



Lakes Oil NL

ABN 62 004 247 214

Annual Report - 30 June 2018

Lakes Oil NL
Contents
30 June 2018



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| | |
|--------------------------------|--|
| Directors | Chris Tonkin (Non-Executive Chairman) Barney Berold (Non-Executive Director) Nicholas Mather (Non-Executive Director) Ian Plimer (Non-Executive Director) William Stubbs (Non-Executive Director) Kyle Wightman (Non-Executive Director) Richard Ash (Non-Executive Director) Roland Sleeman (Alternate Director) |
| Chief Executive Officer | Roland Sleeman |
| Company secretary | Melanie Leydin |
| Registered office | Level 14 500 Collins Street Melbourne Victoria 3000 |
| Telephone | (03) 9629 1566 |
| Share registry | Computershare Investor Services Pty. Ltd. Yarra Falls 452 Johnston Street Abbotsford Victoria 3067 |
| Telephone | 1300 850 505 |
| Auditor | Pitcher Partners Level 13 664 Collins Street Docklands 3008 |
| Solicitors | Baker & McKenzie Level 19 CBW 181 William Street Melbourne Victoria 3000 |
| Bankers | Westpac Banking Corporation 303 Collins Street Melbourne Victoria 3000 |
| Stock exchange listing | Lakes Oil NL shares are listed on the Australian Securities Exchange (ASX code: LKO) |
| Website | www.lakesoil.com.au |
| Corporate Governance Statement | The Company's 2018 Corporate Governance Statement has been released to ASX on 28 September 2018 and is available on the Company's website. |



LETTER FROM THE CHAIRMAN

Dear Shareholder

For the first time since taking over as Chairman of your Company, I have the pleasure of being able to write to you with a feeling of anticipation that the Company is now on the cusp of realising opportunities that we hope will prove to be transformational.

Like the five years before it, 2017/18 at its outset looked like another year of challenge for the Company. However, by the end of the year we were well on the way to putting in place the foundations for a successful 2018/19. The Company is no longer entirely dependent on its Victorian assets and we now can take a medium term view of these assets in the context of the Victorian Government's moratorium on onshore gas.

Perhaps the most significant development for the Company, implemented shortly after year-end, was the friendly, off-market take-over of Rawson Oil & Gas. The Rawson take-over, which closed on 24 September 2018 with Lakes Oil holding almost 90% of Rawson, has created a vehicle that is set to deliver prosperity for both old and new shareholders alike. Rawson's South Australian exploration prospects, which we will be pursuing this year, are an ideal complement to the massive medium to longer term upside of Lakes Oil's conventional onshore exploration prospects in Victoria.

Added to this, Rawson's Papua New Guinean exploration portfolio, while not without its challenges, represents a multiple Trillion cubic feet (Tcf) opportunity and gives the Company newfound geographic and geopolitical diversity.

The Company also has compelling opportunities in Queensland which were acquired with Navgas Pty Ltd early in 2017. While drilling the Nangwarry-1 well in South Australia is our main priority, we are also contemplating drilling the Wellesley-1 well in Queensland subject to having enough funds to do so.

Given these opportunities, which will be vigorously pursued by the Company, the Victorian Supreme Court's recent and unfavourable Judgement regarding the Company's legal proceedings against the Victorian Government, although disappointing, may be little more than a stumbling block in our path. The Judgement is being reviewed and a decision regarding next steps will be made following the review.

The Company's South Australian and western Victorian opportunities, especially the Portland Energy Project, all target essentially the same conventional, onshore Otway Basin Formations. The work planned for the Otway Basin in South Australia will provide a basis for refined understanding of the Company's Victorian assets in preparation for an eventual resumption of exploration in Victoria.

Shareholders will appreciate that it has been over five years since Lakes Oil has been able to undertake exploration activity in Victoria. During that period underlying costs such as office space, core-staff and exploration licence fees have still been incurred. While we have achieved significant cost reductions and have sold two parcels of land, your patience and continued support is greatly appreciated. The time has now come for that support to be rewarded.

It is truly a pleasure to have been able to write to you this year on such a positive note. I am convinced the Company has reached a turning point in its history and that 2019 will be a transformational year.

I thank my fellow Directors and Roland Sleeman and Tim O'Brien in particular for their tireless and cooperative commitment to the success of your Company.

A handwritten signature in black ink, appearing to read 'Chris Tonkin'.

Chris Tonkin
Chairman



Exploration and Corporate Operations Report

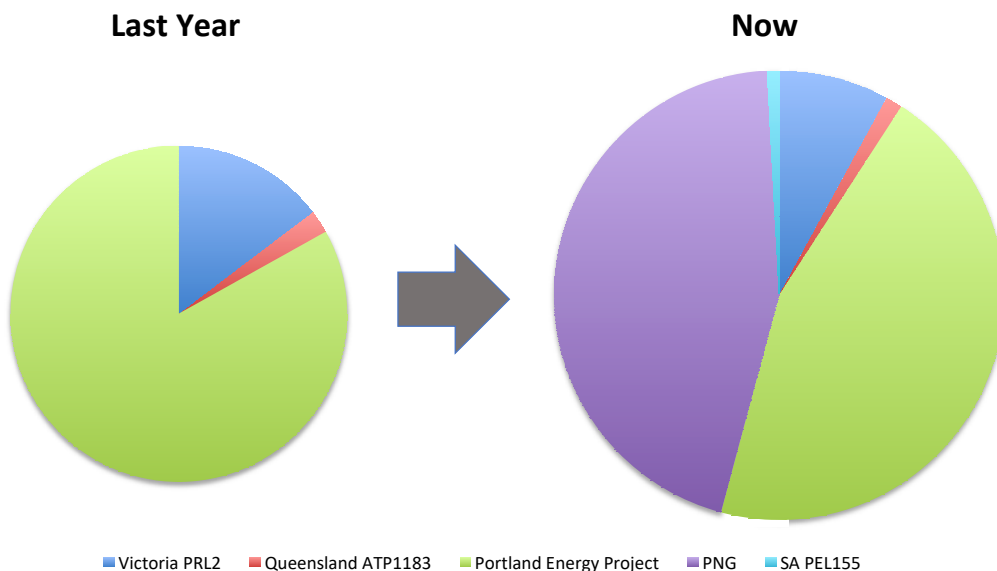
1. Overview

Lakes Oil NL is an ASX-listed oil and gas exploration and development company with an historic focus on Victoria. Following implementation of diversification initiatives over recent years, it now also has valuable strategic interests in South Australia, Queensland and Papua New Guinea.

