



Lakes Oil NL  
ABN 62 004 247 214  
And Controlled Entities

Financial Report  
For the Year Ended  
30 June 2015

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## **Directors**

Robert Annells CPA, F.Fin (Executive Chairman)  
Barney Berold BCom, MBA  
Andrew Davis LLB (Appointed 9 September 2015)  
Nicholas Mather BSc (Hons. Geology) MAusIMM  
Ian Plimer BSc(Hons), PhD, FTSE, FGS, FAusIMM  
William Stubbs LLB  
Chris Tonkin BSc (Hons.), BA, MBA, GAICD, CFTP  
(Snr) (Appointed 9 September 2015)  
Kyle Wightman BComm, MBA, FAICD, CFTP(Snr)  
(Appointed 4 August 2014)  
Robbert de Weijer B.Eng (Mech) (Alternate Director,  
for Mr Mather and Mr Stubbs Appointed 5 June  
2014)  
Matthew Stubbs BComm, LLB, MBA (Alternate  
Director, Resigned 26 August 2014)

## **Chief Financial Officer/Company Secretary**

Leslie Smith BBS, MBA, GradDip ACG, CPA, CA(NZ) ACSA, ACIS

## **Staff and Consultants**

Ingrid Campbell RMIT(Geol), MPESA, MGSA AAPG  
Tim O'Brien BSc MSc MPESA MSPE  
Guy Holdgate BSc (Hons), PhD  
Sarah Rooke  
Robert Thompson  
Hon Theo Theophanous

## **Registered Office**

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500 Collins Street  
Melbourne Victoria 3000

**Telephone:** (03) 9629 1566

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## **Stock Exchange**

Australian Securities Exchange Limited  
Level 4 North Tower Rialto  
525 Collins Street  
Melbourne Victoria 3000  
ASX code: LKO

## **Auditors**

Pitcher Partners  
Level 19 15 William Street  
Melbourne Victoria 3000

## **Bankers**

Westpac Banking Corporation  
360 Collins Street  
Melbourne Victoria 3000

## **Address for Correspondence**

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Collins Street West  
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## **Legal Advisors**

Baker & McKenzie  
Level 19 CBW  
181 William Street  
Melbourne Victoria 3000

## **Share Registry**

Computershare Investor Services Pty. Ltd.  
Yarra Falls 452 Johnston Street  
Abbotsford Victoria 3067

The company operates a web site which directors encourage you to access for the most recent information on Lakes Oil NL

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Table of Contents

Directors' Report	4
Auditor's Independence Declaration	31
Consolidated Statement of Comprehensive Income	32
Consolidated Statement of Financial Position	33
Consolidated Statement of Changes in Equity	34
Consolidated Statement of Cash Flows	35
Notes to the Financial Statements	36
Directors' Declaration	65
Independent Auditor's Report to Members of Lakes Oil NL	66

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report

The Directors present their report together with the financial report of the consolidated entity consisting of Lakes Oil NL and the entities it controlled, for the financial year ended 30 June 2015 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

### Directors

Mr Kyle Wightman, having been nominated by Timeview Enterprises Pty Ltd as a replacement for Mr. Alexander Downer AC (who resigned in April 2014) was appointed to the Board on 4 August 2014. Mr Davis and Mr Tonkin were appointed to the Board at a shareholder meeting on 9 September 2015. Mr Robbert de Weijer, CEO of Armour Energy Ltd, was appointed as an Alternate Director for Mr. W. Stubbs on 26 August 2014, having previously been appointed as the Alternate for Mr. Mather. Mr. M. Stubbs resigned as Alternate Director for Mr. W. Stubbs on 26 August 2014. With these exceptions the directors have been in office for the entire period.

The names, qualifications, experience and special responsibilities of directors in office at any time during or since the end of the year are:

#### **Robert Annells** CPA, F.Fin (*Executive Chairman*)

Mr. Annells is a former member of the Australian Stock Exchange with over forty years' experience in the securities industry, and is also a qualified accountant. His experience includes provision of corporate and investment advice to the business and resources industries. Mr Annells has served on the Lakes Oil NL board since 1984 and is currently the Chairman of Lakes Oil NL and Greenerth Energy Limited (ASX:GER) (appointed in July 2010). He was a non-executive director of Rum Jungle Resources Limited (ASX:RUM) from 2006 until 2015, serving as Chairman from 2012 to June 2014. He was also Chairman of Central Australian Phosphate Limited (ASX:CEN) from July 2013 until its delisting in January 2014 following compulsory acquisition by RUM. During the past three years Mr Annells had not held any other listed company directorships.

#### **Barney Berold** BCom, MBA. (*Non Executive Director*)

Mr. Berold is an investment banker previously with a major European-based banking group. Appointed to the board in 2007, he has had considerable experience in corporate finance advising on strategy, mergers and acquisitions, and funding. He is a former Stockbroker, and served on the boards of The Stock Exchange of Melbourne as well as the Australian Stock Exchange. Mr. Berold was appointed to the Audit Committee in 2007 and appointed Chair of that Committee in March 2013. He is also Chair of the Remuneration Committee, which was established in 2013. During the past three years Mr. Berold has not held any other listed company directorships.

#### **Andrew Davis** LLB (*Non Executive Director*) (*Appointed 9 September 2015*)

Mr Davis was born and educated in Sydney and attended Sydney University where he graduated in Law in 1963 and was admitted as a barrister. He has been a director of and involved in the management of a number of private and public companies in various industries. He was involved in quarrying as the Chairman of Gosford Quarries, the well-known dimension stone company. His other interests included outdoor advertising, publishing and the motor vehicle industry. He was for a number of years Managing Director of Territorial Resources Inc., a small public oil and gas company headquartered in Houston Texas with interests in Texas and a number of other states in the United States. He has been involved in coal seam gas exploration in NSW and as a director of a variety of mineral exploration companies with interests both in Australia and overseas. Mr Davis was appointed a director of Niuminco Group Limited (ASX:NIU) in 2011, Chairman in 2012 and resigned in 2013. Apart from his involvement in ASX:NIU Mr Davis has held no other listed company directorships in the past three years.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Directors (cont.)

#### **Nicholas Mather BSc** (Hons. Geology) MAusIIM (*Non Executive Director*)

Mr. Nicholas (Nick) Mather has served on the Board since February 2012 and in addition is currently Managing Director and founder of DGR Global Limited (ASX) and Director (and co-founder) of SolGold Plc (LSE AIM). Mr. Mather has been involved in the junior resource sector at all levels for more than 30 years and was co-founder and a Non-Executive Director of Bow Energy Ltd until it was acquired by Arrow Energy NL for \$530 million in December 2011. Mr. Mather was also co-founder and served as an Executive Director of Arrow Energy NL until 2004. Arrow Energy NL was acquired by Royal Dutch Shell Plc and the PetroChina Group, for a value of approximately \$3.5 billion in 2010. Mr. Mather is Executive Chairman of Armour Energy Ltd and was also Chairman of Waratah Coal Inc. before its \$130 million takeover by Clive Palmer's Mineralogy Ltd in 2009.

During the past three years Mr. Mather has also served as a Director of the following ASX listed companies:

- DGR Global Ltd (October 2001- current)
- Armour Energy Ltd - Executive Chairman (March 2011 - current)
- AusTin Mining Limited (December 2006 - current)
- Navaho Gold Limited – Chairman (January 2003 – current)
- Orbis Gold Limited (formerly Mt Isa Metals Limited ) (June 2006 – March 2015)

During the past three years Mr. Mather has also served as a Director of the following Alternative Investment Market (AIM) listed company: SolGold Plc (May 2005 – current)

Mr. Mather was appointed to the Remuneration Committee when it was established in 2013.

#### **Ian Plimer BSc** (Hons), PhD, FTSE, FGS, FAusIMM (*Non Executive Director*)

Professor Ian Plimer was appointed to the Board in January 2013. He is Emeritus Professor at the University of Melbourne where he was Professor and Head of the School of Earth Sciences (1991-2005). He was Professor of Geology (University of Newcastle 1985-1991) and Professor of Mining Geology (University of Adelaide 2005-2012). He has been awarded the Leopold von Buch Medal for Science, the Centenary Medal, The Eureka Prize (twice) and is Fellow of the Academy of Technological Sciences and Engineering, a fellow of the Geological Society of London and a Fellow of the Australasian Institute of Mining and Metallurgy. Professor Plimer has published more than 130 scientific papers and is author of multiple best-selling books for the general public.

Professor Plimer's main geological interests are in resources. He serves on the Boards of the following listed companies:

- Silver City Minerals Ltd (February 2011 – current)
- Niuminco Group Ltd (May 2011 – current)
- Kefi Minerals Ltd (AIM:KEFI) (December 2006 – current)
- Sun Resources N.L. (September 2013 – current) – Appointed Chairman in November 2013

and unlisted Hancock Prospecting Pty Ltd companies (Roy Hill Holdings PL, Hope Downs Iron Ore PL, Queensland Coal Investments PL) and TNT Mines Ltd. He was a director of Inova Resources Limited (formerly Ivanhoe Australia Ltd) (ASX:IVA, TSX:IVA) from 2007 to 2013.

Professor Plimer was appointed to the Audit Committee in 2013.

#### **Chris Tonkin BSc** (Hons.), BA, MBA, GAICD, CFTP (Snr) (*Non Executive Director*)(*Appointed 9 September 2015*)

Chris Tonkin is a Non-Executive Director (appointed in 2011) and a former Managing Director of Arafura Resources Limited (ASX:ARU) and is an Executive Director of advisory companies Catalyst Capital Solutions and Capital Advisory Services. He began his career as a metallurgist and environmental specialist and diversified into commercial roles at several major industrial companies and subsequently project finance, corporate and project advisory roles at AIDC, The Chase Manhattan Bank, KPMG Corporate Finance and ANZ, where his roles included Head of Project and Structured Finance and Head of Natural Resources. He has over 35 years' experience as a senior business executive with an extensive industry background in business development and management, finance and strategy development across all major industry sectors and particularly natural resources as an advisor and financier to the mining and metals and oil and gas industries. Apart from ASX:ARU Mr Tonkin has held no other listed company directorships in the past three years.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Directors (cont.)

#### **William Stubbs LLB** (*Non Executive Director*)

William (Bill) Stubbs was appointed to the Board in 2012. He is a lawyer of 40 years' experience, having practiced in the area of commercial law including stock exchange listings and all areas of mining law. Mr Stubbs has been a Director of various public companies over the past 27 years in the mineral exploration and biotech fields. He is the former Chairman of Alchemia Limited, Stradbroke Ferries Limited and Bemax Resources Limited which discovered and developed extensive mineral sands resources in the Murray Basin. He was the founding Chairman of Arrow Energy NL. Mr. Stubbs currently acts as the Non-Executive Chairman of DGR Global Limited (appointed in 2009) and Chairman of the Advisory Board of Tetra Q – the commercial arm of the centre for integrated pre-clinical drug development of the University of Queensland. He also serves as a Non-Executive Director of Armour Energy Ltd (appointed in 2009).

Mr. Stubbs was appointed to the Audit Committee in 2012.

#### **Kyle Wightman** BComm, MBA, FAICD, CFTP (Snr) (*Non Executive Director*) (*Appointed 4 August 2014*)

Mr Wightman joined the Board on 4 August 2014. Mr Wightman is the Chief Executive Officer of Tait Capital PL where he advises clients on business strategy, major investments and finance. He is an economist, financier and business consultant with over 40 years' experience particularly relating to the feasibility, development and financing of major projects and investments, including Argyle Diamonds, Tarong Coal, Loy Yang Power and Melbourne City Link. He has previously held senior executive roles at PricewaterhouseCoopers, ANZ Bank, Chase Manhattan Bank (now JP Morgan Chase) and CRA Limited (now Rio Tinto).

Mr Wightman served as a Non-Executive Director and Chair of the Audit Committee of Indophil Resources NL (ASX:IRN) from 2006 until his resignation in January 2015. He held similar positions on the Board of Inova Resources Ltd (formerly Ivanhoe Australia Ltd) (ASX:IVA, TSX:IVA) from 2008 to 2013.

Mr Wightman was appointed to the Remuneration Committee in August 2014.

#### **Robbert de Weijer** B.Eng (Mech) (*Alternate Director*)

Mr de Weijer is the appointed Alternate Director for Mr. Mather and Mr. Stubbs. Mr de Weijer joined Armour Energy Ltd as Chief Executive Officer in July 2013 to drive the Company's project and corporate development initiatives. Mr de Weijer's most recent role was as Chief Executive Officer (Australia) for Dart Energy Ltd, an unconventional gas exploration and production company operational in 8 countries. Prior to joining Dart Energy Ltd Mr De Weijer, under secondment from Shell, held the position of Chief Operating Officer for Arrow Energy Ltd, one of Australia's leading coal bed methane companies. His career with Shell spanned 23 years during which he gained extensive experience within the oil and gas industry and held a variety of senior management roles in multiple countries spanning Europe, the Middle East and Australia.

#### **Matthew Stubbs** BComm, LLB, MBA (*Alternate Director*)(*Resigned 11 August 2014*)

Mr Stubbs was appointed as an Alternate Director for Mr. W. Stubbs in 2012. Mr. Stubbs is the founder and managing director of Allier Capital, an independent financial advisory firm focussed on middle-market clients. He has over 17 years' investment banking experience. During his career he has worked on a broad range of mergers and acquisitions, capital raisings, restructurings and strategic reviews. Apart from serving as an alternate director on the boards of Armour Energy Ltd and DGR Global Ltd from 2012 to 2014 he has held no other positions on listed company boards in the past three years. Mr Stubbs resigned his position on 26 August 2014.

### Company Secretary

#### **Leslie Smith** BBS, MBA, GradDip ACG, CPA, CA (NZ), ACSA, ACIS

Mr. Smith, Lakes Oil NL's Chief Financial Officer, has previously held senior financial and company secretarial roles in various industries.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Directors' meetings

The number of meetings of the board of directors and of each board committee held during the financial year and the number of meetings attended by each director were:

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
R Annells	7	7	-	-	-	-
B Berold	7	7	2	2	1	1
A Davis <sup>A</sup>	-	-	-	-	-	-
N Mather	5	7	-	-	1	1
I Plimer	7	7	2	2	-	-
C Tonkin <sup>A</sup>	-	-	-	-	-	-
W Stubbs	6	7	1	2	-	-
K Wightman	6	6	-	-	1	1
R de Weijer (Alternate)	3	3	1	1	-	-
M Stubbs (Alternate)	-	-	-	-	-	-

<sup>A</sup> Mr Davis and Mr Tonkin were appointed on 9 September 2015.

### Directors' interests in shares or options or converting notes

Directors' relevant interests in shares of Lakes Oil NL or options over shares in the company, or converting notes or a related body corporate) are detailed below.

		Ordinary shares	Converting Notes <sup>A</sup>
		2015	2015
R Annells	D	5,237,259	-
	I	102,000,000	-
B Berold	D	5,799,167	-
	I	48,358,611	2,000
A Davis <sup>A</sup>	D	-	-
	I	5,000,000	-
N Mather <sup>#</sup>	D	-	-
	I	-	-
I Plimer	D	-	-
	I	-	-
C Tonkin <sup>A</sup>	D	-	-
	I	-	-
W Stubbs <sup>#</sup>	D	-	-
	I	6,000,000	-
K Wightman	D	-	-
	I	-	-

Note: D = direct ownership. I = indirect ownership.

<sup>A</sup>Each listed unsecured converting note will convert to a minimum of 5,000 fully paid ordinary shares. Refer Note 17 for more detail.

<sup>#</sup>Mr. Mather and Mr. Stubbs are Directors of Armour Energy Ltd which held an 18.89% interest (15.69% fully diluted) interest in the consolidated entity at balance date and at the date of signing the accounts.

<sup>A</sup> Mr Davis and Mr Tonkin were appointed on 9 September 2015.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Directors' interest in contracts

Directors' interest in contracts is disclosed in Note 23 to the financial statements.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the audit of the financial year is provided with this report.

### Non – audit services

Non-audit services are approved by resolution of the audit committee and approval is provided in writing to the board of directors. The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

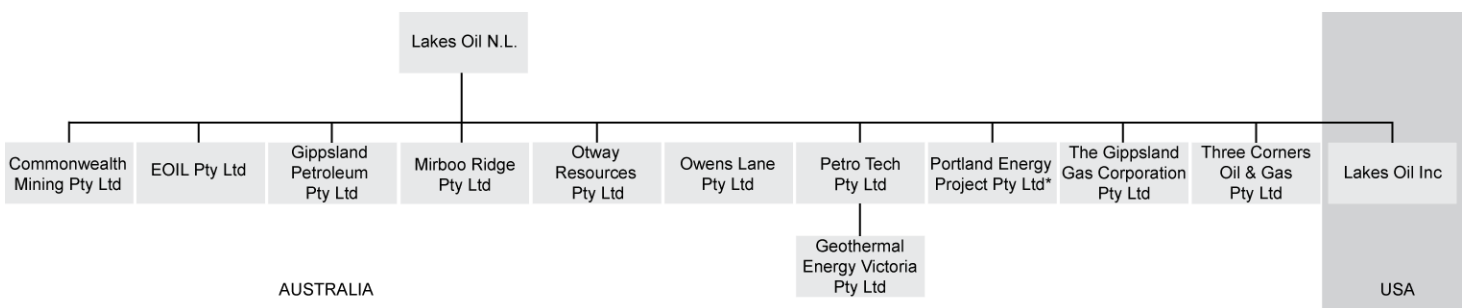
The following fees for non-audit services were paid or payable to the external auditors during the year ended 30 June 2015:

	2015	2014
	\$'000	\$'000
Taxation services	20	17
	20	17

### Corporate information

#### Corporate structure

Lakes Oil NL is a no-liability company incorporated and domiciled in Australia. The ultimate parent entity is Lakes Oil NL and as such has prepared a consolidated financial report incorporating the entities it controlled during the financial year, which are outlined in the following illustration of the consolidated entity's corporate structure. Lakes Oil NL has a 100% interest in each of these controlled entities. Unless otherwise stated, references to "Lakes Oil" or "the company" refer to Lakes Oil NL and its controlled entities as a whole. The text does not distinguish between the operations of the parent company and those of its controlled entities.



