

20 January 2020

Tlou Energy Limited
("Tlou" or "the Company")

OPERATIONAL REPORT - QUARTER ENDING 31 DECEMBER 2019

Tlou Energy Limited is an ASX, AIM and BSE listed company focused on delivering power in Botswana and southern Africa through the exploration and development of coal bed methane (CBM) natural gas.

Key events during the previous quarter:

- Gas and water continue to be produced at the Lesedi 3 and 4 production pods;
- Discussions continue with Government to secure a Power Purchase Agreement;
- Project finance options for the initial phase of the Lesedi Gas-to-Power project are ongoing.

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.

The Company previously 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.

Since the initial rate announcement, gas flow rates have continued to fluctuate both up and down with periodic short-term rates observed which have been much higher than those initially announced. The Company will not be in a position to announce an increased rate until such time that higher levels are sustained and confirmed by our advisors.

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. However, based on information to date, the Company has no reason to believe that the targeted commercial gas flow rates will not be achieved noting that the Company is generally pleased with well performance to date.

As a junior exploration and development company, Tlou's funds are limited and therefore caution is being taken by the Company to try and ensure that the production wells are managed without risking damage to, or loss of, either production pod. This impacts the length of time taken to produce a commercial gas flow.

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.

To achieve increased gas saturation is not a simple process and requires careful management of pressure levels within the wells noting that each of the Lesedi 3 and 4 production pods consist of three wells - one vertical production well and two intersecting lateral wells.

The Lesedi 3 and 4 pods are producing water in isolation which makes dewatering a slower and more difficult exercise than would otherwise be the case in a full field development. In a field development scenario, an array of wells would be located adjacent to each other which would serve to facilitate dewatering.

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.

During the quarter the Company was very glad to see the appointment of Honourable Minister Lefoko Maxwell Moagi to MMGE and are working closely with the Honourable Minister to deliver Tlou's CBM project.

As CBM gas-to-power projects are new in Botswana, the Government has taken additional time to assess Tlou's proposal including appointing qualified persons to assess the project.

To prevent further delays and allow Tlou to secure finance, the Company has requested an initial (or interim) PPA so that development of the Lesedi CBM gas-to-power project can commence sooner rather than later. This initial PPA could then be superseded by the final PPA once the MMGE has completed its assessment and negotiation.

Crucially for Botswana, 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.

Media reports during the quarter about regional power shortages and severe load-shedding (i.e. power cuts) particularly in South Africa are concerning. Botswana currently receives significant amounts of electricity from South Africa and loss of this power could have a devastating effect to the Country's energy security and economic growth.

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's continues its negotiation with Botswana Development Corporation (BDC) to fund development of the first 10MW of the Lesedi CBM Gas-to-Power project in Botswana and has received an indicative non-binding term sheet as the negotiations have progressed. This initial proposal forms the basis for further discussion and negotiation prior to finalisation and remains confidential. Further details will be provided if and when a binding term sheet is agreed. BDC is owned by the Government of Botswana with a mandate to provide financial assistance to commercially viable projects.

The Company is also in discussions with other parties interested in funding the Company through debt, equity and mezzanine finance.

Forward plan

Until the Company receives a signed PPA and has connected to the electricity grid, limited exploration work is proposed. With this in mind, the Company's current key targets are as outlined below (subject to funding and results):

1Q20	2Q20	3Q20	4Q20	Post 4Q20
<ul style="list-style-type: none"> • Power purchase Agreement (PPA) • Generation Licence Award • Finalise Project Finance 	<ul style="list-style-type: none"> • Commence construction of Transmission lines • Southern African Power Pool (SAPP) application 	<ul style="list-style-type: none"> • Generators & civil engineering at Central Processing Facility • Boomslang Project EIS approval 	<ul style="list-style-type: none"> • Target first electricity sales • SAPP membership approved 	<ul style="list-style-type: none"> • Expansion to 10MW+

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 Km² 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 Km² 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

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 Km². 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 Km² 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

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

By Authority of the Board of Directors

Mr. Anthony Gilby
 Managing Director

Company Information

Tlou Energy is focused on delivering Gas-to-Power solutions in Botswana and southern Africa to alleviate some of the chronic power shortage in the region. Tlou is developing projects using coal bed methane (CBM) gas. Botswana has a significant energy shortage and generally relies on imported power and diesel generation to fulfil its power requirements. As 100% owner of the most advanced gas project in the country, the Lesedi CBM Project, Tlou Energy provides investors with access to a compelling opportunity using domestic gas to produce power and displace expensive diesel and imported electricity.

The Company is listed on the Australian Securities Exchange, London's AIM market and the Botswana Stock Exchange and is led by an experienced Board, management and advisory team including individuals with successful track records in the CBM industry.

Since establishment, the Company has significantly de-risked the project in consideration of its goal to become a significant gas-to-power producer. The Company flared its first gas in 2014 and has a 100% interest over its

Mining Licence and ten Prospecting Licences covering an area of ~9,300 Km² in total. The Lesedi and Mamba Projects already benefit from significant independently certified 2P gas Reserves of ~41 BCF. In addition, 3P gas Reserves of ~427 BCF and Contingent Gas Resources of ~3,043 BCF provide significant additional potential.

The Company is planning an initial scalable gas-to-power project. Following successful implementation of this first scalable project, the Company looks forward to evaluating longer-term prospects for the delivery of electricity generated from CBM in Botswana to neighbouring countries.

Forward-Looking Statements

This announcement may contain certain forward-looking statements. Actual results may differ materially from those projected or implied in any forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results. No representation is made that any of those statements or forecasts will come to pass or that any forecast results will be achieved. You are cautioned not to place any reliance on such statements or forecasts. Those forward-looking and other statements speak only as at the date of this announcement. Tlou Energy Limited undertakes no obligation to update any forward-looking statements.

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

Tlou Energy Limited

ABN

79 136 739 967

Quarter ended ("current quarter")

31 December 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (six months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation (if expensed)		
(b) development		(9)
(c) production		
(d) staff costs	(290)	(679)
(e) administration and corporate costs	(268)	(583)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (VAT/GST refunds)	52	306
1.9 Net cash from / (used in) operating activities	(506)	(965)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) tenements		
(c) property, plant and equipment	(130)	(151)
(d) exploration & evaluation (if capitalised)	(491)	(1,078)
(e) investments		
(f) other non-current assets		

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (six months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment		
	(d) investments		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(621)	(1,229)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,119	5,205
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(506)	(965)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(621)	(1,229)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (six months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(34)	(53)
4.6	Cash and cash equivalents at end of period	2,958	2,958

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,958	4,119
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,958	4,119

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

269

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Item 6.1 includes payment of Directors salaries, fees and office rent.

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-

7.5 **Unused financing facilities available at quarter end** -

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	506
8.2 Capitalised exploration & evaluation (Item 2.1(d))	491
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	997
8.4 Cash and cash equivalents at quarter end (Item 4.6)	2,958
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	2,958
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	3

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer:

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date:20/01/2020.....

Authorised by:By the Board.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.