The diversification initiatives, especially the off-market takeover of Rawson Oil & Gas that was launched in August 2018, were designed to give the Company a spread of opportunities that would complement the historic Victorian focus in both geological and geopolitical terms. Through geopolitical diversity the Company now has:

- exploration opportunities in favourable jurisdictions, which support and encourage exploration activities which can be pursued in the immediate near-term while absurd Victorian circumstances are being addressed; and
- an exploration portfolio with the potential to see the Company become a major gas producer both within and outside Australia. The size of the growth in the Company's exploration portfolio is shown in the pie-charts in Figure 1. While the charts are dimensionless, they represent the resource potential (millions of barrels oil equivalent) of the Company's key exploration assets (extracted from Table 1 below).

Figure 1: Growth in Size and Diversity of Exploration Portfolio





The geographic diversity of the Company's exploration portfolio is illustrated in Figure 2.

Figure 2: Lakes Oil NL's Exploration Portfolio



The portfolio as a whole gives the Company an exciting combination of exploration prospects, some of which are world-scale, as demonstrated in Table 1. Some of the prospects, especially PEL 155 in South Australia, are ready for immediate pursuit while others require preparatory work to be carried out, or regulatory change. Overall, the Company now has an exploration portfolio that can yield near-term success with potential for substantial medium term upside.

On their own, near-term Australian exploration opportunities, if successful, have the potential in their own right to completely transform the Company with an income stream which would finance conventional exploration onshore in Victoria and elsewhere.

Based upon presently identified exploration prospects, the total portfolio has a hypothetical value in excess of \$1 billion based upon a gas price equivalent of \$8.00 per Gigajoule.



Table 1: Prospectivity of Lakes Oil NL's Exploration Portfolio
(based upon 100% takeover of Rawson Oil & Gas Limited)

| Contingent and Prospective Recoverable Resources | | | | | | | | | |
|--|--------------------|--------------|---------------------------------------|-------------|--------------------------|--------------|---------------|---------------|-------------------|
| Location | Licence | LKO Interest | Prospect | Resource | Contingent / Prospective | Low estimate | Best Estimate | High Estimate | POGS ¹ |
| Gippsland Basin, Vic | PRL 2 | 100% | Wombat Field ² | Gas (Bcf) | Contingent | 258 | 329 | 628 | 0.5 |
| | | 57.5% | Trifon Field ² | Gas (Bcf) | Contingent | 126 | 390 | 526 | 0.25 |
| | | 100% | Baragwanath ² | Gas (Bcf) | Prospective | 187 | 966 | 4327 | 0.1 |
| Gippsland Basin, Vic | PRL 3 | 100% | Lakes Entrance Oil Field ³ | Oil (mmbbl) | Prospective | 0.1 | 0.6 | 6 | 0.2 |
| Gippsland Basin, Vic | PEP 166 | 75% | Permit ⁴ | Gas (Bcf) | GIIP | 329 | 1704 | 26258 | <0.05 |
| Otway Basin, Vic | PEP 163 | 100% | Permit | Gas (Bcf) | GIIP | NA | NA | NA | NA |
| Otway Basin, Vic | PEP 167 | 100% | Permit ⁵ | Gas (Bcf) | GIIP | NA | 155,584 | NA | 0.1 |
| Otway Basin, Vic | PEP 169 | 49% | Otway-1 ⁴ | Gas (Bcf) | Prospective | 25 | 60 | 140 | 0.25 |
| Otway Basin, Vic | PEP 175 | 100% | Permit ⁵ | Gas (Bcf) | GIIP | NA | 286,416 | NA | 0.15 |
| | | | Focus Area ⁵ | Gas (Bcf) | GIIP | 30,143 | 49,999 | 78,359 | |
| | | | Focus Area ⁵ | Gas (Bcf) | Prospective | 3,943 | 11,469 | 25,477 | |
| Otway Basin, SA | PEP 154 | 100% | Benara ⁶ | Gas (Bcf) | Prospective | 11.7 | 24.9 | 53.8 | 0.125 |
| | | | Benara East ⁶ | Gas (Bcf) | Prospective | 6.1 | 15 | 30.8 | 0.1 |
| Otway Basin, SA | PEP 155 | 50% | Nangwarry ^{6, 7} | Gas (Bcf) | Prospective | 11.2 | 57 | 159.9 | 0.21 |
| | | | South Salamander ⁶ | Gas (Bcf) | Prospective | 7.1 | 19.4 | 44.3 | 0.25 |
| Surat Basin, Qld | ATP 1183 | 100% | Wellesley ⁵ | Gas (Bcf) | Prospective | NA | 41 | NA | 0.2 |
| | | | Bendee ⁵ | Oil (mmbbl) | Prospective | | 1 | | 0.3 |
| | | | Major East ⁵ | Gas (Bcf) | Prospective | | 13.8 | | 0.2 |
| | | | Emu Apple ⁵ | Oil (mmbbl) | Prospective | | 3.4 | | 0.2 |
| Eromanga Basin, Qld | ATP 642 | 100% | Permit ⁸ | Gas (Bcf) | GIIP | NA | 3.11 | NA | <0.05 |
| Eromanga Basin, Qld | ATP 662 | 100% | Permit ⁸ | Oil (mmbbl) | OIIP | NA | 0.05 | NA | |
| Cape Vogel Basin, PNG | PPL 560 | 93% | Permit ⁸ | Gas (Bcf) | GIIP | NA | 0.27 | NA | <0.05 |
| | | | Permit ⁸ | Oil (mmbbl) | OIIP | NA | 0.54 | NA | |
| | | | Buna ⁹ | Gas (Bcf) | Prospective | 1848 | 3316 | 5532 | <0.05 |
| | | | Buna West ⁹ | Gas (Bcf) | Prospective | 105 | 203 | 371 | <0.05 |
| North New Guinea Basin, PNG | PPL 391 / APPL 622 | 93% | Kumasi North ⁹ | Gas (Bcf) | Prospective | 143 | 274 | 489 | <0.05 |
| | | | Kumasi South ⁹ | Gas (Bcf) | Prospective | 91 | 193 | 363 | <0.05 |
| North New Guinea Basin, PNG | PPL 391 / APPL 622 | 93% | Matapau ⁴ | Oil (mmbbl) | Prospective | 1 | 4.4 | 20 | 0.05 |