### Principal activities

The principal activities of the consolidated entity during the financial year were hydrocarbon exploration and investment. There has been no significant change in the nature of these activities during the financial year.



# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Results and dividends

The consolidated operating loss attributable to the members of Lakes Oil NL for the year ended 30 June 2015 was:

	2015	2014
	\$'000	\$'000
Operating loss before income tax	2,743	3,168
Income tax attributable to operating loss	-	-
Operating loss after income tax	<u>2,743</u>	<u>3,168</u>

During the year ended 30 June 2015, no dividends were paid or declared by the consolidated entity and the directors do not recommend payment of a dividend.

### Indemnification and insurance of directors, officers and auditors

The consolidated entity has during and since the end of the financial year, in respect of any person who has, is or has been an officer of the consolidated entity or a related body corporate, paid a premium in respect of Directors' and Officers' liability insurance which indemnifies Directors, Officers and the consolidated entity for any claims made against the Directors, Officers of the consolidated entity and the consolidated entity, subject to conditions contained in the insurance policy. Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract.

No indemnities have been given or insurance premiums paid during or since the end of the financial year for auditors of the consolidated entity.

### Proceedings on behalf of the consolidated entity

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity.

### Share options

Unissued shares

As at the date of this report, there were no unissued ordinary shares under options (Nil at 30 June 2014). Refer to Note 17 of the financial statements for further details.

Shares issued as a result of the exercise of options

There were no shares issued during this financial year as a result of the exercising of options.

### Rounding of amounts

The amounts contained in the report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to Lakes Oil NL under the Class Order 98/0100. Lakes Oil NL is an entity to which the Class Order applies.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Corporate developments

#### Conditional letters of intent to supply gas

In July 2014 the consolidated entity announced that it had signed letters of intent to supply Victorian gas from its Gippsland, Wombat Field to Simplot Australia PL and to Dow Chemical (Australia) Limited. Both letters of intent were for a period of 10 years' supply of gas. The supply is subject to the execution of formal supply agreements, final commercialisation of the Wombat Field together with the lifting of the Victorian State Government's moratorium on onshore natural gas exploration.

#### Acquisition of PEP167 and PEP175 – Otway Basin, Victoria

The consolidated entity entered into an agreement with Bass Strait Oil Company Limited to acquire 100% equity in PEP167 and PEP175. These permits are in the Otway Basin, Victoria and the acquisition was subject only to the approval of the regulatory authorities. Acquisition of these permits was completed in September 2014 for consideration of \$300,000 ex GST.

#### Acquisition of permits in the Cooper/Eromanga Basin

In July 2014 the consolidated entity announced that it was in the process of acquiring two permits in Queensland, ATP642P and ATP662P in the Cooper/Eromanga Basin. Acquisition of these permits was completed in August 2014 by the purchase of 100% of the entities holding interests in the permits. The consideration was \$1,000,000 plus \$128,000 of costs incurred by the vendor to secure the permits to the date of the sale agreement. The acquisition price identified represents the consolidated entity's assessment of the underlying value of the exploration permits. The acquisition was completed in September 2014.

#### Operating lease agreement

In August 2014 the consolidated entity completed a heads of agreement to lease its existing premises for a period of 4 years. The lease was signed in November 2014.

#### Partly paid shares - call

In September 2014 the company, under the terms of issue, called 131,500,000 partly paid shares held by officers and employees. These were 1.5 cent shares, paid to 0.1 cents and payment of the outstanding 1.4 cents per share was required before 30 September 2014 to avoid forfeiture. There was no obligation by the holders for these shares to be paid. At the date of the call company shares were trading at 0.4 cents per share. All of these shares were forfeited and offered for sale by public auction as fully paid ordinary shares in November 2014. 9,500,000 shares were sold at auction, raising \$28,500. The balance of the shares, 122,000,000, together with 60,000,000 previously forfeited and passed in at auction, a total of 182,000,000, are now held by the directors on trust for the Company for the purposes of future resale as issued fully paid shares.

#### Final interest payment and conversion at maturity of Converting Notes

The company issued 861,402 listed unsecured converting notes in the year to June 2013 for \$10 per note. These notes were issued under a "limited disclosure" section 713 prospectus under the Corporations Act 2001 (Cth) dated 23 October 2012. Interest was payable half yearly at the rate of 50 cents per note on 31 May 2013, 30 November 2013, 31 May 2014 and 30 November 2014, equating to a 10% per annum interest rate. The notes were not redeemable by the company.

All interest payable was maintained in an account controlled by a Paying Trustee on trust for holders of notes and for their benefit for the purposes of providing for payment of all future interest payments.

The Maturity Date (when conversion into Shares occurs) was 30 November 2014. However each holder could elect to convert notes earlier at any of the prior interest payment dates at 0.2 cents per share; i.e. 5,000 fully paid ordinary shares per \$10 Note. At the beginning of the period there were 219,010 notes on issue as 642,392 notes had been subject to early conversion. All 219,010 notes on issue were subject to automatic conversion on maturity as at 30 November 2014 and were converted into 1,095,050,000 fully paid ordinary shares

In December 2014 interest of \$109,505 was paid to noteholders for the six months to 30 November 2014.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Corporate developments (cont.)

#### Capital raising

The Company sold 9,500,000 forfeited partly paid shares at public auction in November 2014 (see above) raising \$28,500.

On 11 March 2015 the Company announced a pro-rata non-renounceable rights issue of listed unsecured converting notes at an issue price of \$10 each pursuant to a prospectus dated that day.

The issue was closed on 20 April 2015 with the Company raising \$4.12 Million before costs. The directors placed \$0.1 Million of the shortfall of \$7.18 Million during the three month period following the close of the issue during which they had reserved the right to make discretionary placements. This period closed on 20 July, 2015.

#### After balance date events

##### General Meeting

As advised to the ASX on 15 July 2015 Armour Energy Ltd issued the Company with a notice of intention to move resolutions for the removal of 2 of its directors, namely its Executive Chairman Rob Annells and Non-Executive Director Barney Berold. Subsequently Armour Energy Ltd requested that a resolution be moved to appoint Mr Roland Sleeman to the Board. Timeview Enterprises Pty Ltd requested that resolutions be moved to appoint Mr Andrew Davis and Mr Chris Tonkin to the Board. The Company convened a shareholder meeting for 9<sup>th</sup> September 2015 in this regard. As a result of that meeting Mr Annells and Mr Berold retained their positions and Mr Davis and Mr Tonkin were appointed to the Board. Mr Sleeman was not successful in being appointed to the Board.

##### Mortgage

In July 2015 the mortgage of \$1 million entered into by Owens lane Pty Ltd over land that it holds, and for which Lakes Oil NL was guarantor, was repaid.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Exploration and Operational Summary

#### Current Government position on onshore oil and gas exploration

The Victorian State Government ban on all onshore oil and gas exploration activities has severely impacted on Lakes Oil's ability to conduct exploration activities across the State. The Company has therefore been looking at other areas with more favourable regulatory conditions for exploration, as well as continuing to work up its portfolio in Victoria, in anticipation of the State lifting its onshore exploration ban.

A further 12 months' extension and suspension has been requested for each permit, for which application has been made.

#### Lakes Oil's new acreage acquisitions in Otway, Gippsland and Eromanga Basins

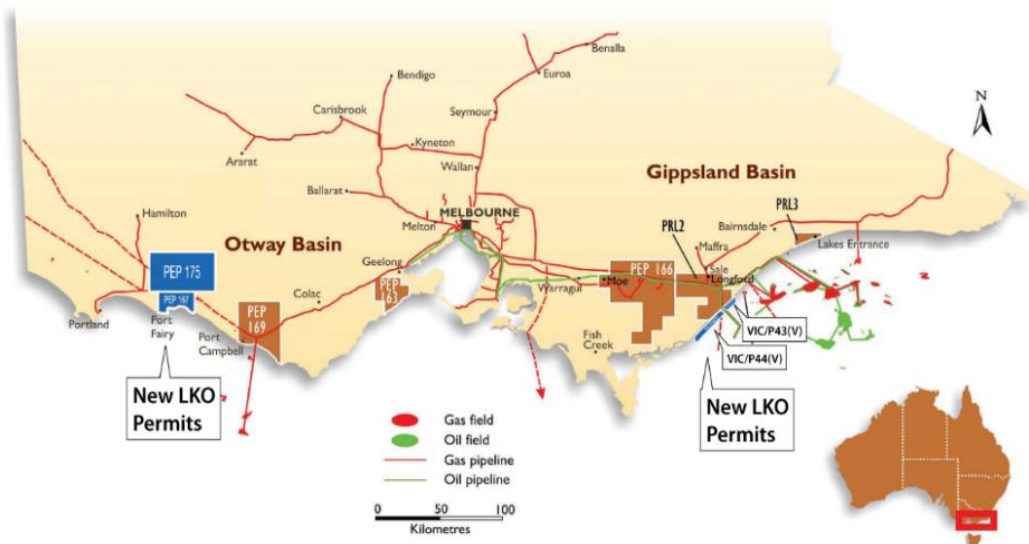
Six new exploration areas were acquired during the year.

These are :

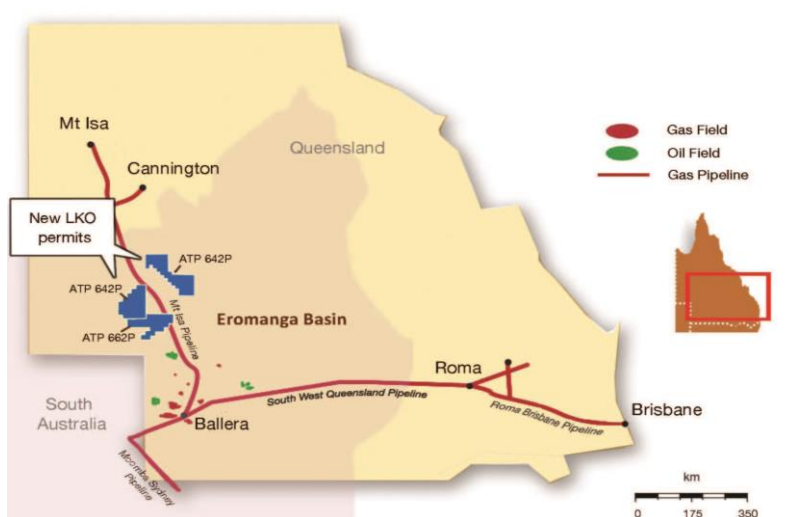
Onshore Otway Basin: permits PEP 167 and PEP 175

Nearshore Gippsland Basin permits: Vic/ P43(V) and Vic/ P44(V)

Onshore Eromanga Basin (Queensland) permits: ATP 642P and ATP 662P



Lakes Oil's Victorian permits



Lakes Oil's Queensland permits

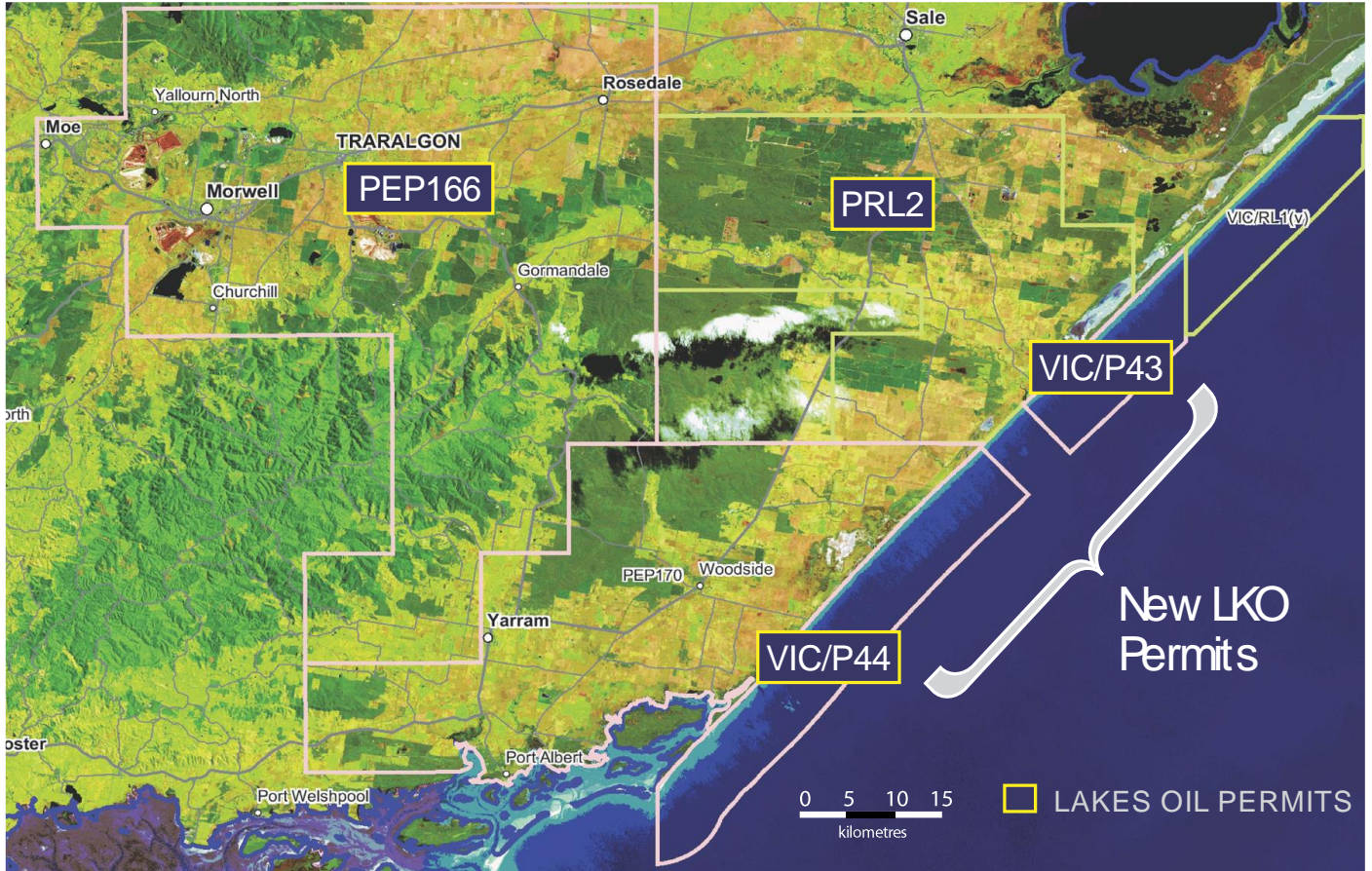
# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Directors' Report (cont.)

## Exploration and Operational Summary (cont.)

### VIC/P43(V) and VIC/P44(V) – Near shore Gippsland Basin



*The map above indicates Lakes Oil's new Victorian nearshore permits (in blue) in relation to Lakes Oil's existing onshore Gippsland Basin permits.*

### Community Consultations

Lakes Oil has been actively involved in community consultation panel meetings held across western and eastern Victoria during the year.

The purpose of these meetings has been to interface with community groups, independent consultants, local councils and other stakeholders and provide an open forum for discussion on any concerns relating to potential impacts on communities as a result of onshore gas exploration activities.

The panels have been very productive as a starting point in getting an accurate message to the communities on the relevant issues and countering much of the misinformation that is presented as fact by particular interest groups.

The outcomes from these panel meetings has now been compiled and submitted to the Victorian State Parliamentary inquiry in : "Report on community and stakeholder attitudes to onshore natural gas in Victoria. Prepared by the Independent Facilitator, The Primary Agency, 20 April 2015."

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Permit Summaries

#### PRL2 – Onshore Gippsland Basin

*(Lakes Oil, Operator, 100% interest in the overall permit, except for the Trifon and Gangell blocks where Lakes Oil has a 57.5% interest and Jarden Corporation Australia Pty Ltd has a 42.5% interest)*

*As announced on 12 August 2013, Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited withdrew from their farm-in agreement over PRL2 by which they could have earned a 50% interest in the permit by conducting certain expenditure up to the value of \$50 million. Armour Energy Ltd had a period of 6 months to match the terminated farm-in agreement. Lakes Oil has received a letter from Armour Energy Ltd purporting to exercise this matching right in relation to the farm-in agreement for PRL2. The matching right relates, amongst other things, to the Phase 1 fracture stimulation of 2 wells incurring up to \$10 million of expenditure which unfortunately is currently prevented during the fracking moratorium currently imposed by the Victorian Government. As referred to above the original farm-in agreement over PRL2 over which Armour Energy Ltd purported to match also included a right to earn up to a 50% interest in PRL2. The parties have reserved their rights in this matter which is yet to be determined.*

*Additionally Armour Energy Ltd has a 3 year option to acquire 50% of Lakes Oil's interests in the Trifon and Gangell blocks and a direct 25% interest in the remainder of PRL2 for a total payment of \$30 million. Option fees payable have a maximum lifetime value of \$0.6million. The life of this option has been extended while the moratorium is in place.*

### Proposed Field Operations

All operational activities in PRL2 have been indefinitely stalled awaiting Ministerial approvals and the lifting of the onshore exploration ban. The proposed operational activities in the lease have been previously outlined in the 2014 Annual report.

The Wombat-3 re-entry oil test and proposed Wombat-5 **conventional** well operational programs will be conducted as soon as approvals are given.

#### PRL3 – Onshore Gippsland Basin

*(Lakes Oil, Operator, 100% interest)*

No operational activities took place in this permit during the period. Lakes Oil has been working to resolve the continued access issues to its chosen drill sites.

The process of planning and engineering for two potential drilling sites had commenced, but because of the uncertainty of State bans on drilling, these plans have been indefinitely delayed.

#### PEP166 – Onshore Gippsland Basin

*(Lakes Oil, Operator, 75% interest) (Armour Energy Ltd (Armour) 25% interest)*

No operational activities occurred in the permit in this period.

### Regional Mapping

Regional mapping within the permit continued, evaluating the potential prospects to test additional Strzelecki and Rintouls Creek Formation tight gas and conventional plays. Without adequate and sufficient seismic data in the permit, mapping of intra-Strzelecki and base Strzelecki surfaces is extremely difficult. Re-interpretation of old coal bores, early wells and existing seismic data has been completed in the eastern part of the permit, where basement is indicated at around 3000 metres. Further mapping is continuing whilst the permit remains in a state of suspension due to the onshore exploration ban.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Permit Summaries (cont.)

