially viable resource.

**Notes to the consolidated financial statements  
for the half-year ended 31 December 2019  
continued**

**Note 2. Expenses**

Loss before income tax includes the following specific expenses:	<b>Dec 2019</b>	<b>Dec 2018</b>
	<b>\$</b>	<b>\$</b>
Other expenses		
• Stock exchange and secretarial fees	<b>140,801</b>	135,500
• Advertising and Marketing	<b>55,566</b>	21,760
• Travel and accommodation	<b>128,182</b>	69,687

**Note 3. Exploration and evaluation expenditure**

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.

	<b>Dec 2019</b>	<b>June 2019</b>
	<b>\$</b>	<b>\$</b>
Exploration and evaluation assets	<b>62,116,011</b>	60,896,127
	<b>62,116,011</b>	60,896,127
	<b>Dec 2019</b>	<b>Dec 2018</b>
	<b>\$</b>	<b>\$</b>
<b>Movements in exploration and evaluation phase</b>		
Balance at the beginning of period	<b>60,896,127</b>	52,861,961
Exploration and evaluation expenditure during the half-year	<b>1,053,501</b>	3,594,701
Foreign currency translation	<b>166,383</b>	667,919
Balance at the end of period	<b>62,116,011</b>	57,124,581

The recouping 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.



**Notes to the consolidated financial statements  
for the half-year ended 31 December 2019  
continued**

**Note 4. Property, plant and equipment**

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

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

Plant and equipment 3-7 years

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

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

	Dec 2019	June 2019
	\$	\$
Plant and equipment at cost	4,488,414	4,334,656
Accumulated depreciation	(2,788,229)	(2,467,631)
	<u>1,700,185</u>	<u>1,867,025</u>

**Movements in Carrying Amounts**

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

	Dec 2019	Dec 2018
	\$	\$
Balance at the beginning of year	1,867,025	440,683
Additions	137,874	1,771,254
Depreciation	(311,775)	(238,742)
Foreign exchange movements	7,061	8,232
Carrying amount at the end of year	<u>1,700,185</u>	<u>1,981,427</u>

**Note 5. Contingent liabilities**

The Directors are not aware of any contingent liabilities at 31 December 2019.

**Notes to the consolidated financial statements  
for the half-year ended 31 December 2019  
continued**

**Note 6. 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.

	<b>Dec 2019</b>	<b>June 2019</b>	<b>Dec 2019</b>	<b>June 2019</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$</b>	<b>\$</b>
Opening balance	450,180,185	354,224,275	99,753,504	90,463,823
Issue of ordinary shares during the year	-	95,955,910	-	9,595,591
Share issue costs	-	-	-	(305,910)
Ordinary shares - fully paid	<b>450,180,185</b>	<b>450,180,185</b>	<b>99,753,504</b>	<b>99,753,504</b>

**Ordinary shares**

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

**Options and performance rights**

At 31 December 2019, there were no outstanding options for ordinary shares in Tlou Energy Limited (2018: Nil). The following performance rights were on issue:

**Performance shares**

Details of performance shares issued, exercised, and expired during the period are set out below:

<b>Issue Date</b>	<b>Hurdle Price</b>	<b>Conditions</b>	<b>1/07/2019</b>	<b>Issued</b>	<b>Exercised</b>	<b>Expired</b>	<b>31/12/2019</b>
31 January 2017	\$0.28	See (i)	2,275,000	-	-	-	2,275,000
19 October 2018	\$0.165	See (ii)	2,475,000	-	-	-	2,475,000
19 October 2018	\$0.22	See (iii)	2,475,000	-	-	-	2,475,000
			<b>7,225,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,225,000</b>

The outstanding performance shares have the following key terms and conditions:

	<b>Number</b>	<b>Performance condition</b>
(i)	2,275,000	The shares will only vest once the share price of the Company's securities listed on the ASX reaches \$0.28 and closes at that price or above for a period of 10 consecutive trading days.
(ii)	2,475,000	The shares will only vest once the share price of the Company's securities listed on the ASX reaches \$0.165 and closes at that price or above for a period of 10 consecutive trading days.
(iii)	2,475,000	The shares will only vest once the share price of the Company's securities listed on the ASX reaches \$0.22 and closes at that price or above for a period of 10 consecutive trading days.

The Performance Shares will lapse if:

- None of the pricing conditions are met; or
- the participant does not meet the service conditions.

**Notes to the consolidated financial statements  
for the half-year ended 31 December 2019  
continued**

**Note 7. Segment information**

**Identification of 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 31 December 2019 no revenue has been derived from its operations (2018: \$nil).

Segment assets

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

	<b>Dec 2019</b>	<b>June 2019</b>
	<b>\$</b>	<b>\$</b>
Botswana	<b>64,618,594</b>	63,526,670
Australia	<b>5,822</b>	7,232
	<b>64,624,416</b>	63,533,902

**Note 8. Events occurring after balance date**

Other than the matters discussed in this report, there has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the group, the results of those operations or the state of affairs of the group in subsequent financial periods.

## Directors' declaration

In the directors' opinion:

- (a) the attached financial statements and notes are in accordance with the *Corporations Act 2001* including:
- (i) the attached financial statements and notes thereto comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
  - (ii) the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and
  - (iii) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



Anthony Gilby  
Managing Director

Dated at Brisbane this 25<sup>th</sup> day of February 2020

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Tlou Energy Limited

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of Tlou Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

#### Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

#### Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

### BDO Audit Pty Ltd



**T R Mann**  
Director

Brisbane, 25 February 2020