Notes:

1. POGS = Probability of success
2. Gaffney, Cline & Associates, in accordance with SPE-PRMS guidelines
3. Internal Lakes estimate derived from Victorian government study
4. Internal Lakes estimate
5. SRK Consulting (Australasia) Pty Ltd, in accordance with SPE-PRMS guidelines
6. Exploration and production consultants (Australia) Pty Ltd (EPL), in accordance with SPE-PRMS guidelines
7. RISC independent evaluation, in accordance with SPE-PRMS guidelines
8. AWT International, in accordance with SPE-PRMS guidelines
9. Modified from Fekete Associates 2010 report, in accordance with SPE-PRMS guidelines

2. Exploration

Lakes Oil holds relevant interests in petroleum and mineral exploration rights in Victoria, Queensland, South Australia, Papua New Guinea and the United States of America.



i) South Australia:

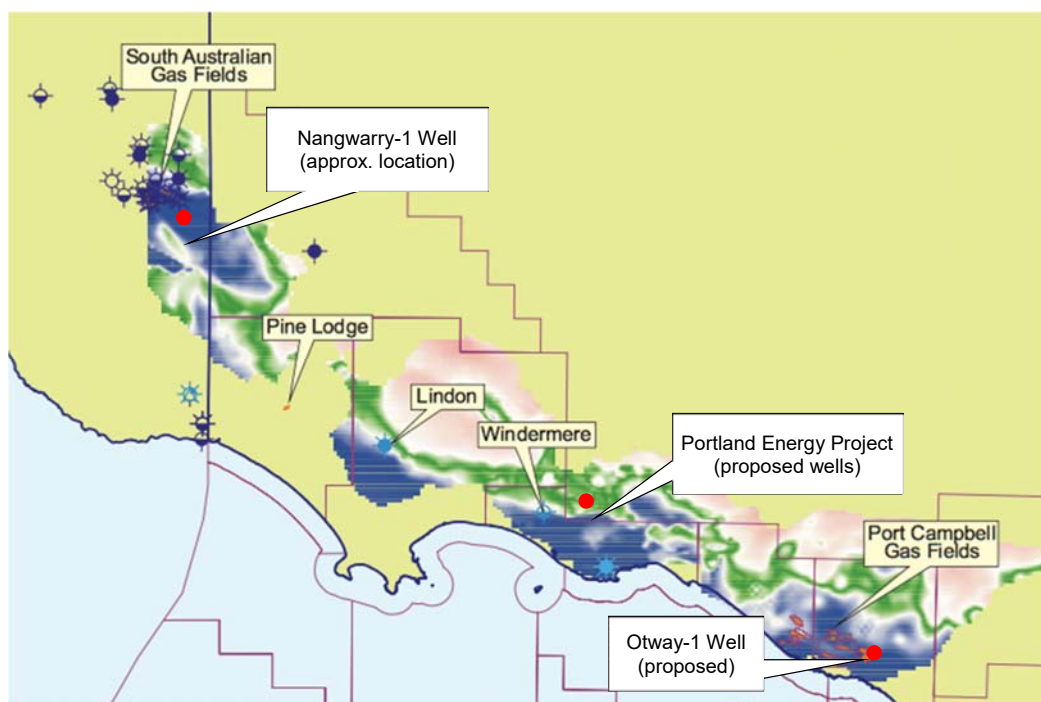
Petroleum Exploration Licences 154 and 155

Through the takeover of Rawson Oil & Gas (details of which are set out below) Lakes Oil is acquiring 100% ownership of PPL 154 and 50% ownership of PEL 155 (Vintage Energy holds the remaining 50%), both in South Australia. Lakes Oil will also be operator of these tenements.

Of particular near-term importance is the acquisition of PEL 155, which lies within a proven hydrocarbon province and contains a number of exciting exploration prospects. The largest of these will be explored early in 2019 through drilling of the Nangwarry-1 well close to the Victorian border. The Nangwarry prospect is geologically similar to the Company's existing exploration targets within the Victorian portion of the Otway Basin, as illustrated in Figure 3 and will serve to demonstrate the resource potential of the Victorian acreage. The Nangwarry-1 well will be partly funded by a South Australian Government PACE Grant of \$4.95m with the Government acknowledging the high potential of the prospect.

Figure 3: Extent of Astral 1 Petroleum System¹

(with green shading representing areas of peak hydrocarbon generation)



The Nangwarry-1 well is located close to the recently drilled Haselgrove-3 well, which flowed gas at a tubing constrained rate of 25 million cubic feet per day, with potential to achieve much higher flow rates. The Unrisked Prospective Resource Best Estimate² of the potential of the Nangwarry prospect is 28.5 Bcf (net to the Company).

Source of Estimate: Rawson Media Release dated 24 May 2018. The Company is not aware of any new information or data that materially affects the information included in the relevant market announcement and confirms that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

¹ Source: Figure 10 of VIMP Report 90 ("A Technical Assessment of the Yet-to-find Hydrocarbon Resource Inventory, Offshore and Onshore Otway Basin, Victoria, Australia", GeoScience Victoria, June 2007).