PEP 175 and PEP 167 – Onshore Otway Basin  
(Lakes Oil, Operator 100% interest)

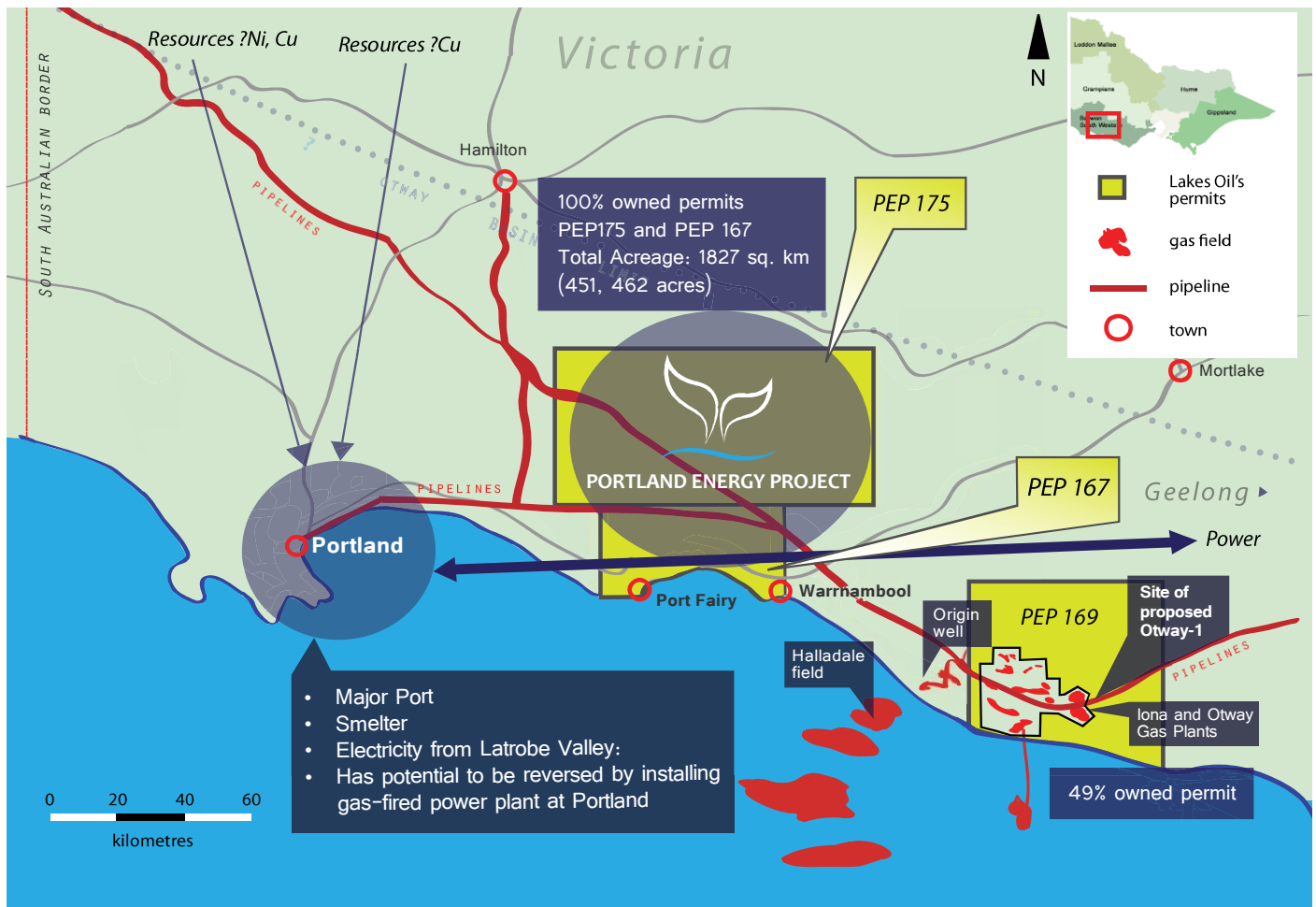
No exploration activities are permitted in onshore Victoria permits until further notice.

A review of existing seismic and geological data has continued in order to better understand the regional geology and the hydrocarbon systems that are present. Lakes Oil believes that the acreage has very good potential for unconventional and conventional plays, particularly in the Eumeralla Formation, a target that has been largely overlooked by previous explorers.

A total of 14 historic wells, some dating back to the 1960s, have been drilled in the two permits targeting conventional plays: the Waarre Formation situated above the Eumeralla Formation and the Pretty Hill Formation (Crayfish Group) below the Eumeralla Formation. Even though the Eumeralla was intersected in all wells, it was not recognised as a valid target and not tested. Re-interpretation in the USA of the well data indicates that the Eumeralla Formation contains gas throughout, and extends right across the permits.

### Portland Energy Project: PEP 175 and PEP 167

#### Lakes Oil's Strategic Plans for a major new onshore energy source for Victoria



The Portland Energy Project in western Victoria is part of Lakes Oil's new strategy to stimulate growth for the region and the State based on supply of newly discovered onshore natural gas resources that have been previously overlooked.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

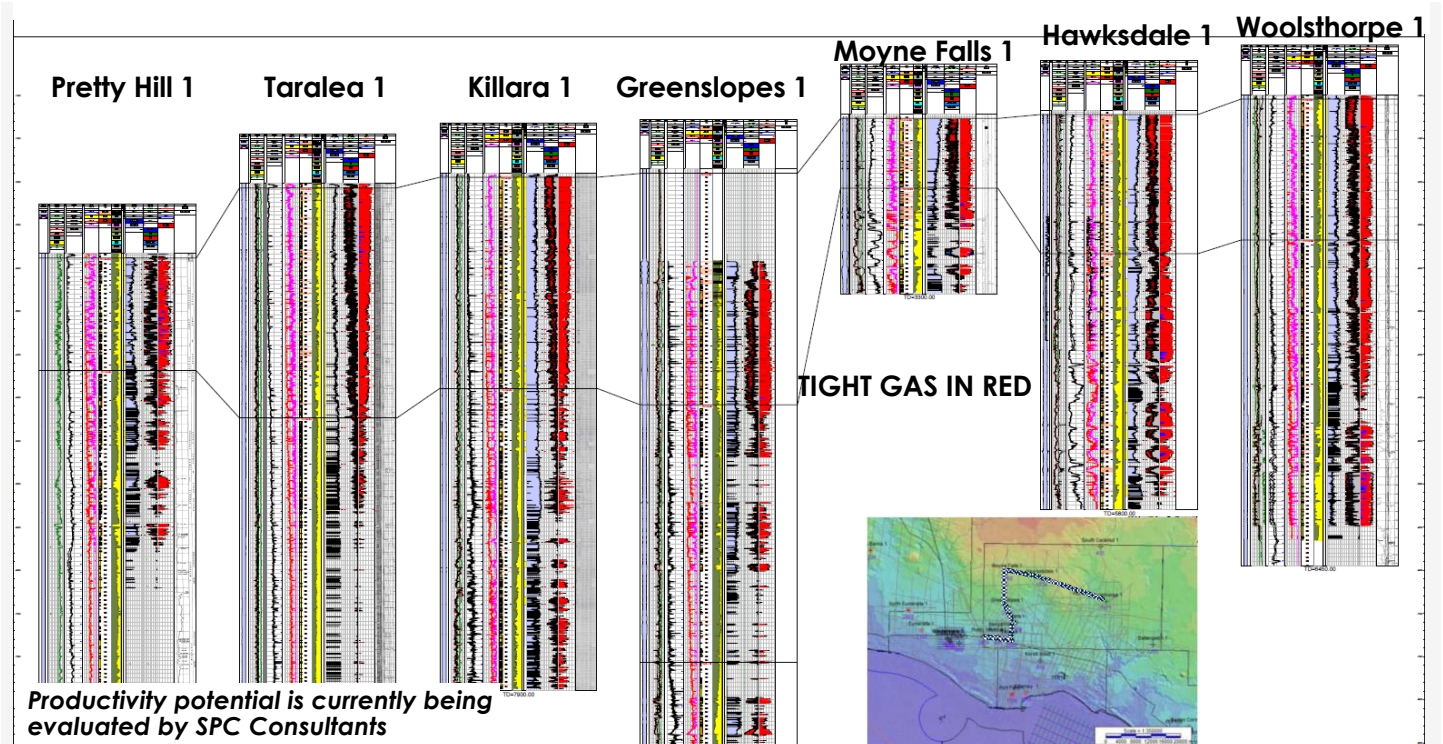
### Permit Summaries (cont.)

PEP 175 and PEP 167 – Onshore Otway Basin (cont.)

(Lakes Oil, Operator 100% interest)

Portland Energy Project: PEP 175 and PEP 167(Cont.)

#### PEP 175: Cross Section showing indicated tight gas in Eumeralla Formation



Cross-section of re-interpreted logs from west to east across a distance of approx. 40 km showing indicated gas (in red) in the Eumeralla Formation with thicknesses greater than 1000 metres in some cases. This data was presented in the Lakes' booklet to shareholders sent out on 10 February 2015 and also posted on Lakes' website on 10 February 2015.

Lakes Oil believes its new onshore Otway permits have the potential to be part of a **major new basin centred gas province** which could provide energy and stimulate existing and potential new industries in the area. In previous wells, continuous gas was encountered over sections of >2000 m in certain instances.

During the year, Lakes highlighted that it believes it has identified a major new onshore basin-centred gas province in its Otway permits. It set out the background information in this regard, including various aspects described in more detail in the Information Booklet sent to shareholders on 10 February 2015.

Lakes has received 2 reports estimating gas in place for the Otway permits PEP 167 and PEP 175. One report covers the entirety of the 2 permits PEP167 and PEP175. The numbers given for the total combined permits are large but heavily qualified. The second report is for a particular area which has the potential we believe to recover gas from the Eumeralla formation using conventional drilling methods. The evaluation report is based on well logs and seismic survey analysis without flow tests, undertaken not by Lakes but by several previous holders of the permits going back to the 1960s, and have been given only as an indication of what **potential recoverable gas in-place volumes** may be present in the permits. It will require proof of concept wells to be drilled conventionally and additional work to be conducted to test the existence of potentially moveable gas.

The above mentioned area in which Lakes currently proposes to drill its two conventional proof of concept wells, (should the State Government give permission), has the potential to hold an estimated recoverable prospective P50 gas resource of 8.27 TCF in the Eumeralla which Lakes is targeting and a further 3.19 TCF in formations below the Eumeralla which will not be targeted in the proof of concept wells.

It should be noted that when Armour and Lakes drilled the Moreys-1 well in 2012 wet gas was encountered in the Eumeralla and there is the possibility that this could occur here.



# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Permit Summaries (cont.)

PEP 175 and PEP 167 – Onshore Otway Basin (cont.)

*(Lakes Oil, Operator 100% interest)*

Portland Energy Project: PEP 175 and PEP 167(Cont.)

The report cautioned that the recoverable prospective P50 number was based on 6 wells in that particular area with no drill stem tests being run in the Eumeralla Formation. It pointed out that a proof of concept well would be the best test to understand the tight gas and wet gas potential of the formations targeted. It emphasised that negligible test production is available at this time to support the proposed resource determinations. The estimated quantities of petroleum that may be potentially recovered by the application of a future development project relate to identified accumulations and it follows that these estimates have an associated risk of profitable recovery and development. Further exploration appraisal and evaluation are required to determine the existence of a significant quantity of potential moveable hydrocarbons.

Lakes reiterates that it is not presently possible to assess the chance of discovery or the chance of development associated with the figures set out above pending Government approval to drill 2 conventional proof of concept vertical wells and the current moratorium on doing so. Moreover, these figures are based on a range of assumptions and technical parameters several of which are set out above. Further exploration, appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. Accordingly, investors should take care before relying on these estimates given this context.

In view of the current moratorium on drilling for oil and gas in Victoria, Lakes has sought the support of the current Upper House inquiry into "Unconventional Gas in Victoria", for the Government to allow it to drill two conventional proof of concept wells to confirm the presence of potentially recoverable onshore gas in the Otway Basin. Only then can it be sure of both the presence of moveable gas in the Eumeralla Formation and its potential for commerciality.

Lakes Oil believes this gas can be extracted using conventional drilling methods, **without needing hydraulic stimulation.**

- Lakes Oil's permits (PEP 175 and PEP 167) are strategically located close to the deep port and smelter at Portland.
- To further the case for potential economic development of a new major energy source, the onshore gas reserves in the region will be able to access existing pipelines that traverse the Lakes' permits.
- This will have favourable ramifications for the entire region and provide an opportunity to develop Portland as a major centre for employment.
- Importantly, because of the shallow nature of the gas, the cost of recovery will be substantially less than for existing offshore development.

Lakes Oil believes that this resource would be pivotal to providing affordable, clean energy to the State and will have a favourable impact on local industries.

The Company is hopeful that it will obtain Government approval to drill two conventional "proof of concept" vertical wells to about 1500 metres to test the potential for gas to flow naturally from the Eumeralla Formation without the need for hydraulic fracturing. The locations of the wells are yet to be determined. The drilling specifications would use best practice guidelines and drill through the same on-shore geological formations in the Otway Basin as those being drilled with Government approval by Origin Energy.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Directors' Report (cont.)

## Permit Summaries (cont.)

PEP 175 and PEP 167 – Onshore Otway Basin (cont.)

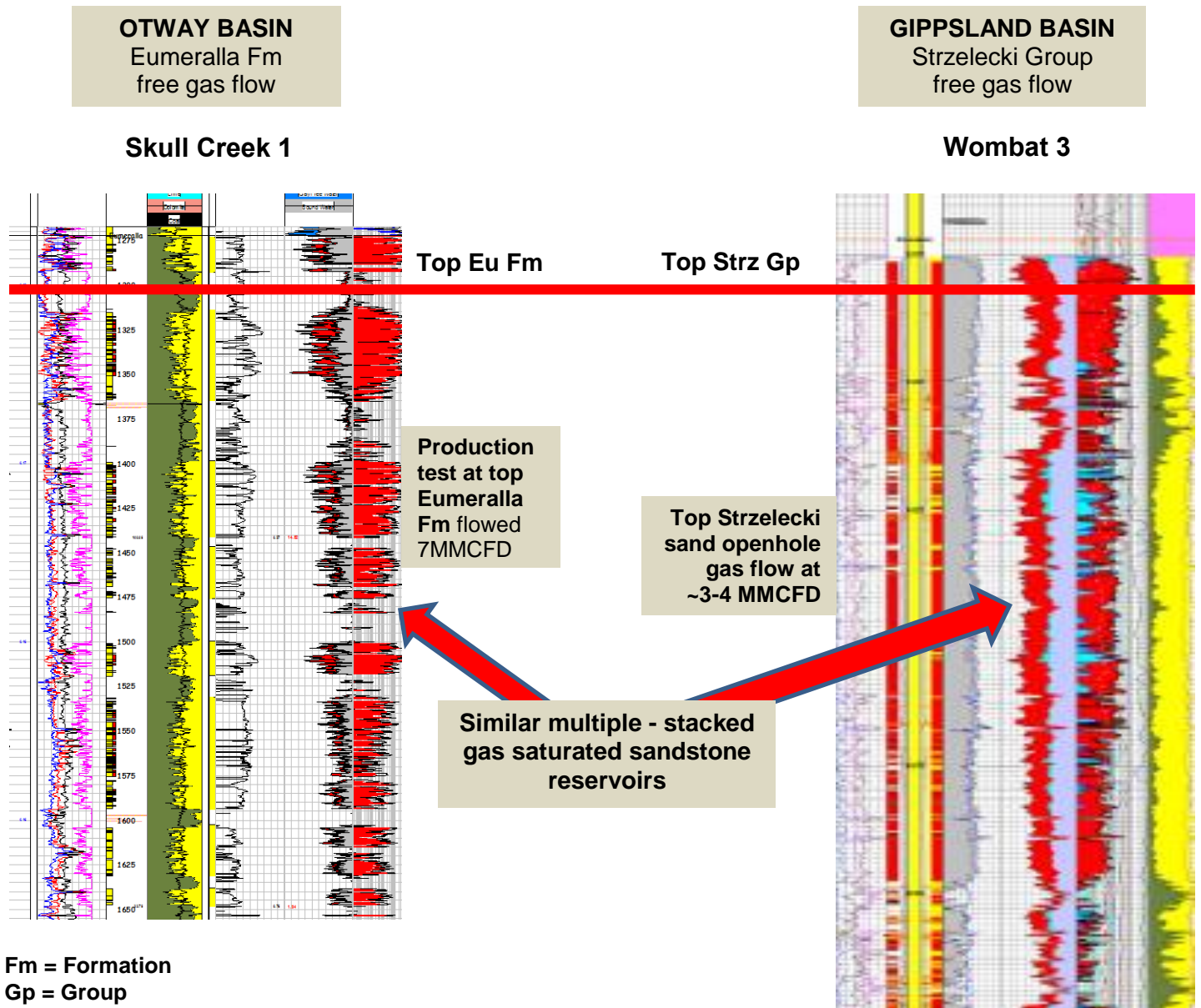
(Lakes Oil, Operator 100% interest)

Portland Energy Project: PEP 175 and PEP 167(Cont.)

## Comparison of Otway and Gippsland Basins

The Lower Cretaceous Eumeralla Formation in the Otway Basin is comparable with the Strzelecki Group in the Gippsland Basin that contains Lakes Oil's Wombat and Trifon gas fields. Comparison of the reservoir rocks in the Eumeralla Formation with the Strzelecki Group indicates that the reservoirs are equivalent in age, rock type and depositional environment (see figure below).

### Unstimulated, natural gas flows in low permeability reservoirs across Victoria



# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Directors' Report (cont.)

## Permit Summaries (cont.)

PEP 175 and PEP 167 – Onshore Otway Basin (cont.)

*(Lakes Oil, Operator 100% interest)*

Portland Energy Project: PEP 175 and PEP 167(Cont.)