Pirie Torrens Oil and Gas Project

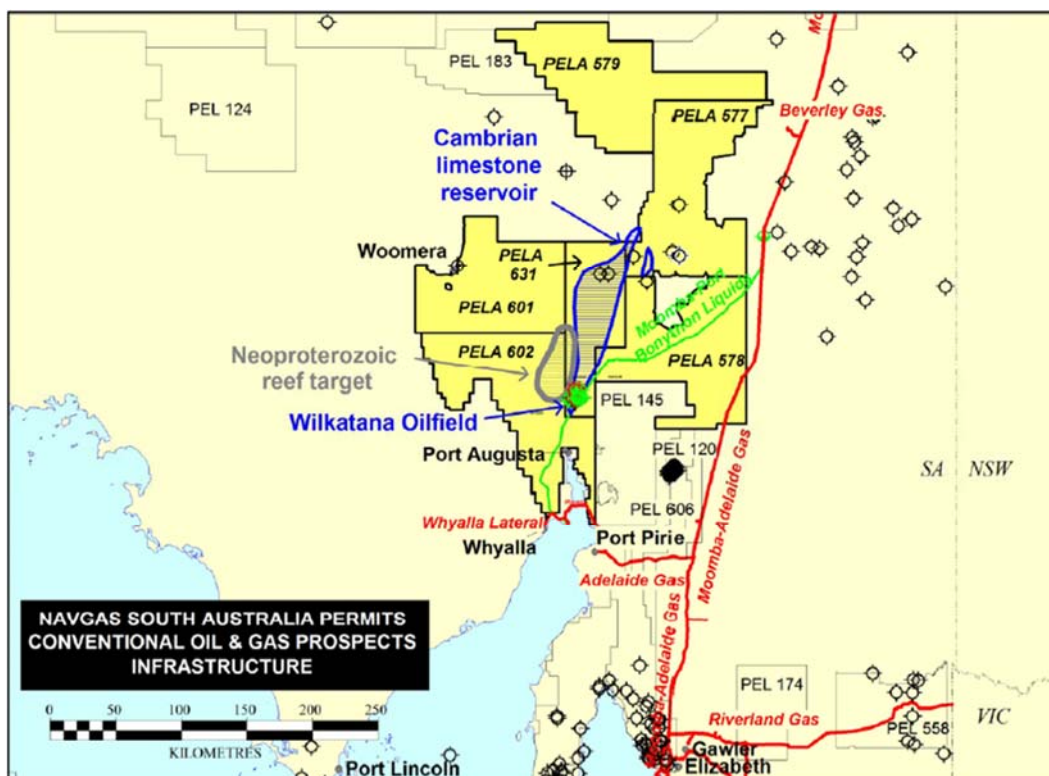
Lakes Oil acquired 100% ownership of six South Australian Petroleum Exploration Licence Applications (PELAs), covering an area of approximately 53,000 square kilometres, on 18 January 2017.

Petroleum exploration activities in the general area of the South Australian PELAs first commenced in 1956, when Santos was established to drill for oil at Wilkatana. That work, and subsequent drilling by other companies, demonstrated the presence of oil and gas across the area of interest.

Lakes Oil proposes to review and reprocess historic data, including more recent seismic information gathered by Geoscience Australia, and to investigate potential for drilling of a stratigraphic core hole to further geological knowledge of the basin. Of particular near-term interest to the Company are:

- the potential for oil production to the north of Wilkatana (in an area of closure, associated with the Torrens Hinge Zone, that can be identified on modern seismic data but which has not yet been drilled); and
- the potential for production of gas from the Tindelpina Shale, which has been demonstrated to contain gas but not explored using modern techniques.

Figure 4: South Australian Licence Application Areas



Mingoola Gold Pty Ltd

On 1 May 2017, Lakes Oil completed the acquisition of Mingoola Gold Pty Ltd, which held five South Australian mineral exploration tenements that overlap parts of the Company's South Australian Petroleum Exploration Licence Applications. Information from mineral exploration activities may be of material value in assessing the potential of the PELAs. Following an investigation into the prospectivity of the five licences the Company has relinquished four of the licences, retaining exploration licence EL 5694 which covers the drilling location for the proposed stratigraphic corehole which, if drilled, will test the prospectivity of the Torrens Hinge Zone to the north of the Wilkatana Oilfield.



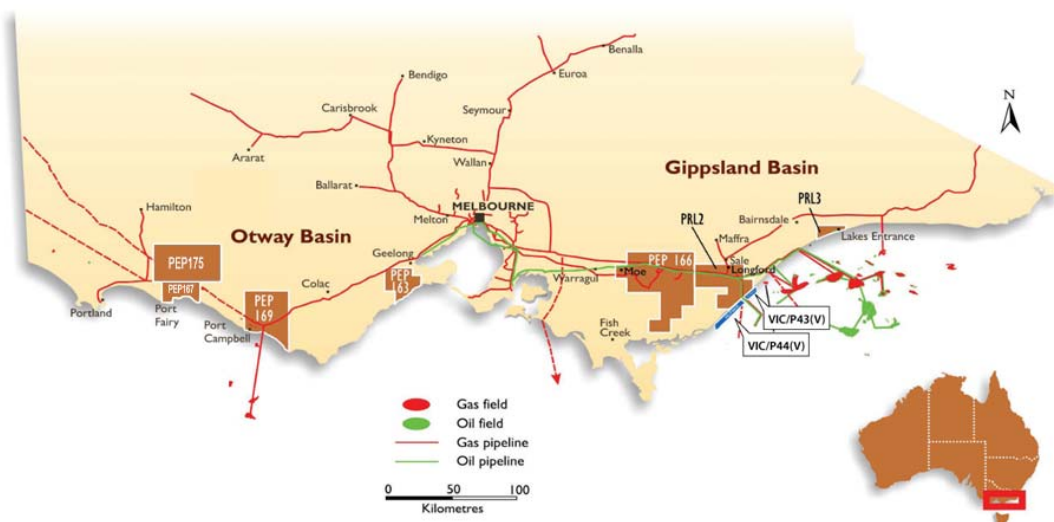
ii) Victoria

Lakes Oil has tenure to the most prospective of Victoria's onshore petroleum exploration acreage but, as a consequence of an unprecedented onshore exploration ban introduced by the Victorian Government, has not been able to carry out any exploration activity since 2012. Further information regarding the Victorian exploration ban is provided below.

The Company has identified exploration opportunities that it is ready to pursue as soon as the Victorian conventional exploration ban is lifted. Further detail of these opportunities is set out below.

Based upon independent advice, the Company anticipates that its Victorian exploration opportunities will support commercial production of natural gas for the benefit of Victoria, and south-eastern Australia more generally.

Figure 5: Lakes Oil's Victorian Petroleum Exploration Interests



Petroleum Retention Lease 2 (PRL2):

Lakes Oil has 100% interest in PRL2, with the exception of the Trifon and Gangell blocks where Lakes Oil has a 57.5% interest and Jarden Corporation Australia Pty Ltd has a 42.5% interest. Armour Energy Limited has a right to earn a 15% interest in PRL2 subject to agreement being reached regarding a \$10m program of exploration work to be undertaken by Armour. Armour Energy earned this farm-in right through exercise of an entitlement to match farm-in rights previously held by Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited. Beach and Somerton withdrew from the farm-in agreement in August 2013, at which time they had a right to earn a net 15% interest in PRL2 by funding a \$10m program of work. Since performance of that program of work is no longer possible (owing to the Victorian Government's permanent ban on fracking) the farm-in could now only proceed if a replacement program is agreed. No replacement program has been agreed and the parties have therefore reserved their rights in relation to the possible farm-in.

While exploration activity is not presently possible within PRL2, prior to introduction of the Victorian onshore exploration ban Lakes Oil made preparations for and sought approval to undertake two important developments within PRL2. The first of these is drilling of the Wombat-5 well, a conventional directionally-drilled well targeting the upper, more permeable section of the massive, gas saturated Strzelecki Formation. Based upon independent modelling Lakes Oil is optimistic that the Wombat-5 well will flow gas at an initial rate of around 10 TJ/d, rendering both the well and the Wombat Gas Field commercial.

Given the onshore location of the Wombat Gas Field, close to existing gas pipeline infrastructure, the field could be brought on line quickly (circa 18 months) and at low cost. With a gas production potential of around 20 PJ/a, development of the Wombat Gas Field could provide quick relief for both the present Victorian gas supply shortfall and the high gas prices that have resulted from it. Drilling of the Wombat-5 well is a compelling initiative that will be undertaken by Lakes Oil immediately after the Victorian exploration ban is overturned or renounced.



The second proposed development within PRL2 involves insertion of a pump into the existing Wombat-3 well to test that well's potential for production of oil, evidence of which was seen when the well was drilled and during subsequent testing activities. This initiative is also ready for immediate implementation.

Petroleum Retention Lease 3 (PRL3):

Lakes Oil has a 100% interest in PRL3. As a consequence of the Victorian Government's onshore exploration ban, no exploration activity was undertaken within PRL3 during the financial year and no work is planned.

Petroleum Exploration Permit 166 (PEP166):

Lakes Oil has a 75% interest in PEP166 with Armour Energy holding the remaining 25% interest. As a consequence of the Victorian Government's onshore exploration ban, no exploration activity was undertaken within PEP166 during the financial year and no work is planned.

Petroleum Exploration Permit 169 (PEP169):

Lakes Oil has a 49% interest in PEP166 with Armour Energy Limited holding the remaining 51% interest. Operatorship of the permit has been delegated by Armour Energy to Lakes Oil. As a consequence of the Victorian Government's onshore exploration ban, no exploration activity was undertaken within PEP169 during the financial year.

Lakes Oil has plans to drill the Otway-1 well, a conventional well to be located adjacent to, but on the opposite side of a fault from, the highly commercial Iona Gas Field. The well will be drilled to a depth of 1,500 metres and will target both the Waarre Sands and the Eumeralla Formation. The Waarre Sands are the basis of historic gas production from the Iona Gas Field and, at the Otway-1 location, are uplifted relative to the Iona Gas Field. While the deeper Eumeralla Formation has not historically been developed for gas production it is considered to be highly prospective and is a key target of the Otway-1 well. This is because, wherever that Formation has been historically penetrated, it has been gas charged and, at nearby locations, has historically flowed gas at commercial rates.

Figure 6: Location of Proposed Otway-1 Gas Well



The Company will be able to drill the Otway-1 well as soon as requisite approvals are received. Given the wells location, adjacent to existing gas processing facilities, it can be brought on line immediately to contribute to relieving the present



Victorian gas supply shortfall and the consequent high gas prices that are a burden on households and a threat to industry competitiveness.

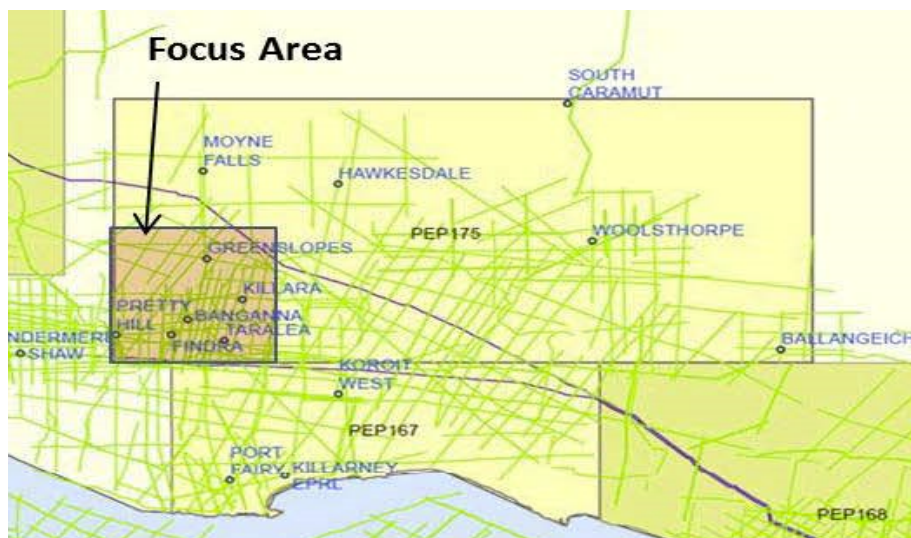
Petroleum Exploration Permit 163 (PEL163):

Lakes Oil has a 100% interest in PEP163. As a consequence of the Victorian Government's onshore exploration ban, no exploration activity was undertaken within PEP163 during the financial year and no work is planned.