**Comparison of Otway and Gippsland Basins (cont.)**

**Wombat 3 natural gas flow from Strzelecki Group**



Natural gas flows in the Upper Strzelecki Group in the Gippsland Basin provide analogue data for the Otway Basin gas flows. **The photo shows unfracted flow from the top Strzelecki Gp in Wombat 3 estimated to flow at 3 - 4 MMCFD.**

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Permit Summaries (cont.)

PEP 169 – Onshore Otway Basin

(Lakes Oil, 49% interest) (Operator as delegated by Armour Energy Ltd)(Armour Energy Ltd – 51%)

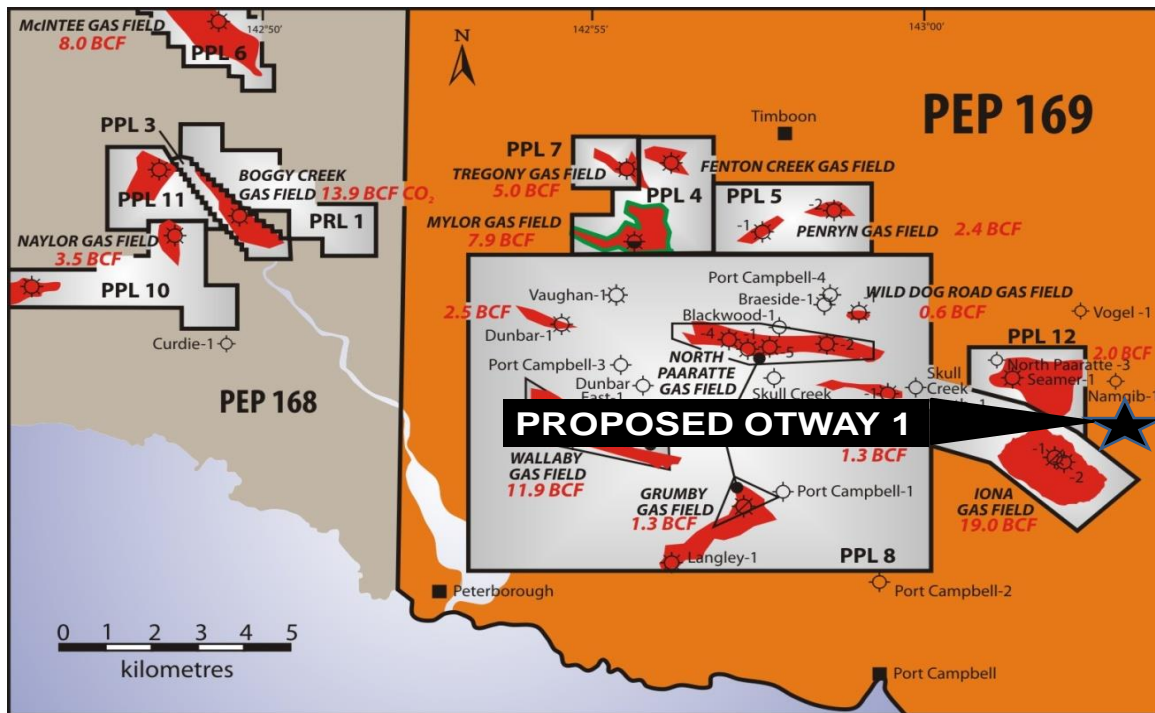
### Proposed Drilling Operations

- All drilling operations have been stalled awaiting written Ministerial approvals and lifting of the ban on onshore drilling in the State.
- The proposed Otway 1 **conventional** drilling program has been put on extended hold until such approval is given.

### Proposed Otway 1 Exploration Well: drilling further delayed

This well will be located adjacent to and up-dip from the Iona Gas Field (see map) targeting three objectives in a tilted fault block with closures at three potential levels. The targets are: Pebble Point Formation, Waarre 'C' Sands and Eumeralla Formation. The well is planned as a conventional structural test and will not be using hydraulic fracturing. Estimated total depth is 1500 metres.

The 3D seismic data indicates that there is an amplitude anomaly (bright spot) present at all three levels, which could indicate oil or gas.



Location of proposed Otway-1 well adjacent to the Iona Gas Facility

The Otway Prospect can be correlated to the Iona Field and mapped from 3D seismic data to contain the Waarre 'C' Sands, the producing reservoir in the Iona Field.

Note that because of the proximal location to the Iona Gas and Otway Gas Facilities, the flow of gas does not need to be large in order to be commercial.

PEP 163 – Onshore Otway Basin

(Lakes Oil, Operator, 100% interest)

All exploration activities in this permit have been placed on hold due to the ongoing State Government moratorium on onshore exploration.

# Lakes Oil NL and Controlled Entities

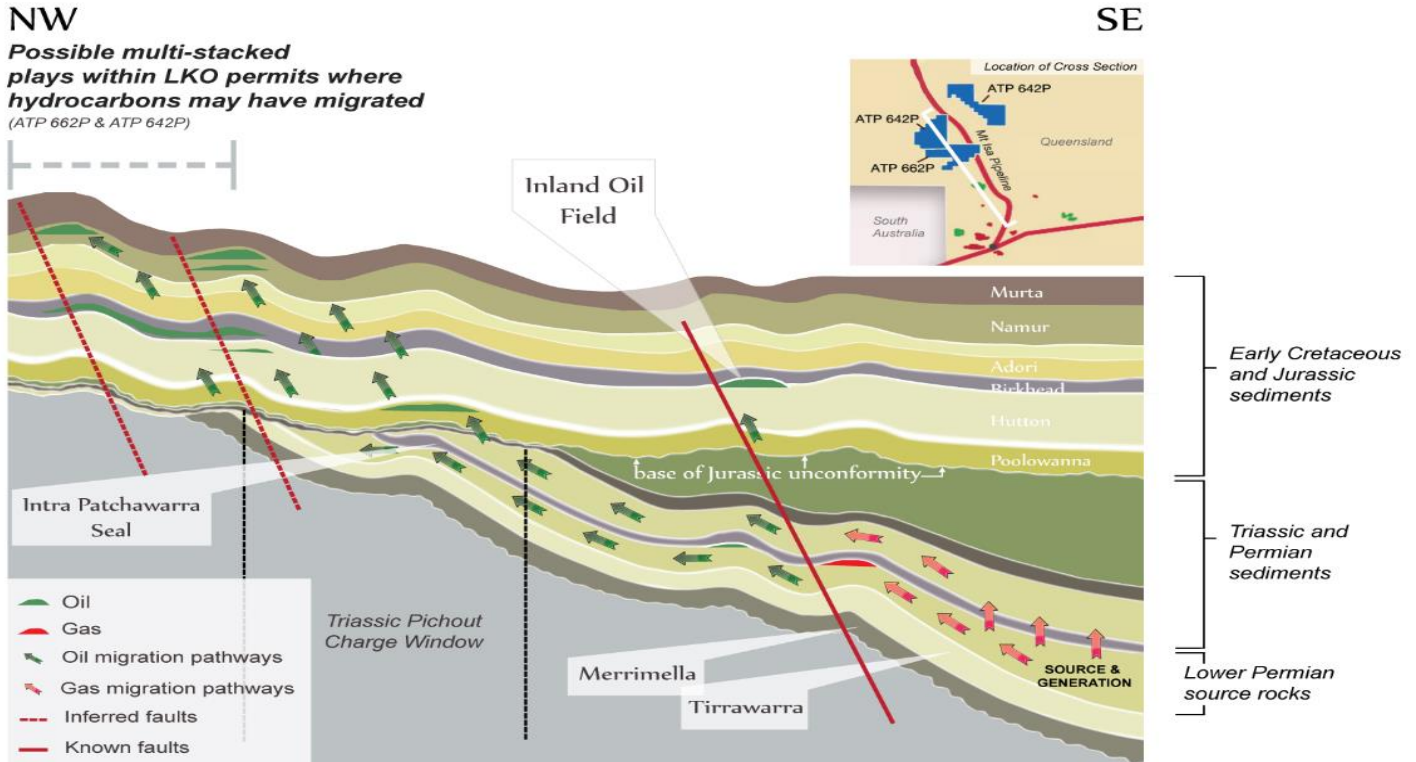
ABN: 62 004 247 214

## Directors' Report (cont.)

### Permit Summaries (cont.)

ATP 642P and ATP 662P – Eromanga Basin

(Lakes Oil, Operator 100% interest)



### NW-SE diagrammatic cross section through Lakes Oil's acreage in Queensland showing potential migration pathways along the northern flank of the Cooper Basin.

Lakes Oil acquired (through the purchase of Eoil Pty Ltd) a large acreage position in the Eromanga Basin during the year. ATPs 642P and 662P cover approx. 10,000km<sup>2</sup> (2.6 million acres) on the northern flank of the Cooper/Eromanga Basins. The areas are located close to existing infrastructure (the Mt Isa gas pipeline runs through ATP 662), are immediately adjacent to Santos' ATP 661 and west of Blue Energy's newest acreage (ATP 660). Every flank of the Cooper/Eromanga Basin has had oil discoveries, and the most underexplored of these flanks is the northern flank.

Lakes Oil saw this as an early opportunity to enter this emerging hydrocarbon province along the northern flank of the Eromanga Basin and explore for both conventional and unconventional plays within an industry-focused regulatory climate.

It is believed that ATPs 642P and 662P have excellent potential for the discovery of Mesozoic oilfields beyond the pinch out of the Triassic Seal (see diagrammatic cross section) and also have unconventional shale oil & gas potential within the Toolebuc Formation in the Eromanga Basin at relatively shallow depths.

PIRSA (*Primary Industries and Regions SA*, a key economic development agency in the government of South Australia) estimates that up to 70% of the oil within the Cooper-Eromanga Basin is trapped within the Eromanga Basin. Numerous studies over the last decade have confirmed the Birkhead, Murta and Poolowanna Formations (present within Lakes' permits) as the main effective source rocks in the Eromanga Basin.

The Inland Oil Field, located about 50 km to the southeast of ATP 662P, is currently producing 160 barrels of oil/day and has produced over 200,000bbls of oil between 2005 and 2014 (Queensland Govt. crude oil production figures) from Birkhead Formation and Hutton Sandstone oil reservoirs. Similar structural settings are likely to exist in Lakes' acreage.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### **Permit Summaries (cont.)**

ATP 642P and ATP 662P – Eromanga Basin (cont.)

*(Lakes Oil, Operator 100% interest)*

As Lakes' acreage is relatively underexplored, the proposed forward program is to conduct a cost effective regional survey using remote-sensing multispectral fracture analysis and geochemical sampling to identify potential hydrocarbon leakages sites and calibrate these with known hydrocarbon signatures in the vicinity. These results would provide the basis for identifying the areas to be the focus of the seismic survey and airborne gravity acquisition to enable the identification of potential leads and prospects. The timing of this work is yet to be confirmed, but is planned for mid-2016, subject to weather conditions and equipment availability.

As Lakes holds 100% of the permits, there is the opportunity to farm-in a company interested in acquiring the data and drilling a well to earn an interest across the permits reducing Lakes' financial exposure to the permits.

Examination of previous geological and geophysical investigations continued in order to build up our data base and understanding of the hydrocarbon prospectivity of the acreage. The areas are underexplored and are positioned along probable hydrocarbon migration pathways originating from Permian Cooper Basin and Jurassic Eromanga Basin source rocks.

VIC/P43(V) and VIC/P44(V) – Near shore Gippsland Basin

*(Lakes Oil, Operator 100% interest in the two permits)*

Lakes Oil was granted two new Victorian nearshore permits that are located in close proximity to Lakes Oil's existing onshore Gippsland Basin permits. The two permits are situated in the Seaspray Depression adjacent to our onshore tight gas fields at Wombat, Trifon and Gangell in PRL2, and extend southwards just beyond St Margaret Island.

The acreage is believed to be prospective for both conventional and unconventional oil and gas. Initial activity includes reviewing existing seismic and geological data in order to better understand the regional geology and the hydrocarbon prospectivity in the blocks.

Eagle Prospect – Onshore, California, USA

*(Lakes Oil: 17.97% working interest; Operator: Strata –X, Inc.)*

### **Proposed Shannon-1**

This permit contains the Mary Bellochi-1 well drilled in 1986 and Eagle Nth-1 drilled in 2006 by Lakes Oil and its joint operation partners. The well flowed oil to surface for several weeks before withering out from, what was believed at the time to be, a mechanical problem rather than oil ceasing to be present. The permit is now operated by Strata-X, Inc. The proposed Shannon-1 well is targeting the Mary Bellochi accumulation. The joint operation partners propose to drill Shannon-1 vertically as a near-offset appraisal of the P90 reserves case of 1.2 MMB (oil) and 3.8 BCF (gas). Drilling is planned, but not confirmed, pending rig availability.

### **Victorian Coal Exploration Leases**

Commonwealth Mining Pty Ltd, a wholly owned subsidiary of Lakes Oil NL, has 3 coal exploration leases in the Gippsland Basin. The areas are: EL 5333, EL 5334 and EL 5394. Lakes Oil has a 100% interest in each of these exploration leases which have been acquired to investigate the resource potential of economically recoverable brown coal resources. The three leases have JORC exploration potential coal tonnage estimates calculated by independent consultants.

No further activities have taken place in this period.

These leases are **not being explored for coal seam gas resources.**

### **Environmental regulation and performance**

Lakes Oil holds interests in petroleum exploration permits and mineral licences in Victoria. All of these permits and licences impose regulations regarding environmental issues. There have been no known breaches of the environmental regulations during the financial year.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Remuneration Report (Audited)

#### Remuneration policy

The board of directors of Lakes Oil NL is responsible for determining and reviewing compensation arrangements for the directors, the Executive Chairman, Executive Officers and other employees.

The Board established a Remuneration Committee in July 2013 which has been charged with establishing and reviewing remuneration procedures appropriate for a Board and consolidated entity of this size.

The Remuneration Committee has the responsibility to assess the appropriateness of the nature and amount of emoluments for non-executive directors with reference to performance, relevant comparative remuneration and independent expert advice with the objective of retaining a high quality board to ensure maximum stakeholder benefit. The non-executive directors receive fees in arrears and do not receive bonus payments.

The Remuneration Committee has the responsibility to assess the appropriateness of the nature and amount of emoluments for the Executive Chairman on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality executive. During the year the Committee engaged independent remuneration consultants Mercer Consulting (Australia) Pty Ltd (Mercer) to advise on the Executive Chairman's remuneration and to make remuneration recommendations thereon to the Committee. The protocol that the Committee engages the consultant is used to ensure that the advice the Committee receives is free from any undue influence from management. One aspect of this protocol is that the Committee through its Chairman appoints and engages directly with the consultant in relation to remuneration matters. The terms of engagement by Mercer were finalised by the Chairman of the Committee and all remuneration recommendations are provided directly to the Committee Chairman. Management is involved in this process only to the extent that it can assist the consultant by providing factual information as requested by the consultant. Mercer benchmarked Executive Chairmen's' fees and remuneration, both fixed and at risk components. For these services it received fees of \$ 27,142 (inc GST). The board is satisfied that the remuneration recommendations made by its consultant were made free from undue influence by the Executive Chairman. Mercer is an independent remuneration consultant that provides services in relation to executive and board remuneration consulting. Therefore the scope for potential conflicts of interest is minimised.

The Remuneration Committee has the responsibility to review the appropriateness of the nature and amount of emoluments for Senior Executives as recommended by the Executive Chairman. These recommendations are made by the Executive Chairman on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality team.

The Executive Chairman is given the opportunity to receive his base emolument in a variety of forms including cash and fringe benefits such as expenses payment plans. All other staff must take their base emolument as cash and superannuation. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost.

For directors and staff, the consolidated entity provides a remuneration package that currently provides for cash-based remuneration. The contracts for services between the consolidated entity and specified directors and executives are on a continuing basis the terms of which are not expected to change in aligning director and shareholder interests. The remuneration policy is not related to the consolidated entity's performance. The board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth for shareholders.

The Executive Chairman, Executive Officers and other employees are all employed under various forms of agreement that can be terminated with notice by either side. These agreements, which do not specify fixed periods of employment, can be terminated by either party with a notice period of four weeks. Termination payments comprise the base salary payment for the duration of the applicable notice period, plus any statutory entitlements owing, such as outstanding annual and long service leave entitlements and superannuation contributions.

Lakes Oil NL determines the maximum amount for remuneration, including thresholds for share-based remuneration, and bonus payments, if any, by directors' resolution.

There were no at-risk compensation components forgone during the year.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Remuneration Report (Audited) (cont.)

#### Named directors and executives

The names and positions of each person who held the position of director at any time during the financial year is provided below.

<b>Directors</b>	<b>Position</b>	<b>Period of Responsibility</b>
R Annells	Executive Chairman	Full year
B Berold	Non-executive Director	Full year
A Davis	Non-executive Director	Appointed 9 September 2015
N Mather	Non-executive Director	Full year
I Plimer	Non-executive Director	Full year
C Tonkin	Non-executive Director	Appointed 9 September 2015
W Stubbs	Non-executive Director	Full year
K Wightman	Non-executive Director	Appointed 4 August 2014
R de Weijer	Alternate Director	Full year
M Stubbs	Alternate Director	1 July 2014-26 August 2014

There are three executives in the consolidated entity who hold positions of a senior nature that directly influences the overall direction of the consolidated entity focus as named below:

<b>Executives</b>	<b>Position</b>	<b>Period of Responsibility</b>
I Campbell	Chief Geologist	Full year
T O'Brien	Operations Manager	Full year
L Smith	CFO/Company Secretary	Full year



# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Remuneration Report (Audited) (cont.)