Petroleum Exploration Permits 167 and 175 (PEP167, PEP175):

Lakes Oil has a 100% interest in PEP167 & PEP175, which were acquired in September 2014 and form the basis of the company's 'Portland Energy Project'. The Portland Energy Project is based upon a Focus Area in the southwestern corner of PEP175, to north of Port Fairy, selected for investigation on the basis of historic seismic and drilling data, and in recognition of the potential for production of gas by conventional means. As is evident in Figure 3, there has been considerable historic drilling activity in and around the Focus Area, all of which has confirmed beyond doubt the presence of natural gas within the thick Eumeralla Formation. While gas was demonstrated to exist, the potential for its production was not historically tested since the search, at that time, was for oil, there was no market available for gas and no gas pipeline infrastructure was present. These circumstances have of course now all changed. Pipeline infrastructure is available and the Victorian gas market (indeed the eastern Australian gas market) is desperate for increased supplies of gas to curtail prohibitive gas price increases.

Figure 7: Portland Energy Project



With independent expert assistance, the company has identified preferred locations for drilling of two proof-of-concept wells, Greenslopes-2 and Portland Energy-1. Both wells are to be conventional wells, drilled to a depth of around 1,500 metres with the specific purpose of demonstrating that gas can be produced by conventional means from the Eumeralla Formation.

Lakes Oil has commissioned independent assessments that confirm the gas-in-place potential of the Eumeralla Formation. The estimated (50% probability) gas resource of the Focus Area is 11.4 trillion cubic feet, of which the Company considers around 3 trillion cubic feet should be recoverable by conventional means. The Portland Energy Project has the potential to fundamentally change the landscape of gas supply into the eastern Australian gas market.

Source of Estimate: "Independent Specialist Report on the petroleum assets of Navgas Pty Ltd and Lakes Oil NL", SRK Consulting (Australasia) Pty Ltd, December 2016.

The Company is not aware of any new information or data that materially affects the information included in the relevant market announcement and confirms that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate



to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Petroleum Exploration Permits VIC/P43(V) and VIC/P44(V):

Lakes Oil has a 100% interest in these Gippsland Basin permits, which are located offshore in Victorian waters. Both permits are considered to have potential for production of oil and gas. Airborne gravity data and seismic mapping indicate that offshore structuring within VIC/P43(V) is continuous with that of the Wombat Field, onshore in PRL2.

Lakes Oil has a commitment to carry out seismic work within VIC/P43(V) and VIC/P44(V). Although offshore exploration activity is not prohibited, in the interest of cost management Lakes Oil does not envisage carrying out seismic work until the work can be coordinated with other, onshore activities.

iii) Queensland

Petroleum Exploration Permit ATP 1183

Roma Shelf Oil and Gas Project

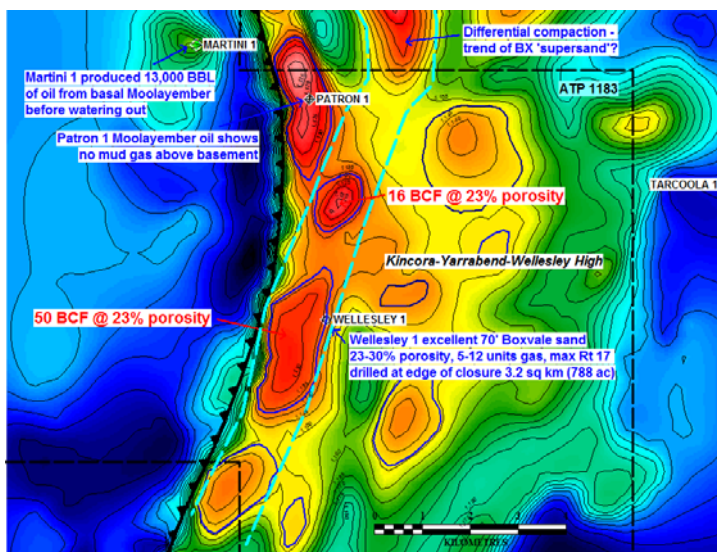
Lakes Oil acquired 100% ownership of Queensland ATP 1183 on 18 January 2017. The tenement is highly prospective for oil, gas and condensate discoveries, and is within close proximity of established production facilities and infrastructure. The tenement area itself surrounds the Riverslea Oil Field and Major Gas/Condensate Field.

The Company has undertaken extensive review of exploration prospects within the permit area and a number of compelling exploration opportunities, as outlined below, have been identified. Drilling of the prospects will proceed when funding permits.

- **Wellesley Dome**

The Wellesley Dome is a fault bound, three way dip closure approximately 4.4km² in area, lying on the Kincora-Yarrabend-Wellesley High to the south of the productive Kincora Gas Field.

Figure 8: Wellesley Dome



A well (Wellesley-1) drilled by BHP in 1979 intersected in excess of 20 metres of thick clean Boxvale Sand. Although the well had fair gas shows and good porosity (average 28%) it was at the time not considered to be of commercial interest. Apart from the Wellesley-1 well, the extensive Wellesley Dome prospect is underexplored. With modern



production techniques and at prevailing gas prices, the Company considers the Wellesley Dome to be a compelling exploration opportunity.

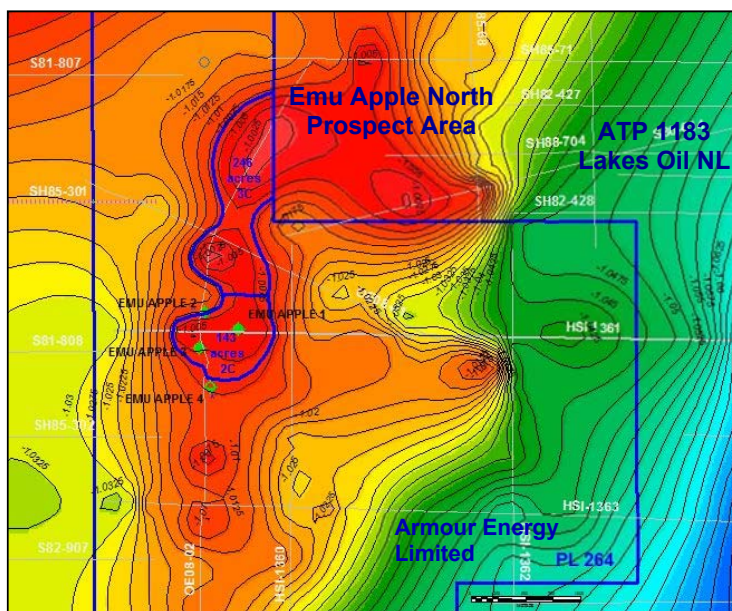
The Company proposes to drill an exploration well approximately 800 metres southwest of Wellesley-1 to a depth of around 1,600 metres.