#### Directors' remuneration

		Primary Benefits		Post Employment			Total	Total Performance Related %
		Salary & fees	Non Monetary	Super-annuation	Retirement Benefits	Other Benefits		
		\$	\$	\$	\$	\$		
R Annells <sup>A</sup>	<b>2015</b>	<b>342,108</b>	<b>5,000</b>	<b>31,642</b>	-	-	<b>378,750</b>	<b>0.00</b>
	2014	315,791	5,000	29,209	-	-	350,000	0.00
B Berold	<b>2015</b>	<b>15,000</b>	-	<b>35,000</b>	-	-	<b>50,000</b>	<b>0.00</b>
	2014	7,246	-	42,754	-	-	50,000	0.00
A Davis <sup>E</sup>	<b>2015</b>	-	-	-	-	-	-	-
	<b>2014</b>	-	-	-	-	-	-	-
A Downer <sup>B</sup>	<b>2015</b>	-	-	-	-	-	-	<b>0.00</b>
	2014	36,965	-	3,419	-	-	40,384	0.00
N Mather	<b>2015</b>	<b>50,000</b>	-	-	-	-	<b>50,000</b>	<b>0.00</b>
	2014	50,000	-	-	-	-	50,000	0.00
I Plimer	<b>2015</b>	<b>45,662</b>	-	<b>4,338</b>	-	-	<b>50,000</b>	<b>0.00</b>
	2014	45,793	-	4,207	-	-	50,000	0.00
W Stubbs	<b>2015</b>	<b>45,662</b>	-	<b>4,338</b>	-	-	<b>50,000</b>	<b>0.00</b>
	2014	45,793	-	4,207	-	-	50,000	0.00
C Tonkin <sup>E</sup>	<b>2015</b>	-	-	-	-	-	-	-
	<b>2014</b>	-	-	-	-	-	-	-
K Wightman <sup>C</sup>	<b>2015</b>	<b>41,488</b>	-	<b>3,940</b>	-	-	<b>45,429</b>	<b>0.00</b>
	2014	-	-	-	-	-	-	0.00
R de Weijer <sup>D</sup>	<b>2015</b>	-	-	-	-	-	-	-
	2014	-	-	-	-	-	-	-
M Stubbs <sup>D</sup>	<b>2015</b>	-	-	-	-	-	-	-
	2014	-	-	-	-	-	-	-
Total directors remuneration	<b>2015</b>	<b>539,920</b>	<b>5,000</b>	<b>79,258</b>	-	-	<b>624,179</b>	<b>0.00</b>
	2014	501,588	5,000	83,796	-	-	590,384	0.00

<sup>A</sup> For Mr Annells the values shown represent payments made and accrued as a director and chief executive officer. Mr Annells elected to cash-out 1 month's value of accrued annual leave entitlement in the year to 30 June 2015(2014: Nil). The value of this payment is included in these figures

<sup>B</sup> Mr Downer resigned on 17 April 2014 and received *pro rata* director's fees for the period 1 July 2013 to 17 April 2014.

<sup>C</sup> Mr Wightman was appointed on 4 August 2014 and received *pro rata* director's fees for the period to 30 June 2015.

<sup>D</sup> Mr de Weijer and Mr M Stubbs are Alternate Directors. Mr de Weijer has served from 5 June 2014. Mr M Stubbs served through the period 1 July 2013 to 26 August 2014).

<sup>E</sup> Mr Davis and Mr Tonkin were appointed on 9 September 2015.

#### Executives' remuneration

		Primary Benefits		Post-Employment			Total	Total Performance Related %
		Salary & fees	Non Monetary	Super-annuation	Retirement Benefits	Other Benefits		
		\$	\$	\$	\$	\$		
I Campbell	<b>2015</b>	<b>185,496</b>	-	<b>35,000</b>	-	-	<b>220,496</b>	<b>0.00</b>
	2014	190,473	-	24,637	-	-	215,110	0.00
T O'Brien~	<b>2015</b>	<b>240,821</b>	-	<b>22,877</b>	-	-	<b>263,698</b>	<b>0.00</b>
	2014	227,542	-	21,043	-	-	248,585	0.00
L Smith	<b>2015</b>	<b>155,400</b>	-	<b>24,996</b>	-	-	<b>180,396</b>	<b>0.00</b>
	2014	147,492	-	24,997	-	-	172,489	0.00
Total executive remuneration	<b>2015</b>	<b>581,717</b>	-	<b>82,873</b>	-	-	<b>664,590</b>	<b>0.00</b>
	2014	565,507	-	70,677	-	-	636,184	0.00

~ Mr O'Brien elected to cash-out 25 days of accrued annual leave in the year to 30 June 2015(2014: 20 days). The value of these payments is included in these figures

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Directors' Report (cont.)

## **Remuneration Report (Audited) (cont.)**

### **Remuneration - options and options with no performance criteria**

No director and executive remuneration comprise options.

### **Options granted as remuneration that have been exercised or lapsed during the financial year**

No options have been granted, exercised or lapsed in the year, or in the previous year.

### **Directors' and executives' equity holdings**

(a) Compensation options: granted and vested during the year (consolidated)

No options were granted and vested during the year ended 30 June 2015 or the year ended 30 June 2014.

(b) Share issued on exercise of compensation options

No shares have been issued on exercise of compensation options by any director or executive.

(c) No options are held by Key Management personnel.

### **Valuation of options issued to directors and executives**

No options were issued to directors and executives during the 2015 or 2014 financial years.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Remuneration Report (Audited) (cont.)

#### Number of shares held by key management personnel

2015		Balance 1 July 2014	Net Change Other	Balance 30 June 2015
Directors		Ord#	Ord	Ord
R Annells	D	5,237,259	-	5,237,259
	I	177,000,000	(75,000,000)	102,000,000
B Berold	D	5,799,167	-	5,799,167
	I	49,373,611	(1,015,000)	48,358,611
N Mather^	D	-	-	-
	I	-	-	-
I Plimer	D	-	-	-
	I	-	-	-
W Stubbs^	D	6,000,000	-	6,000,000
	I	-	-	-
K Wightman	D	-	-	-
	I	-	-	-
R de Weijer^	D	-	-	-
Alternate Director	I	-	-	-
M Stubbs	D	-	-	-
Alternate Director	I	-	-	-
<b>Executives</b>		-	-	-
I Campbell	D	11,300,000	(9,000,000)	2,300,000
	I	-	-	-
T O'Brien	D	6,000,000	3,000,000	9,000,000
	I	11,000,000	(6,750,000)	4,250,000
L Smith	D	5,000,000	(5,000,000)	-
	I	1,416,600	710,000	2,126,600
<b>Total</b>		<b>278,126,637</b>	<b>(93,055,000)</b>	<b>185,071,637</b>

2014		Balance 1 July 2013	Net Change Other	Balance 30 June 2014
Directors		Ord#	Ord	Ord#
R Annells	D	5,237,259	-	5,237,259
	I	167,000,000	10,000,000	177,000,000
B Berold	D	5,799,167	-	5,799,167
	I	49,373,611	-	49,373,611
A Downer	D	-	-	-
	I	-	-	-
N Mather^	D	-	-	-
	I	-	-	-
I Plimer	D	-	-	-
	I	-	-	-
W Stubbs^	D	6,000,000	-	6,000,000
	I	-	-	-
K Wightman	D	-	-	-
	I	-	-	-
R de Weijer^	D	-	-	-
Alternate Director	I	-	-	-
M Stubbs	D	-	-	-
Alternate Director	I	-	-	-
<b>Executives</b>		-	-	-
I Campbell	D	11,300,000	-	11,300,000
	I	-	-	-
T O'Brien	D	6,000,000	-	6,000,000
	I	10,000,000	1,000,000	11,000,000
L. Smith	D	5,000,000	-	5,000,000
	I	1,416,600	710,000	2,126,600
<b>Total</b>		<b>267,126,637</b>	<b>11,000,000</b>	<b>278,126,637</b>

Note: D = direct ownership. I = indirect ownership.

# This balance includes partly paid shares purchased in previous years. Refer Note 17 for more detail

^ Mr Mather and Mr Stubbs are Directors of Armour Energy Ltd which held a 18.60% fully diluted interest in the consolidated entity at balance date and at the date of signing the accounts. Mr de Weijer is CEO of Armour Energy Ltd

Mr Davis and Mr Tonkin were appointed on 9 September 2015. Mr Davis indirectly holds 5,000,000 fully paid ordinary shares. Mr Tonkin does not hold any fully paid ordinary shares.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Remuneration Report (Audited) (cont.)

#### Number of listed unsecured converting notes held by key management personnel

		2015	Balance 1 July 2014	Net Change Other	Balance 30 June 2015
<b>Directors</b>					
R Annells	D		-	-	-
	I		-	-	-
B Berold	D		-	-	-
	I		4,797	(2,797)	2,000
N Mather^	D		-	-	-
	I		-	-	-
I Plimer	D		-	-	-
	I		-	-	-
W Stubbs^	D		-	-	-
	I		-	-	-
K Wightman	D		-	-	-
	I		-	-	-
R de Weijer^ Alternate Director	D		-	-	-
	I		-	-	-
M Stubbs Alternate Director	D		-	-	-
	I		-	-	-
<b>Executives</b>					
I Campbell	D		200	(50)	150
	I		-	-	-
T O'Brien	D		600	400	1,000
	I		650	350	1,000
L Smith	D		-	-	-
	I		142	71	213
<b>Total</b>			<b>6,389</b>	<b>(2,026)</b>	<b>4,363</b>

		2014	Balance 1 July 2013	Net Change Other	Balance 30 June 2014
<b>Directors</b>					
R Annells	D		-	-	-
	I		5,000	(5,000)	-
B Berold	D		-	-	-
	I		4,797	-	4,797
A Downer	D		-	-	-
	I		-	-	-
N Mather^	D		-	-	-
	I		-	-	-
I Plimer	D		-	-	-
	I		-	-	-
W Stubbs^	D		-	-	-
	I		-	-	-
K Wightman	D		-	-	-
	I		-	-	-
R de Weijer^ Alternate Director	D		-	-	-
	I		-	-	-
M Stubbs Alternate Director	D		-	-	-
	I		-	-	-
<b>Executives</b>					
I Campbell	D		200	-	200
	I		-	-	-
T O'Brien	D		600	-	600
	I		650	-	650
L Smith	D		-	-	-
	I		142	-	142
<b>Total</b>			<b>11,389</b>	<b>(5,000)</b>	<b>6,389</b>

Note: D = direct ownership. I = indirect ownership.

^Mr. Mather and Mr. Stubbs are Directors of Armour Energy Ltd which held an 18.89% interest (15.69% fully diluted) interest in the consolidated entity at balance date and at the date of signing the accounts. Mr de Weijer is CEO of Armour Energy Ltd

Mr Davis and Mr Tonkin were appointed on 9 September 2015. Neither hold any Listed Unsecured Converting Notes.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Report (cont.)

### Remuneration Report (Audited) (cont.)

All equity transactions with specified directors and executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

### Relationship between remuneration policy and company performance

	2015	2014	2013	2012
Revenue (\$'000)	51	79	572	47
Loss before tax (\$'000)	(2,743)	(3,168)	(2,953)	(3,024)
Change in share price	(33.0%)	(40.0%)	-	25.0%
Dividends paid to shareholders (\$'000)	-	-	-	-
Return of capital (\$'000)	-	-	-	-

The remuneration policy is not related to the consolidated entity's performance. The board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth for shareholders.

### Directors Transactions

All amounts paid to Directors and director-related entities were on commercial terms and conditions.

Two of the Directors of Lakes Oil NL Nicholas Mather and William Stubbs, are Directors of Armour Energy Ltd. Mr. Matthew Stubbs, an Alternate Director of Lakes Oil NL until his resignation on 26 August 2014, was also an Alternate Director of Armour Energy Ltd at various times. Mr Robbert de Weijer, an Alternate Director of Lakes Oil NL, is the CEO of Armour Energy Ltd. Armour Energy Ltd is party to an agreement with Lakes Oil NL as described in Note 26.

There are no loans made by Lakes Oil NL to key management personnel or any related party.

### Voting and Comments made at Lakes Oil NL's 2014 Annual General Meeting

At the company's most recent AGM, a resolution to adopt the prior year remuneration report was put to the vote and at least 75% of "yes" votes were cast for adoption of that report. No comments were made on the remuneration report that were considered at the AGM.

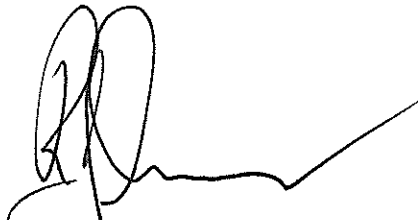
**End of Audited Remuneration Report.**

Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Directors' Report (cont.)

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

**ROBERT J. ANNELLS**

*Chairman*

Signed at Melbourne, Victoria on

29 September 2015

**LAKES OIL N.L**  
**AUDITOR'S INDEPENDENCE DECLARATION**  
**TO THE DIRECTORS OF LAKES OIL N.L**

In relation to the independent audit for the year ended 30 June 2015, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of any applicable code of professional conduct.

This declaration is in respect of Lakes Oil N.L. and the entities it controlled during the year.



M J HARRISON  
Partner

29 September 2015



PITCHER PARTNERS  
Melbourne

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Consolidated Statement of Comprehensive Income For the Year Ended 30 June 2015

	<i>Note</i>	<b>2015</b>	<b>2014</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Revenue and other income</b>			
Interest income	4	30	55
Other income	4	22	24
Fair value gains/(losses) on financial assets through profit or loss		275	414
		<b>327</b>	<b>493</b>
<b>Less: Expenses</b>			
Employee benefits expenses	5a	(1,180)	(1,196)
Depreciation expenses	5b	(60)	(67)
Exploration expenditure written off	12	(10)	(75)
Accounting and audit expenses		(86)	(89)
Marketing and promotion expenses		(245)	(170)
Rent and occupancy expenses		(207)	(270)
Consulting expenses		(215)	(308)
Administrative expenses	5c	(968)	(890)
Impairment of property, plant and equipment	11	-	(471)
Finance costs		(99)	(125)
Total expenses		<u>(3,070)</u>	<u>(3,661)</u>
<b>Loss before income tax</b>		<b><u>(2,743)</u></b>	<b><u>(3,168)</u></b>
Income tax expense	6	-	-
<b>Net Loss from continuing operations</b>		<b><u>(2,743)</u></b>	<b><u>(3,168)</u></b>
Loss for the year		(2,743)	(3,168)
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>		<b><u>(2,743)</u></b>	<b><u>(3,168)</u></b>
Loss attributable to members of the parent		(2,743)	(3,168)
<b>Total comprehensive loss attributable to members of the parent</b>		<b><u>(2,743)</u></b>	<b><u>(3,168)</u></b>
Basic loss per share from continuing operations (cents per share)	20	(0.03)	(0.04)
Diluted loss per share from continuing operations (cents per share)	20	(0.03)	(0.04)

The above statement should be read in conjunction with the accompanying notes



# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Consolidated Statement of Financial Position

As at 30 June 2015

	<i>Note</i>	<b>2015</b> <b>\$'000</b>	<b>2014</b> <b>\$'000</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	19	2,688	3,056
Receivables	7	78	170
Financial assets at fair value through profit or loss	10	1,103	828
Other financial assets	9	866	228
Other current assets	8	38	49
<b>TOTAL CURRENT ASSETS</b>		<b>4,773</b>	<b>4,331</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	1,904	1,964
Exploration, evaluation and development costs	12	52,118	50,148
<b>TOTAL NON-CURRENT ASSETS</b>		<b>54,022</b>	<b>52,112</b>
<b>TOTAL ASSETS</b>		<b>58,795</b>	<b>56,443</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	549	564
Borrowings	14	1,000	-
Converting notes	15	374	79
Provisions	16	224	264
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,147</b>	<b>907</b>
<b>NON-CURRENT LIABILITIES</b>			
Converting notes	15	312	-
Provisions	16	326	315
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>638</b>	<b>315</b>
<b>TOTAL LIABILITIES</b>		<b>2,785</b>	<b>1,222</b>
<b>NET ASSETS</b>		<b>56,010</b>	<b>55,221</b>
<b>EQUITY</b>			
Share capital – ordinary shares	17	107,168	105,384
Share capital – converting notes	17	3,504	1,756
<b>Total Contributed Equity</b>		<b>110,672</b>	<b>107,140</b>
Other reserves	18	-	-
Accumulated losses	18	(54,662)	(51,919)
<b>TOTAL EQUITY</b>		<b>56,010</b>	<b>55,221</b>

The above statement should be read in conjunction with the accompanying notes

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Consolidated Statement of Changes in Equity For the Year Ended 30 June 2015

	Contributed equity \$'000	Reserves \$'000	Accumulated Losses \$'000	Total Equity \$'000
<b>Balance as at 30 June 2013</b>	<b>106,727</b>	-	<b>(48,751)</b>	<b>57,976</b>
Loss for the year	-	-	(3,168)	(3,138)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(3,168)</b>	<b>(3,168)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Present value of interest returned on early conversion	413	-	-	413
<b>Total transactions with owners in their capacity as owners</b>	<b>413</b>	<b>-</b>	<b>-</b>	<b>413</b>
<b>Balance as at 30 June 2014</b>	<b>107,140</b>	-	<b>(51,919)</b>	<b>55,221</b>
Loss for the year	-	-	(2,743)	(2,743)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(2,743)</b>	<b>(2,743)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Contributions	3,564			3,564
Capital raising costs	(32)	-	-	(32)
<b>Total transactions with owners in their capacity as owners</b>	<b>3,532</b>	<b>-</b>	<b>-</b>	<b>3,532</b>
<b>Balance as at 30 June 2015</b>	<b>110,672</b>	-	<b>(54,662)</b>	<b>56,010</b>

The above statement should be read in conjunction with the accompanying notes

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Consolidated Statement of Cash Flows

For the Year Ended 30 June 2015

	2015	2014
	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts	21	17
Payments to suppliers and employees	(2,777)	(2,937)
Payments for exploration and evaluation costs	(532)	(1,364)
Receipts from joint operation partners towards exploration and evaluation costs	98	-
Interest received	30	74
Research & development - Tax refund	-	1,662
Finance costs	(68)	(33)
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>19(a) (3,228)</b>	<b>(2,581)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of exploration permits	(1,486)	(119)
Purchase of trustee investments	(844)	
Proceeds from trustee investments	206	1,080
Proceeds from sale of plant and equipment	-	14
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(2,124)</b>	<b>975</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of ordinary shares	29	-
Proceeds from issue of converting notes	4,222	-
Converting note interest paid	(110)	(517)
Payment of note issue costs	(157)	-
Proceeds from borrowings	1,000	-
Repayment of borrowings	-	(1,000)
<b>NET CASH FLOWS (USED IN)/PROVIDED BY FINANCING ACTIVITIES</b>	<b>4,984</b>	<b>(1,517)</b>
<b>NET (DECREASE)/INCREASE IN CASH HELD</b>	<b>(368)</b>	<b>(3,123)</b>
Add opening cash brought forward	3,056	6,179
<b>CLOSING CASH CARRIED FORWARD</b>	<b>19(b) 2,688</b>	<b>3,056</b>

The above statement should be read in conjunction with the accompanying notes

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Notes to the Financial Statements year ended 30 June 2015

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

#### (a) Basis of preparation of the financial report.

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other applicable authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Lakes Oil NL and controlled entities as a consolidated entity. Lakes Oil NL is a no-liability company incorporated and domiciled in Australia. Lakes Oil NL is a for-profit entity for the purpose of preparing the financial statements.