The Wellesley Dome has a prospective gas resource of 41 BCF (*This is a best estimate prepared on a deterministic basis. It is sourced from page 17 of "Independent Specialist Report on the petroleum assets of Navgas Pty Ltd and Lakes Oil NL", SRK Consulting (Australasia) Pty Ltd, made public in December 2016. The Company is not aware of any new information or data that materially affects the information included in the relevant market announcement and confirms that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons).*

- **Emu Apple North**

The Emu Apple North prospect comprises the northern extension of the Emu Apple oilfield, an oilfield recently brought back into commercial production by Armour Energy Limited.

Figure 9: Emu Apple North Prospect



The prospect is a broad, low relief, anticlinal structure separated by a small saddle from the main Emu Apple Field. The entire Emu Apple area has been charged with hydrocarbons from Permian source rocks to the southeast.

The Hutton Sandstone and Boxville Sands, both of which are productive in the Emu Apple-3 well, are the main reservoir targets. The reservoir units will be intersected at shallow depths, between approximately 1350 and 1430 metres, which means drilling the Emu Apple North prospect will be low cost. The Company's proposed well location is readily accessible by existing road infrastructure and is close to Armour's Emu Apple production facilities (meaning any discovery can be quickly developed).

The Emu Apple North prospect covers an area of approximately 382 acres and is estimated to hold up to 3.4 million barrels of oil (*This is a best estimate prepared on a deterministic basis. It is sourced from page 17 of "Independent Specialist Report on the petroleum assets of Navgas Pty Ltd and Lakes Oil NL", SRK Consulting (Australasia) Pty Ltd, made public in December 2016. The Company is not aware of any new information or data that materially affects the information included in the relevant market announcement and confirms that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of a future*



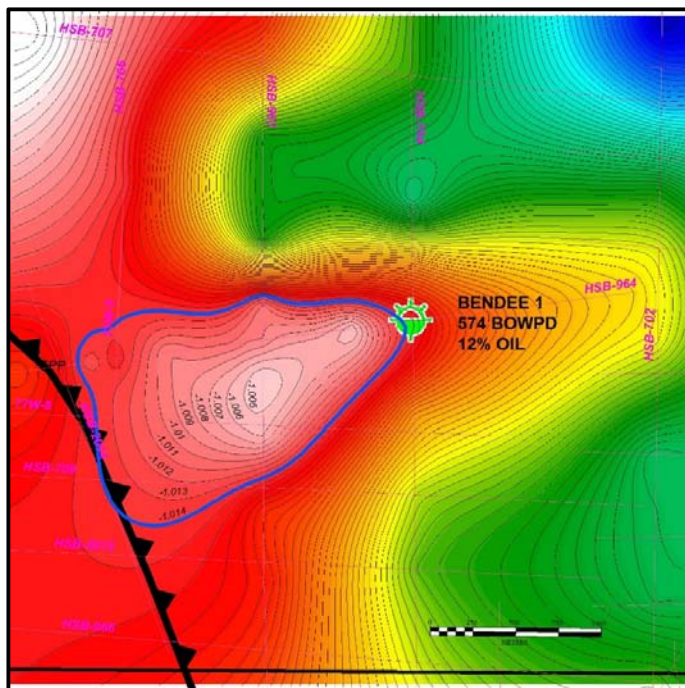
development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons).

- **Bendee Prospect**

The Bendee Prospect is a four-way dip closure located just to the west of the producing Thomby Creek Oil Field. An historic (Bendee-1) well flowed oil and water to surface, demonstrating that the structure contains oil. However, using currently available data the Company has identified that the Bendee-1 well was drilled on the edge of closure, at the level of the oil water contact. Considerable up-dip potential exists.

The Bendee Prospect covers an area of approximately 2 square kilometres and could contain approximately 1 million barrels of oil (*This is a best estimate prepared on a deterministic basis. It is sourced from page 17 of "Independent Specialist Report on the petroleum assets of Navgas Pty Ltd and Lakes Oil NL", SRK Consulting (Australasia) Pty Ltd, made public in December 2016. The Company is not aware of any new information or data that materially affects the information included in the relevant market announcement and confirms that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons).*

Figure 10: Bendee Prospect



- **Major East Lead**

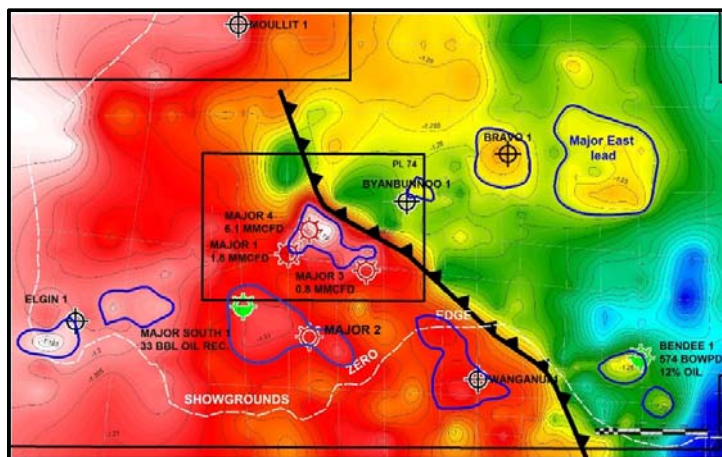
The Major East Lead is four way dip closure approximately 5km² in area, located to the east of the producing Major Gas Field.

The Major East Lead has a prospective gas resource of 13.8 BCF (*This is a best estimate, determined by Mr Peter Bubendorfer, Exploration Adviser to Navgas Pty Ltd, who is an AAPG member, qualified in accordance with the requirements of ASX Listing Rule 5.42, and who has consented to the use of the estimate in the form and context in which it appears in this report. The estimate was finalised on 3 February 2015 and was published on the ASX Announcements Platform by the Navgas Pty Ltd then owner Dark Horse Resources Limited (known at that time as Navaho Gold Limited). The Company is not aware of any new information or data that materially affects the information included in the relevant market announcement and confirms that all the material assumptions and technical parameters*



underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.).