The financial report was authorised for issue by the directors at the date of the directors' report.

#### *Compliance with IFRS*

The consolidated financial statements of Lakes Oil NL also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### *Historical cost convention*

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

#### *Critical accounting estimates*

The preparation of the financial report requires the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

#### (b) Going concern

The Directors have prepared the financial report on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred an operating loss after income tax expense for the year ended 30 June 2015 of \$2.7 million (2014: loss of \$3.1 million) and at reporting date has net assets of \$ 56.0 million (2014: \$55.2 million) including \$ 52.1 million (2014: \$50.1 million) of capitalised exploration, evaluation and development costs.

The Directors forecast cash flow requirements to meet the consolidated entity's obligations and forecast expenditure has resulted in the recognition that additional funding is required over the next twelve months.

The entity will seek to address the cash requirements at an appropriate time by:

- Commencing the process of accessing additional equity or financial instrument funding, however at the date of this report had not reached any decision on raising additional capital
- Continuing to pursue opportunities to negotiate pre-paid gas supply contracts however at the date of this report no agreements have been signed
- Continuing to pursue opportunities to farm-out part of the consolidated entity's exploration interests, however at the date of this report no agreements have been signed.
- Securing finance by secured mortgage over one of the consolidated entity's properties, however at the date of this report no agreements have been signed.

The consolidated entity's ability to continue as a going concern and meet its commitments as they fall due is dependent on its ability to raise sufficient funding.

This financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the economic entity be unable to continue to raise sufficient funding. If the going concern basis of accounting is found to be no longer appropriate, the recoverable amounts of the assets shown on the balance sheet are likely to be significantly less than the amounts disclosed and the extent of the liabilities may differ significantly, from those reflected in the balance sheet.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Notes to the Financial Statements year ended 30 June 2015 (cont.)

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

#### (c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent entity controls. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist. Details on the controlled entities are detailed in Note 10.

All intercompany balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

#### (d) Foreign currency transactions

##### *Functional and presentation currency*

The financial statements of each entity within the consolidated entity are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars which is the consolidated entity's functional and presentation currency.

##### *Transactions and balances*

Transactions in foreign currencies of entities within the consolidated entity are translated into functional currency at the rate of exchange prevailing at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary items is fixed in the contract) are translated using the spot rate at the end of the financial year. There were no foreign currency monetary or non-monetary items at balance date.

#### (e) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, short-term deposits with an original maturity of three months or less held at call with financial institutions.

#### (f) Impairment of non-financial assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136 *Impairment of Assets*. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired. Exploration and evaluation assets are tested for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

#### (g) Property, plant and equipment

##### *Cost and valuations*

All classes of property, plant and equipment are stated at cost less depreciation and any accumulated impairment loss.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(g) Property, plant and equipment (cont.)

### *Depreciation*

Land is not depreciated. The depreciable amounts of all other plant and equipment is provided on a diminishing value basis. Leasehold improvements are depreciated on a straight-line basis over the lease term.

The useful lives for each class of assets are:

	<b>2015</b>	<b>2014</b>
motor vehicles	5 years	5 years
technical equipment	3-10 years	3-10 years
computer equipment	3 years	3 years
plant and equipment	7 years	7 years
office equipment	8 years	8 years
buildings	40 years	40 years
leasehold improvements	the lease term	the lease term

(h) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

### *Operating leases*

Lease payments for operating leases are recognised as an expense on a straight-line basis over the term of the lease.

### *Finance leases*

The consolidated entity currently has no finance leases.

(i) Joint venture operations

The consolidated entity's share of the assets, liabilities, revenues and expenses of joint operations are included in the respective items of the statements of financial performance and position. Details of the consolidated entity's interests are shown in Note 26.

(j) Exploration and evaluation costs

Costs arising from exploration activities are carried forward provided such costs are expected to be recouped through successful development or sale, or exploration activities have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. AASB 6 *Exploration for and Evaluation of Mineral Resources* requires that the company perform impairment tests on those assets when facts and circumstances suggest that the carrying amount may be impaired.

Exploration expenses are recognised net of exploration costs written off and rebate and grant income and joint operation contributions received. Rebate and grant income and joint operation contributions received in excess of net exploration costs are recognised as income. Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

### *Amortisation*

Costs on production areas are amortised over the life of the area of interest to which such costs relate on the production output basis. The consolidated entity does not currently have any production areas.

An area of interest refers to an individual geological area whereby the presence of a mineral deposit or an oil or natural gas field is considered favourable or has been proved to exist. It is common for an area of interest to contract in size progressively, as exploration and evaluation leads towards the identification of a mineral deposit or an oil or natural gas field, which may prove to contain economically recoverable reserves. When this happens during the exploration for and evaluation of mineral resources, exploration and evaluation expenditures are still included in the cost of the exploitation and evaluation asset notwithstanding that the size of the area of interest may contract as the exploration and evaluation operations progress.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Notes to the Financial Statements year ended 30 June 2015 (cont.)

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

#### (j) Exploration and evaluation costs (cont.)

##### *Restoration costs*

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, waste site closure, platform removal and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs that have been discounted to their present value. Any changes in the estimates are adjusted on a retrospective basis. In determining the restoration obligations, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration of such wells in the future.

#### (k) Provision

Provisions are recognised when the consolidated entity has a legal, equitable or constructive obligation, as a result of past events, for which it is probable that an out flow of economic benefits will result and that outflow can be reliably measured.

#### (l) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the consolidated entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

#### (m) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and that the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

##### *Interest*

Interest revenue/income is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets.

##### *Sale of investments*

In respect of sales of fixed assets or investments (including creation of options), the proceeds arising from their sale are recognised when control of the asset is passed to the buyer

All revenue is stated net of the amount of goods and services tax (GST).

#### (n) Taxes

##### *Income tax losses*

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Notes to the Financial Statements year ended 30 June 2015 (cont.)

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

#### (n) Taxes (cont.)

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

#### *Tax consolidation*

The parent entity and its controlled entities have formed an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current and deferred tax assets arising in respect of tax losses for the tax consolidated group. The tax consolidated group has also entered a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

#### (o) Employee benefits

##### *Short-term employee benefit obligations*

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employment benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

Employee benefit obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

##### *Long-term employee benefit obligations*

The provision for employee benefits in respect of long service leave not expected to be settled within twelve months of the reporting date, are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

##### *Defined contribution superannuation fund*

The consolidated entity makes contributions to defined contribution superannuation plans in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period as employee services are received.

##### *Share-based payments*

There is no formal share-based payment employee share and option scheme. However, from time to time share options are granted and partly paid shares offered for subscription to directors, employees and consultants on a discretionary basis. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is measured at the market bid price at grant date. In respect of share-based payments that are dependent on the satisfaction of performing conditions, the number of shares and options expected to vest is reviewed and adjusted at each reporting date. The amount recognised for services received as consideration for these equity instruments granted is adjusted to reflect the best estimate of the number of equity instruments that eventually vest.

##### *Termination benefits*

Termination benefits are payable when employment of an employee or group of employees is terminated before the normal retirement, or when the entity provides termination benefits as a result of an offer made and accepted in order to encourage voluntary redundancy.

The consolidated entity recognises a provision for termination benefits when the entity can no longer withdraw the offer of those benefits, or if earlier, when the termination benefits are included in a formal restructuring plan that has been announced to those affected by it.



# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (p) Third party share-based payments

Share-based payments are granted to third party consultants on a discretionary basis for services rendered. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is measured at the market bid price at grant date. In respect of share-based payments that are dependent on the satisfaction of performing conditions, the number of shares and options expected to vest is reviewed and adjusted at each reporting date. The amount recognised for services received as consideration for these equity instruments granted is adjusted to reflect the best estimate of the number of equity instruments that eventually vest.

### (q) Financial instruments

#### *Classification*

The consolidated entity classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, financial liabilities and compound financial instruments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

#### *Financial assets at fair value through profit or loss*

Investments in listed securities are carried at fair value through profit and loss. They are measured at their fair value at each reporting date and any increment or decrement in fair value from the prior period is recognised in the profit and loss of the current period. Fair value of listed investments are based on current bid prices.

Non-listed investment for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

#### *Loans and receivables*

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

#### *Held-to-maturity investments*

Fixed term investments intended to be held to maturity are classified as held-to-maturity investments. These are measured at amortised cost using the effective interest rate method.

#### *Financial liabilities*

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities. Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Financial liabilities are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### *Compound financial instruments*

Compound financial instruments issued by the consolidated entity comprise converting notes that, while being able to be converted to share capital on a limited basis during the instrument's life by the note holder, must be converted to share capital at the end of the instrument's life.

The liability component of a compound financial instrument is initially recognised at the fair value of a comparable liability that does not have an equity conversion option. The equity component is initially recognised at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. All directly attributable transaction costs are allocated to the liability and equity component on a proportional basis.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Notes to the Financial Statements year ended 30 June 2015 (cont.)

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(q) Financial instruments (cont.)

*Compound financial instruments (cont.)*

After initial recognition, the liability component of the compound financial instrument will be measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured after initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised through equity, net of any tax benefit.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

*Impairment of financial assets*

Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence for impairment.

For loans and receivables or held-to-maturity investments carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss reduces the carrying amount of the asset and is recognised in profit or loss. The impairment loss is reversed through profit or loss if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised.

For available-for-sale financial assets carried at cost, impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

For available-for-sale financial assets carried at fair value through other comprehensive income, the impairment loss is measured as the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss. If the asset is impaired, the cumulative loss is reclassified from equity to the profit or loss. For equity investments, the impairment loss is not reversed through profit or loss. For debt investments, the impairment loss is reversed through profit or loss if the fair value increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment losses was recognised in profit or loss.

(r) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

(s) Rounding amounts

The parent entity and the consolidated entity have applied the relief available under ASIC Class Order 98/0100 and accordingly, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Notes to the Financial Statements year ended 30 June 2015 (cont.)

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(t) Accounting standards and interpretations Issued but not operative at 30 June 2015

#### AASB 15 *Revenue from contracts with customers*

AASB 15 introduces a five step process for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. The five step approach is as follows:

- Step 1: Identify the contracts with the customer;
- Step 2: Identify the separate performance obligations;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price; and
- Step 5: Recognise revenue when a performance obligation is satisfied.

AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The effective date is annual reporting periods beginning on or after 1 January 2017.

The changes in revenue recognition requirements in AASB 15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. The impact of AASB 15 has not yet been quantified.

#### AASB 9 *Financial Instruments*

AASB 9 makes significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value.

AASB 9 amends measurement rules for financial liabilities that the entity elects to measure at fair value through profit and loss. Changes in fair value attributable to changes in the entity's own credit risk are presented in other comprehensive income.

Chapter 6 *Hedge Accounting* supersedes the general hedge accounting requirements in AASB 139 *Financial Instruments: Recognition and Measurement*, which many consider to be too rules-based and arbitrary. Chapter 6 requirements include a new approach to hedge accounting that is intended to more closely align hedge accounting with risk management activities undertaken by entities when hedging financial and non-financial risks. Some of the key changes from AASB 139 are as follows:

- to allow hedge accounting of risk components of non-financial items that are identifiable and measurable (many of which were prohibited from being designated as hedged items under AASB 139);
- changes in the accounting for the time value of options, the forward element of a forward contract and foreign-currency basis spreads designated as hedging instruments; and
- modification of the requirements for effectiveness testing (including removal of the 'brightline' effectiveness test that offset for hedging must be in the range 80-125%).

Revised disclosures about an entity's hedge accounting have also been added to AASB 7 *Financial Instruments: Disclosures*.

Impairment of assets is now based on expected losses in AASB 9 which requires entities to measure:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

The effective date is annual reporting periods beginning on or after 1 January 2018.

Other impacts on the reported financial position and performance have not yet been determined.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are based on past performance and management's expectation for the future.

The consolidated entity makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below.

### (a) Income taxes

Deferred tax assets and liabilities are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### (b) Employee benefits

Calculation of long term employment benefits requires estimation of the retention of staff, future remuneration levels and timing of the settlement of the benefits. The estimates are based on historical trends.

### (c) Capitalised exploration costs

Exploration costs are carried forward when management expects that the costs can be recouped through successful development and exploration of the area of interest. In this event management will consider impairment of capitalised exploration costs in accordance with Note 1(f) and 1(j).

Where there is ongoing commitment to exploration in the area of interest, and activities have not yet reached a stage which permits reasonable assessment to indicate successful development, the exploration expenditure is capitalised.

Where a farminee (A farminee is a joint operation partner which earns an interest in a tenement by funding the costs of appraisal, development or exploration) contributes towards exploration expenditure the exploration expenditure is deferred and then the deferred exploration expenditure is reduced by the value of the reimbursements received from the farminee.

### (e) Provision for restoration costs

Restoration costs that are expected to be incurred are provided for as part of the cost of the deferred exploration expenditure. The costs include obligations relating to reclamation, waste site closure, platform removal and other costs associated with the restoration of the site. These costs are estimated and are based on the anticipated technology and legal requirements and future costs. These costs are also dependent on there being no significant changes to relevant federal and state legislation.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 3: FINANCIAL RISK MANAGEMENT

The consolidated entity is exposed to a variety of financial risks comprising:

- Market price risk
- Currency risk
- Interest rate risk
- Credit risk
- Liquidity risk

The board of directors has overall responsibility for identifying and managing operational and financial risks.

The consolidated entity holds the following financial instruments

	2015 \$'000	2014 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	2,688	3,056
Receivables	78	170
Financial assets at fair value through profit and loss classified as held for trading	1,103	828
Other financial assets	844	206
	<u>4,713</u>	<u>4,260</u>
<b>Financial liabilities</b>		
Payables	549	564
Borrowings	1,000	-
Converting Notes – Current	374	79
Converting notes – non-current	312	-
	<u>2,235</u>	<u>643</u>

The consolidated entity does not have any derivative instruments, except for the listed unsecured converting notes on issue. Refer Note 17(c) .

### *Financial risks*

The main risks the consolidated entity is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, market or price risk and credit risk.

### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The consolidated entity had \$1 million of fixed interest bearing debt as at 30 June 2015 (2014: Nil) and 422,209 \$10 converting notes on issue paying 10% per annum (2014:219,010) refer Note 17(c). Cash deposits attract interest at the prevailing floating interest rate. There is no material exposure to interest rate risk.

### *Foreign currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The consolidated entity is not exposed to any material fluctuations in foreign currencies.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Notes to the Financial Statements year ended 30 June 2015 (cont.)

### NOTE 3: FINANCIAL RISK MANAGEMENT (cont.)

#### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The consolidated entity manages liquidity risk by forecasting and monitoring cash flows on a continuing basis.

The tables below represent the undiscounted contractual settlement terms for financial instruments and management expectations for settlement of undiscounted maturities.

	< 6 Months	6-12 Months	1-5 Years	Total contractual cash flows	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year Ended 30 June 2015</b>					
Cash & cash equivalents	2,688	-	-	2,688	2,688
Receivables	78	-	-	78	78
Other financial assets	233	211	422	866	866
Payables	(549)	-	-	(549)	(549)
Borrowings	(1,000)	-	-	(1,000)	(1,000)
Other financial liabilities	(211)	(211)	(422)	(844)	(686)
<b>Net maturities</b>	<b>1,239</b>	<b>-</b>	<b>-</b>	<b>1,239</b>	<b>1,397</b>
<b>Year Ended 30 June 2014</b>					
Cash & cash equivalents	3,056	-	-	3,056	3,056
Receivables	170	-	-	170	170
Other financial assets	228	-	-	228	228
Payables	(564)	-	-	(564)	(564)
Borrowings	-	-	-	-	-
Other financial liabilities	(109)	-	-	(109)	(79)
<b>Net maturities</b>	<b>2,781</b>	<b>-</b>	<b>-</b>	<b>2,781</b>	<b>2,811</b>

#### Market or price risk

Market or price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

#### Sensitivity

Investments in listed securities at fair value through profit and loss are measured at fair value at reporting date based on current bid prices. If security prices were to increase/decrease by 10% from fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and the equity is below. This risk is managed by monitoring security prices on a regular basis.

<i>± 10% price variation</i>	<b>2015</b>	2014
	<b>\$'000</b>	\$'000
<i>Impact on profit after tax</i>	<b>110</b>	83
<i>Impact on equity</i>	<b>110</b>	83

#### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the consolidated statement of financial position and notes to the financial statements.

The consolidated entity does not have any material credit risk exposure to cash on hand or any single receivable or group of receivables under financial instruments entered into by the consolidated entity. This risk is managed by ensuring the consolidated entity only trades with parties that are able to trade on the consolidated entity's credit terms. Additionally cash at bank is held with a major Australian bank.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 3: FINANCIAL RISK MANAGEMENT (cont.)

### *Fair values*

Assets and liabilities measured and recognised at fair value have been determined by the following fair value measurement hierarchy:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 Input other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly
- Level 3 Inputs for the asset or liability that are not based on observable market data.

All financial assets at fair value through profit and loss are classified as level 1 being instruments with quoted prices in active markets using the fair value hierarchy. The net fair value of financial assets and financial liabilities approximate their carrying amounts as disclosed in the consolidated statement of financial position and notes to the financial statements.

### *Fair value compared with carrying amounts*

The fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements

	2015		2014	
	Net carrying amount	Net fair value	Net carrying amount	Net fair value
	\$'000		\$'000	
<b>Financial assets</b>				
Cash and cash equivalents	2,688	2,688	3,056	3,056
Receivables	78	78	170	170
Financial assets at fair value through profit and loss classified as held for trading	1,103	1,103	828	828
Other financial assets	844	844	206	206
	<b>4,713</b>	<b>4,713</b>	<b>4,260</b>	<b>4,260</b>
<b>Financial liabilities</b>				
Payables	549	549	564	564
Borrowings	1,000	1,000	-	-
Converting Notes – Current	374	374	79	79
Converting notes – non-current	312	312	-	-
	<b>2,235</b>	<b>2,235</b>	<b>643</b>	<b>643</b>

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 4: REVENUE AND OTHER INCOME

	2015 \$'000	2014 \$'000
<b>Revenues from continuing operations</b>		
<b>Other income</b>		
Interest - Other persons/corporations	30	55
	<b>30</b>	<b>55</b>
<b>Other income</b>		
Gain on sale of property plant & equipment	-	7
Other Income	22	17
	<b>22</b>	<b>24</b>

## NOTE 5: LOSS FROM CONTINUING OPERATIONS

Loss from continuing operations before income tax has been determined after the following specific expenses:

### (a) Employee benefits expense

Wages and salaries	972	947
Superannuation costs	124	110
Other employee related costs	84	139
Total employee benefits expenses	<b>1,180</b>	1,196

### (b) Depreciation of property, plant and equipment

Plant and equipment	1	1
Motor vehicles	16	16
Office equipment	2	2
Computer equipment	20	21
Leasehold Improvements	12	18
Buildings	9	9
Total depreciation expenses	<b>60</b>	67

### (c) Administrative expenses include:

Travel and accommodation	85	146
Share registry costs and listing fees	282	128
Legal fees	147	193
Directors fees	245	265
Insurance premiums	149	157
Office expenses	318	330
	<b>1,226</b>	1,219
Less portion attributed to exploration permits capitalised	<b>(258)</b>	(329)
Total other expenses from ordinary activities	<b>968</b>	890

### (d) Finance costs expensed

Other loans	52	18
Converting notes	30	92
Bank fees & other	17	15
	<b>99</b>	125

### (e) Specific items

There are no additional revenues or expenses whose disclosure is relevant in explaining the financial performance of the entity.



# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 6: INCOME TAX

(a) Components of tax expense:

	2015 \$'000	2014 \$'000
Current tax	-	-
Deferred tax	-	-
Under (over) provision in prior years	-	-
<b>Total income tax expenses</b>	<b>-</b>	<b>-</b>

(b) Income tax benefit

The prima facie tax on loss before income tax is reconciled to income tax benefit as follows:

Loss from ordinary activities	<b>(2,743)</b>	(3,168)
Prima facie tax benefit on loss from ordinary activities at 30%	<b>(823)</b>	(950)
Tax effect of (deductible)/non-deductible expenses	<b>(691)</b>	154
Add:		
Benefit of tax losses not brought to account	<b>283</b>	494
Income tax expense attributable to ordinary activities	-	-
<b>Income tax losses</b>		
Deferred tax assets arising from tax losses of the economic entity not brought to account at balance date as realisation of the benefit is not probable.	<b>21,871</b>	20,640

The amount of deferred tax assets which may be realised in the future is dependent on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will drive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law.

## NOTE 7: RECEIVABLES

### CURRENT

Trade debtors & joint operation receivables	1	98
GST receivable	14	18
Related Party debtors	63	54
	<b>78</b>	170

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

(i) Trade debtors are non-interest bearing and generally on 30 day terms.

Trade and other receivables ageing analysis at 30 June is:

	Gross 2015 \$'000	Impairment 2015 \$'000	Gross 2014 \$'000	Impairment 2014 \$'000
Not past due	78	-	170	-
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due more than 91 days	-	-	-	-
	<b>78</b>	-	170	-

(b) Related party receivables

Details of the terms and conditions of related party receivables are set out in Note 23.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015(cont.)

## NOTE 8: OTHER CURRENT ASSETS

	2015 \$'000	2014 \$'000
Prepayments	37	47
Accrued interest	1	2
	<b>38</b>	<b>49</b>

## NOTE 9: OTHER FINANCIAL ASSETS

### Current

Cash held on Trust	844	206
Bonds and guarantees for property leases	22	22
	<b>866</b>	<b>228</b>

### Terms and conditions

Terms and conditions relating to the above financial instruments

- (i) Cash is held on trust by Equity Trustees Limited for the benefit of the holders of listed unsecured converting notes in respect of future interest payments. These funds are restricted funds.
- (ii) Bonds and guarantees for property leases are non-interest bearing and are refunded upon the termination of the lease contract.

## NOTE 10: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

(a) Investments in listed securities at fair value through profit or loss comprise

Greenearth Energy Ltd.	1,103	828
	<b>1,103</b>	<b>828</b>

(b) Investments in controlled entities, unlisted, and carried at cost less impairment losses in the parent entity.

Name of Controlled Entity	Country of Incorporation	Percentage of equity interest held by the consolidated entity		Investment	
		2015 %	2014 %	2015 \$	2014 \$
Commonwealth Mining Pty. Ltd.	Australia	100%	100%	5	5
EOIL Pty Ltd	Australia	100%	-	1	-
Geothermal Energy Victoria Pty. Ltd.*	Australia	100%	100%	1	1
The Gippsland Gas Corp. Pty. Ltd.	Australia	100%	100%	500	500
Gippsland Petroleum Pty. Ltd.	Australia	100%	100%	5	5
Mirboo Ridge Pty. Ltd.	Australia	100%	100%	10,062	10,062
Otway Resources Pty. Ltd.	Australia	100%	100%	1	1
Owens Lane Pty Ltd	Australia	100%	100%	2	2
Petro Tech Pty. Ltd.	Australia	100%	100%	722,101	722,101
Portland Energy Project Pty Ltd (formerly Poolawanna Petroleum Pty Ltd.)	Australia	100%	100%	500,000	500,000
Three Corners Oil and Gas Pty Ltd	Australia	100%	-	1	-
Lakes Oil, Inc.	U.S.A.	100%	100%	460,021	460,021
Total investment				1,692,700	1,692,698
Impairment				(1,692,700)	(1,692,698)
<b>Carrying value of investment</b>				<b>-</b>	<b>-</b>

\* - investment held by Petro Tech Pty Ltd

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 11: PROPERTY PLANT AND EQUIPMENT

	2015 \$'000	2014 \$'000
<i>Plant and equipment</i>		
At cost	17	17
Accumulated depreciation	(14)	(13)
	<u>3</u>	<u>4</u>
<i>Motor vehicles</i>		
At cost	150	150
Accumulated depreciation	(80)	(64)
	<u>70</u>	<u>86</u>
<i>Office equipment</i>		
At cost	64	64
Accumulated depreciation	(46)	(44)
	<u>18</u>	<u>20</u>
<i>Computer equipment</i>		
At cost	332	332
Accumulated depreciation	(317)	(297)
	<u>15</u>	<u>35</u>
<i>Technical equipment</i>		
At cost	29	29
Accumulated depreciation	(28)	(28)
	<u>1</u>	<u>1</u>
<i>Leasehold Improvements</i>		
At cost	295	295
Accumulated depreciation	(272)	(260)
	<u>23</u>	<u>35</u>
<i>Land</i>		
At cost	2,118	2,118
Accumulated impairment losses	(435)	(435)
	<u>1,683</u>	<u>1,683</u>
<i>Buildings</i>		
At cost	204	204
Accumulated depreciation	(77)	(68)
Accumulated impairment losses	(36)	(36)
	<u>91</u>	<u>100</u>
<i>Total land and buildings</i>		
At Cost	2,322	2,322
Accumulated depreciation	(77)	(68)
Accumulated impairment losses	(471)	(471)
	<u>1,774</u>	<u>1,783</u>
Total property, plant and equipment	<u>1,904</u>	<u>1,964</u>

### (a) Valuations

The carrying values of freehold land, and buildings on freehold land have been based upon cost less any accumulated impairment loss.

### (b) Impairment Loss

The accumulated impairment losses relates to freehold land and buildings on freehold land and are based on the independent valuations obtained from Lee Property Valuers and Advisors on 4 September 2014. Such valuations were performed on an open market basis, being the amounts for which the assets could be exchanged between knowledgeable willing buyer and a knowledgeable willing seller in an arms' length valuation at valuation date. The whole amount of the impairment losses has been included in Impairment of property, plant and equipment within the statement of comprehensive income, as there are was no amount in the asset revaluation surplus relating to the relevant assets. The recoverable amount of these assets was determined by fair value less costs to sell.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 11: PROPERTY PLANT AND EQUIPMENT (cont.)

### Reconciliations

Reconciliation of the carrying value of plant and equipment at the beginning and end of the current and previous financial year.

	2015 \$'000	2014 \$'000
<i>Plant and equipment:</i>		
Carrying amount at beginning	4	5
Depreciation	(1)	(1)
	<u>3</u>	<u>4</u>
<i>Motor vehicles</i>		
Carrying amount at beginning	86	40
Additions	-	69
Depreciation	(16)	(16)
Disposals	-	(7)
	<u>70</u>	<u>86</u>
<i>Office equipment</i>		
Carrying amount at beginning	20	22
Additions	-	-
Depreciation	(2)	(2)
	<u>18</u>	<u>20</u>
<i>Computer equipment</i>		
Carrying amount at beginning	35	6
Additions	-	50
Depreciation	(20)	(21)
	<u>15</u>	<u>35</u>
<i>Technical equipment</i>		
Carrying amount at beginning	1	1
Depreciation	-	-
	<u>1</u>	<u>1</u>
<i>Leasehold</i>		
Carrying amount at beginning	35	53
Depreciation	(12)	(18)
	<u>23</u>	<u>35</u>
<i>Land</i>		
Carrying amount at beginning	1,683	2,118
Additions	-	-
Impairment	-	(435)
	<u>1,683</u>	<u>1,683</u>
<i>Buildings</i>		
Carrying amount at beginning	100	145
Depreciation	(9)	(9)
Impairment	-	(36)
	<u>91</u>	<u>100</u>
<i>Total Land and Buildings</i>		
Carrying amount at beginning	1,783	2,263
Depreciation	(9)	(9)
Impairment	-	(471)
	<u>1,774</u>	<u>1,783</u>

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 12: CAPITALISED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

	<b>2015</b>	2014
	<b>\$'000</b>	\$'000
Exploration and evaluation costs carried forward in respect of mining areas of interest:		
Pre-production - exploration and evaluation phases		
Balance at the beginning of the year brought forward	<b>50,148</b>	50,896
Add: purchase of additional permits	<b>1,486</b>	-
Add: net expenditure incurred during the year	<b>494</b>	989
Less: amounts offset arising from joint operations partner contributions and research and development tax concessions	-	(1,662)
Less: net expenditure written off during the year	<b>(10)</b>	(75)
Total exploration and evaluation costs carried forward	<b>52,118</b>	50,148

### Reconciliation of total exploration and evaluation costs carried forward by Permit

Permit name	Location/ (basin name)		
PEP 163	Otway	<b>1,265</b>	1,262
PEP167	Otway	<b>282</b>	-
PEP 169 <sup>^</sup>	Otway	<b>97</b>	86
PEP175	Otway	<b>304</b>	-
PRL 2 – Overall Permit <sup>^</sup>	Gippsland	<b>35,274</b>	35,133
PRL 2 – Trifon Field <sup>^</sup>	Gippsland	-	-
PRL 3	Gippsland	<b>2,105</b>	2,101
PEP 166 <sup>^</sup>	Gippsland	<b>7,166</b>	7,141
VIC/P43(V)	Gippsland	<b>12</b>	-
VIC/P44(V)	Gippsland	<b>12</b>	-
ATP642P	Eromanga/Cooper	<b>640</b>	-
ATP662P	Eromanga/Cooper	<b>639</b>	-
Eagle Prospect	California USA	<b>3,861</b>	3,811
EL5333	Gippsland	<b>111</b>	99
EL5334	Gippsland	<b>25</b>	20
EL5394	Gippsland	<b>25</b>	23
Permit Applications Pending	Various	-	172
Provision for Restoration Costs		<b>300</b>	300
		<b>52,118</b>	50,148

<sup>^</sup> These areas are subject to agreements, farminee rights and option agreements as described in Note 26

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective permit areas.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 13: PAYABLES (Current)

Trade creditors	403	433
Deferred revenue	100	100
Other creditors	46	31
	<u>549</u>	<u>564</u>

### (a) Terms and conditions

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and normally are settled on 30 day terms.
- (ii) Other creditors are non-interest bearing and are settled on 30 to 90 day terms, following billing by suppliers.

### (b) Related party payables

Details of the terms and conditions of related party payables are set out in Note 23.

## NOTE 14: BORROWINGS (Current)

	2015	2014
	\$'000	\$'000
Mortgage	<u>1,000</u>	<u>-</u>

### (a) Terms and conditions

In January 2015 a Lakes Oil NL fully owned subsidiary entered into a mortgage over land that it had purchased. This mortgage was for \$1 million. Interest was fixed and the principal was repaid in July 2015. Lakes Oil NL was guarantor for this mortgage.

## NOTE 15: CONVERTING NOTES

### Current

Fair value of future interest payable	<u>374</u>	79
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### Non current

Fair value of future interest payable	<u>312</u>	-
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The listed unsecured converting notes issued by Lakes Oil NL in the year are compound financial instruments. The liability component of these notes is initially recognised at the fair value of a comparable liability that does not have an equity conversion option. After initial recognition, the liability component of the compound financial instrument will be measured at amortised cost using the effective interest method.

For additional information on converting notes Refer Note 17(c).

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 16: PROVISIONS

### Current

Employee benefits	224	264
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### Non current

Employee benefits	26	15
Restoration costs	300	300
	<b>326</b>	<b>315</b>

### Total provisions

	<b>550</b>	<b>576</b>
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## NOTE 17: CONTRIBUTED CAPITAL

### (a) Issued and paid up share capital

	2015	2014
	\$'000	\$'000
Ordinary shares fully paid, 11,430,638,039 (2014:10,144,088,039) shares.	(i) 107,168	105,192
Other rights to ordinary shares	(b) -	192
	<b>107,168</b>	<b>105,384</b>

### (i) Movements in shares on issue

	2015		2014	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of the financial year	10,144,088,039	105,192	7,208,868,039	100,073
Issued during the year				
- public equity raising /placement	-	-	-	-
- conversion of converting notes	1,095,050,000	1,834	2,935,220,000	4,917
- less note issue costs adjustment on conversion		(78)		(211)
- auction of forfeited partly paid shares	9,500,000	28		
- forfeited partly paid shares now fully paid ordinary shares held on trust	182,000,000	192		
- add present value of interest returned on early conversion of converting notes	-	-	-	413
- less share issue costs	-	-	-	-
End of the financial year	<b>11,430,638,039</b>	<b>107,168</b>	10,144,088,039	105,192

### Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a company meeting.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 17: CONTRIBUTED CAPITAL (cont.)

### (b) Other rights to ordinary shares – partly paid

	2015		2014	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of the financial year	191,500,000	192	191,500,000	192
Forfeited during the year				
- Partly paid shares	(191,500,000)	(192)	-	-
End of the financial year	-	-	191,500,000	192

The issuance of partly paid shares has replaced the issuance of options as a component of the remuneration strategy.

No partly paid shares were issued during the year or in the previous year.

In the year 131,500,000 unquoted partly paid shares, held by officers and employees of the consolidated entity who had ceased their employment, were called. No calls were received in respect of these partly paid shares by the required date and these shares were offered for sale by public auction in November 2014. 9,500,000 shares were sold at auction. The balance of, including 60,000,000 previously forfeited, 182,000,000 shares were not cancelled. They are classified as issued fully paid ordinary shares held by the directors on trust for the Company for the purposes of future resale.

### (c) Converting Notes

	2015	2014
	\$'000	\$'000
Converting Notes 422,209 (2014: 219,010)	3,504	1,756
	<b>3,504</b>	<b>1,756</b>

#### (i) Movements in converting notes on issue

	2015		2014	
	Number of notes	\$'000	Number of notes	\$'000
Beginning of the financial year	219,010	1,756	806,054	6,462
Issued during the year				
- public equity raising	422,209	3,536	-	-
- less note issue costs		(32)	-	-
- conversion of converting notes	(219,010)	(1,834)	(587,044)	(4,917)
- note issue costs adjustment on conversion	-	78	-	211
End of the financial year	422,209	3,504	219,010	1,756

In the year to June 2015 the company issued 422,209(2014: Nil) listed unsecured converting notes for \$10 per note.

These notes were issued under a "limited disclosure" section 713 prospectus under the *Corporations Act 2001 (Cth)* dated 10 March 2015. Interest is payable half yearly at the rate of 50 cents per note, with the last payment due on 31 March 2017 equating to 10% per annum interest rate.



# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Notes to the Financial Statements year ended 30 June 2015 (cont.)

### NOTE 17: CONTRIBUTED CAPITAL (cont.)

#### (c) Converting Notes (cont.)

The maturity date (when conversion into shares occurs) is 31 March 2017. These notes offer early conversion opportunities to noteholders. Notes will also convert in the case of a change in control at 0.2 cents per share. The notes are not redeemable by Lakes Oil NL.

Each note converts into 5,000 shares. However if the 30 Day Average Closing Share Price prior to the maturity date is less than 0.2 cents, the number of shares received on conversion for each note will be increased to a maximum of 6,667 shares on the basis of an uplift factor formula (having regard to the 30 day Average Closing Share Price with a minimum price of 0.15 cents) as set out in the prospectus. This uplift factor increase only applies on conversion at maturity date.

There is no additional payment required upon conversion.

During the year 219,010 (2014: 587,044) notes were converted into 1,095,050,000 fully paid ordinary shares (2014: 2,935,220,000).

During the year interest of \$110,000 was paid to holders of converting notes(2014: \$ 517,000)

At the end of the year there were 422,209 converting notes on issue (2014: 219,010). These will convert into 2,111,045,000 fully paid ordinary shares at 5,000 shares per note, unless the maximum uplift factor of 6,667 applies in which case the notes will convert into 2,814,867,403 fully paid ordinary shares.

Future interest payable on the 422,209 notes on issue at the end of year is \$844,418 which is held on trust by the Equity Trustees Limited for the holders of notes and for their benefit for the payment of all future interest payments.

#### (d) Share options

##### *Issued to directors and staff*

##### (i) *Options held at the beginning of the reporting period*

No options were held by directors and staff as at 1 July 2014.

##### (ii) *Options granted during the period*

No options were granted during the financial year.

##### (iii) *Options exercised*

No options were exercised by staff or directors during the financial year.

##### (iv) *Options expired*

No options expired during the financial year.

##### (v) *Options held as at the end of the reporting period*

No options were held by directors and staff at 30 June 2015:

#### (e) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as ensuring there are sufficient funds to meet exploration commitments, which is performed via monitoring of historical performance and cashflow forecasts.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 18: RESERVES AND ACCUMULATED LOSSES

	2015 \$'000	2014 \$'000
Accumulated losses (a)	<u>54,662</u>	<u>51,919</u>
 (a) Accumulated losses		
Balance at the beginning of the year	51,919	48,751
Net loss attributable to members of Lakes Oil NL	<u>2,743</u>	<u>3,168</u>
Balance at the end of the year	<u>54,662</u>	<u>51,919</u>

## NOTE 19: CASH FLOW INFORMATION

(a) Reconciliation of cash flow from operations with operating loss after income tax

	2015 \$'000	2014 \$'000
Net loss from ordinary activities after income tax	<u>(2,743)</u>	<u>(3,168)</u>
<b>Non-Cash Items</b>		
Depreciation of plant and equipment	60	67
(Gain) on fair value of investments held	(276)	(414)
(Gain) on sale of fixed assets	-	(7)
Impairment of property, plant and equipment	-	471
Exploration costs written off	10	-
Non-cash interest	30	92
Capital raising fees included in cash flows from financing	116	-
<b>Changes in assets and liabilities</b>		
Decrease/(Increase) in exploration and evaluation costs carried forward	(1,970)	748
Adjust for purchase of new permits included in cash flows from investing	1,486	-
Decrease in receivables	92	59
Decrease in other current assets	11	4
(Decrease) in payables	(15)	(462)
(Decrease)/Increase in employee benefit provisions	(29)	29
<b>Net cash flows used in operating activities</b>	<u>(3,228)</u>	<u>(2,581)</u>

(b) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position is as follows:

	2015 \$'000	2014 \$'000
Cash at bank	2,687	3,055
Cash on hand	1	1
Closing cash balance	<u>2,688</u>	<u>3,056</u>

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 20: LOSS PER SHARE

Net loss	<b>(2,743)</b>	(3,168)
<b>Adjustments:</b>		
- nil		
Loss used in calculating basic and diluted earnings per share	<b>(2,743)</b>	(3,168)
Weighted average number of ordinary shares on issue used in calculating basic earnings per share	<b>10,762,206,395</b>	8,819,338,286
<b>Effect of dilutive securities:</b>		
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<b>10,947,615,984</b>	8,819,338,286
Basic loss per share (cents per share)	<b>(0.03)</b>	(0.04)
Diluted loss per share (cents per share)	<b>(0.03)</b>	(0.04)

Outstanding options and converting notes are not considered to be dilutive when converted to ordinary shares because they would decrease the loss per share. There are no options held at the end of the reporting period

*Conversion, calls, subscriptions or issues after 30 June 2015*

There have been no conversions, call, subscriptions or issues of capital since 30 June 2015.

## NOTE 21: COMMITMENTS

### (a) Lease expenditure commitments

	<b>2015</b>	2014
	<b>\$'000</b>	\$'000
Operating leases (non-cancellable)		
Minimum lease payments		
- not later than one year	<b>193</b>	6
- later than one year and not later than five years	<b>469</b>	6
Aggregate lease expenditure contracted for at reporting date	<b>662</b>	12

These commitments represent payments due for leased premises and office equipment under non-cancellable operating leases.

### (b) Bank guarantees in relation to rental premises and exploration permits

Maximum amount bank may call	<b>151</b>	151
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### (c) Exploration commitments

The consolidated entity retains interests in exploration tenements via direct ownership and participation in joint operations. To continue these interests a work program is maintained in each tenement for various periods up to five years. The work programs have minimum expenditure requirements and carry no formal commitments or legal obligations but are an indication of the tasks required to be completed to retain the permit.

The current estimated expenditure to carry out all of the planned work programs across all tenements in the period to 30 June 2016 is \$0.3m. The final cost to the consolidated entity is uncertain as it will be dependent on the extent of the works actually undertaken, the negotiated costs and whether or not the consolidated entity is able to secure contributions from other parties such as a farminee (A farminee is a joint operation partner who earns an interest in a tenement by funding the costs of appraisal, development or exploration).

### (d) Contingent assets & liabilities

There were no contingent assets or liabilities outstanding at reporting date, nor were there any contingent assets or liabilities at the end of the previous financial year.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 22: AUDITOR'S REMUNERATION

### Amounts paid and payable to Pitcher Partners for

- An audit or review of the financial report of the entity and any other entity in the consolidated entity	66	70
- Other non-audit services		
- Taxation services	20	17
Total remuneration of Pitcher Partners	<u>86</u>	<u>87</u>

## NOTE 23: RELATED PARTY DISCLOSURES

### (i) Ultimate parent

Lakes Oil NL is the ultimate Australian parent entity.

### (ii) Director-related entity

Greenearth Energy Limited is a director-related entity of Lakes Oil NL which is a substantial shareholder of Greenearth Energy Limited with a 5.58% share interest.

### (iii) Wholly-owned group transactions

As at 30 June 2015, an amount of \$51,591,133 before impairment provision (2014: \$50,775,772) was receivable by Lakes Oil NL from its various controlled entities (refer Note 10). The loans are unsecured and interest free.

### (iv) Other related party transactions

#### Receivables

During the financial year, and in previous financial years, Lakes Oil NL settled accounts with consultants and contractors on behalf of Greenearth Energy Limited. As at 30 June 2015 an amount of \$62,970 (2014: \$54,135) was receivable from Greenearth Energy Limited.

### (v) Director transactions

All amounts paid to Directors and director-related entities were charged on commercial and arm's-length terms and conditions.

Two of the Directors of Lakes Oil NL Nicholas Mather and William Stubbs, are Directors of Armour Energy Ltd. Mr. Matthew Stubbs, an Alternate Director of Lakes Oil NL until his resignation on 26 August 2014, was also an Alternate Director of Armour Energy Ltd at various times. Mr Robbert de Weijer, an Alternate Director of Lakes Oil NL, is the CEO of Armour Energy Ltd. Armour Energy Ltd is party to an agreement with Lakes Oil NL as described in Note 26.

### (vi) Loans to key management personnel

There are no loans made by Lakes Oil NL to key management personnel or any related party.

### (vii) Key management personnel - compensation by category

	2015 \$	2014 \$
Short term employment benefits	1,121,638	1,067,095
Non monetary benefits	5,000	5,000
Post employment benefits	162,131	154,473
	<u>1,288,769</u>	<u>1,226,568</u>

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 24: SEGMENT INFORMATION

The consolidated entity has two reportable segments as described below:

Segment 1: Exploration for hydrocarbon reserves, principally in on-shore regions of Victoria, Australia.

Segment 2: Investment in entities engaged in the renewable energy sector.

2015	Segment 1 \$'000	Segment 2 \$'000	Total \$'000
<b>Segment revenue</b>			
Total segment revenue	21	-	21
<b>Revenue from external source</b>	<b>21</b>	<b>-</b>	<b>21</b>
<b>Segment result</b>			
Total segment result	(2,989)	276	(2,713)
<b>Segment result from external source</b>	<b>(2,989)</b>	<b>276</b>	<b>(2,713)</b>
Interest revenue			30
Depreciation and amortisation			(60)
<b>Loss before income tax</b>			<b>(2,743)</b>
2014	Segment 1 \$'000	Segment 2 \$'000	Total \$'000
<b>Segment revenue</b>			
Total segment revenue	24	-	24
<b>Revenue from external source</b>	<b>24</b>	<b>-</b>	<b>24</b>
<b>Segment result</b>			
Total segment result	(3,570)	414	(3,156)
<b>Segment result from external source</b>	<b>(3,570)</b>	<b>414</b>	<b>(3,156)</b>
Interest revenue			55
Depreciation and amortisation			(67)
<b>Loss before income tax</b>			<b>(3,168)</b>

All segment revenue is derived in Australia.

All assets and liabilities in the statement of financial position relate to Segment 1 with the exception of financial assets at fair value through the profit and loss which relate to Segment 2. These assets are disclosed in Note 10.

All assets and liabilities on the statement of financial position are based in Australia, with the exception of a Segment 1 Non-Current Asset, being Deferred Exploration, Evaluation and Developments Costs for Eagle Prospect, a permit in the USA. This asset is disclosed in Note 12.

(i) Reconciliation of segment revenue from external source to the consolidated statement of comprehensive income

	2015 \$'000	2014 \$'000
Segment revenue from external source	21	24
Interest revenue	30	55
Total revenue	<b>51</b>	<b>79</b>

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 25: SUBSEQUENT EVENTS

### **General Meeting**

As advised to the ASX on 15 July 2015 Armour Energy Ltd issued the Company with a notice of intention to move resolutions for the removal of 2 of its directors, namely its Executive Chairman Rob Annells and Non-Executive Director Barney Berold. Subsequently Armour Energy Ltd requested that a resolution be moved to appoint Mr Roland Sleeman to the Board. Timeview Enterprises Pty Ltd requested that resolutions be moved to appoint Mr Andrew Davis and Mr Chris Tonkin to the Board. The Company convened a shareholder meeting for 9<sup>th</sup> September 2015 in this regard. As a result of that meeting Mr Annells and Mr Berold retained their positions and Mr Davis and Mr Tonkin were appointed to the Board. Mr Sleeman was not successful in being appointed to the Board.

### **Mortgage**

In July 2015 the mortgage of \$1 million entered into by Owens lane Pty Ltd over land that it holds, and for which Lakes Oil NL was guarantor, was repaid.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Notes to the Financial Statements year ended 30 June 2015 (cont.)

### NOTE 26: INTEREST IN PERMITS

As at 30 June 2015, the consolidated entity held interests in various unincorporated joint operations. Apart from its share of the exploration permits which are the subject of the operations, the consolidated entity has no interest in any other joint operation assets. As at balance date, the consolidated entity had no outstanding amounts owing in respect of its joint operations.

At 30 June 2015, the petroleum and mineral permits in which the consolidated entity had an interest are as follows:

Joint Operation or Permit name	Location (basin name)	Registered holder	Group interest	
			2015	2014
PEP 163	Otway	Mirboo Ridge Pty Ltd	100.00%	100.00%
PEP167	Otway	Mirboo Ridge Pty Ltd	100.00%	-
PEP 169	Otway	Mirboo Ridge Pty Ltd	49.00%	49.00%
PEP175	Otway	Mirboo Ridge Pty Ltd	100.00%	-
PRL 2–Overall Permit*	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PRL 2–Trifon Field*	Gippsland	Petro Tech Pty. Ltd.	57.50%	57.50%
PRL 3	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PEP 166	Gippsland	Petro Tech Pty. Ltd	75.00%	75.00%
VIC/P43(V)	Gippsland	Petro Tech Pty Ltd	100.00%	-
VIC/P44(V)	Gippsland	Petro Tech Pty Ltd	100.00%	-
ATP642P	Eromanga/Cooper	EOIL Pty Ltd	100.00%	-
ATP662P	Eromanga/Cooper	EOIL Pty Ltd	100.00%	-
Eagle Prospect	California USA	Lakes Oil, Inc.	17.79%	17.79%
EL5333	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%
EL5334	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%
EL5394	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%

The principal activity of each of the joint operations listed above is the evaluation and exploration of oil and gas and mineral prospects.

\* In 2013 Beach Energy Ltd and Somerton Energy (now Cooper Energy)Ltd formally withdrew from their farm-in agreement over PRL2 and their interests were reassigned to Petrotech Pty Ltd, giving Petrotech Pty Ltd a 100% interest in PRL2–Overall Permit and a 57.5% interest in PRL2–Trifon Field. (Refer to Note 25 for more information). Armour Energy Ltd had a period of 6 months, until February 2014, to match any other farm-in proposal in respect of PRL2 from any third party or in any event to match the terminated agreement with Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited. In December 2013 the consolidated entity received notice from Armour Energy Ltd purporting to exercise these matching rights. These matching rights relate, amongst other things to the Phase 1 fracture stimulation of 2 wells incurring up to \$10 million of expenditure which unfortunately will be prohibited during the currently imposed moratorium on on-shore natural gas exploration. As referred to above, the original farm-in agreement over PRL2 which Armour Energy Ltd purported to match also included a right to earn up to a 50% interest in PRL2. The parties have reserved their rights in this matter which is yet to be determined. Jarden Corporation Australia P/L currently has a 42.5% interest in PRL2-Trifon Field. Armour Energy Ltd has been granted a 3 year option (Option) to acquire 50 % of Lakes Oil's interests in the Trifon and Gangell blocks, and a direct 25% interest in the remainder of PRL2, for a total payment of \$30 million. The Option has a maximum lifetime value of \$0.6 million. Option fees received are treated as deferred revenue until the Option exercises or lapses. The life of this option has been extended while the moratorium is in place.

# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

Notes to the Financial Statements year ended 30 June 2015 (cont.)

## NOTE 27: PARENT ENTITY INFORMATION

As at, and throughout the financial year ended 30 June 2015, the parent company of the consolidated entity was Lakes Oil NL

	<b>Parent Entity</b>	
	<b>2015</b>	2014
	<b>\$'000</b>	\$'000
<b>Summarised Statement of Comprehensive Income</b>		
Loss for the year after tax	<b>(2,707)</b>	(2,701)
Other comprehensive Income	-	-
Total Comprehensive Income for the year	<b>(2,707)</b>	(2,701)
<b>Summarised Statement of Financial Position of the Parent Entity at Year End</b>		
Current Assets	<b>51,016</b>	49,565
Non-Current Assets	<b>755</b>	815
<b>Total Assets</b>	<b>51,771</b>	50,380
Current Liabilities	<b>1,131</b>	888
Non-Current Liabilities	<b>338</b>	15
<b>Total Liabilities</b>	<b>1,469</b>	903
<b>Net Assets</b>	<b>50,302</b>	49,477
<b>Total equity of the parent entity comprising:</b>		
Share capital – ordinary shares	107,168	105,384
Share capital – converting notes (\$10)	<b>3,504</b>	1,756
Total Share Capital	<b>110,672</b>	107,140
Reserves	-	-
Retained Earnings	<b>(60,370)</b>	(57,663)
<b>Total Equity</b>	<b>50,302</b>	49,477

In January 2015 a Lakes Oil NL fully owned subsidiary entered into a mortgage over land that it had purchased. This mortgage was repaid in July 2015. This mortgage was for \$1 million and interest was fixed. Lakes Oil NL was guarantor for this mortgage.



# Lakes Oil NL and Controlled Entities

ABN: 62 004 247 214

## Directors' Declaration

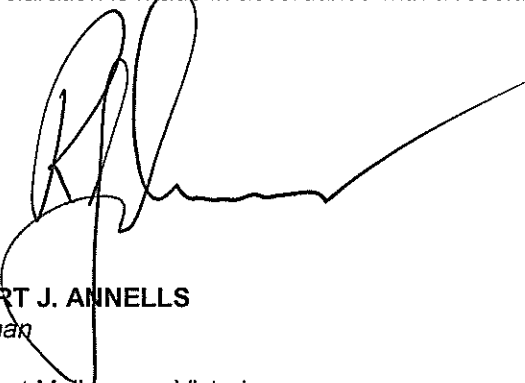
The directors declare that the financial statements and notes set out on pages 32 to 64 in accordance with the *Corporations Act 2001*:

- (a) Complying with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;
- (b) As stated in note 1(a), the consolidated financial statements also comply with International Financial Reporting Standards; and
- (c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2015 and of its performance for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Lakes Oil NL will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ending 30 June 2015.

This declaration is made in accordance with a resolution of the directors.



**ROBERT J. ANNELLS**  
*Chairman*

Signed at Melbourne, Victoria  
29 September 2015

LAKES OIL N.L.  
ABN 62 004 247 214  
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
LAKES OIL N.L.

### Report on the Financial Report

We have audited the accompanying financial report of Lakes Oil N.L. and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2015, 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*.

LAKES OIL N.L.  
ABN 62 004 247 214  
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
LAKES OIL N.L.

*Opinion*

In our opinion:

- (a) the financial report of Lakes Oil N.L. and controlled entities 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 2015 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 consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

*Emphasis of Matter*

The Directors have prepared the financial report on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred an operating loss after income tax expense for the year ended 30 June 2015 of \$2.7 million (2014: \$3.1 million) and at the reporting date had net assets of \$56.0 million (2014: \$55.2 million) including \$52.1 million (2014: \$50.1 million) of deferred exploration, evaluation and development.

The Directors forecast cash flow requirements to meet the consolidated entity's obligations and forecast expenditure has resulted in the recognition that additional funding is required over the next twelve months.

The entity will seek to address the cash requirements at an appropriate time by:

- Commencing the process of accessing additional equity or financial instruments funding, however at the date of this report had not reached any decision on raising additional capital.
- Continuing to pursue opportunities to negotiate pre-paid gas supply contracts however at the date of this report no agreements have been signed.
- Continuing to pursue opportunities to farm-out part of the consolidated entity's exploration interests, however at the date of this report no agreements have been signed.
- Securing finance by secured mortgage over one of the consolidated entity's properties, however at the date of this report no agreements have been signed.

The consolidated entity's ability to continue as a going concern and meet its commitments as they fall due is dependent on its ability to raise sufficient funding.

LAKES OIL N.L.  
ABN 62 004 247 214  
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
LAKES OIL N.L.

The financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the economic entity be unable to continue to raise sufficient funding.


If the going concern basis of accounting is found to be no longer appropriate, the recoverable amounts of the assets shown on the Statement of Financial Position are likely to be significantly less than the amounts disclosed and the extent of the liabilities may differ significantly from those reflected in the Statement of Financial Position.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 23 to 29 of the directors' report for the year ended 30 June 2015. 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 Lakes Oil N.L. and controlled entities for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.



M J HARRISON  
Partner

29 September 2015



PITCHER PARTNERS  
Melbourne