Figure 11: Major East Lead



Petroleum Exploration Permits ATP 642P and ATP 662P (Eromanga Basin):

Lakes Oil has 100% interest in ATPs 642P and 662P, located on the northern flank of the Cooper and Eromanga Basins, roughly 400 km south of Mt Isa. While these permit areas are relatively underexplored, with limited seismic data and no exploration wells, they are well positioned relative to hydrocarbon migration pathways. The company is presently seeking a joint venture partner for pursuit of these opportunities.

iv) Papua New Guinea

Through its takeover of Rawson Oil & Gas Limited, the Company is acquiring control of a portfolio of highly prospective exploration acreage in Papua New Guinea. One key tenement is Petroleum Prospecting Licence (PPL) 560, which contains the multi-trillion cubic feet Buna prospect.

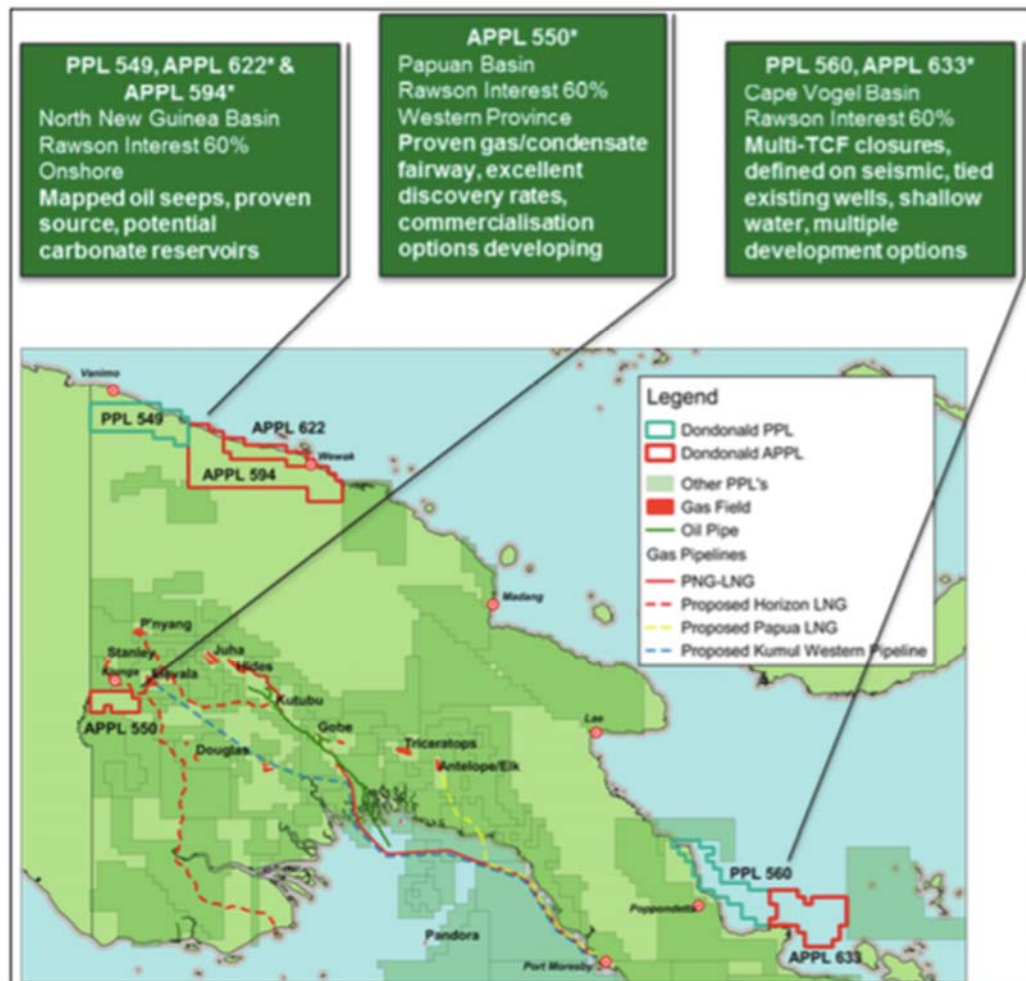
There is presently a disagreement between Rawson and the PNG Government regarding the validity of Rawson's ownership (held through a subsidiary) of PPL 560. On 20 February 2018 the PNG Minister for Petroleum & Energy served a Show Cause Notice on Rawson, giving Rawson 31 days to address the absence of a Security Bond that was required to be lodged in respect of PPL 560. On 6 March 2018 Rawson provided information to demonstrate that while it had forwarded the requisite funds to the Bank South Pacific, the bank had failed to formalise the Bond. This was corrected on or prior to Rawson's 6 March 2018 response to the Minister, thereby resolving the Show Cause matter.

Despite the matter having been corrected, on 23 April 2018 the Minister purported to cancel PPL 560. A Judicial Review of the Minister's purported cancellation has been initiated by Rawson and the Court has put a Restraining Order in place preventing the Minister from removing Rawson from PPL 560, and preventing the licence from being issued to any other party.

A Directions Hearing, to set out the program for conduct of the Judicial Review, is now scheduled for 19 November 2018.

The Company will be continuing the action that has been commenced by Rawson, so as to confirm the validity of Rawson's ownership of PPL 560, and will subsequently formulate and implement a program for exploration and development of the PNG tenements, especially PPL 560.

Figure 12: PNG Interests



v) **United States: Eagle Prospect, Onshore California, USA**

Lakes Oil has a 17.97% interest in the Eagle Prospect, which is operated by Strata-X Inc. Oil was successfully produced from the Mary Bellochi-1 well until mechanical problems led to a loss of production. Drilling of a further well (Shannon-1, adjacent to Mary Bellochi-1) is proposed but not yet confirmed. Lakes Oil is reviewing its ongoing interest and involvement in the Eagle Prospect.

3. Operations

From a corporate perspective, 2017-18 was a year of ongoing challenge for Lakes Oil. Whilst having to continue past years' fight for survival, the Company has focussed on and implemented:

- major cost reduction initiatives; and
- strategic diversification initiatives, as set out above.

Further information regarding overall corporate activities for the year is set out below.

i) **Legal Action Against Victorian Government**

The Victorian Government first introduced a moratorium on fracking in 2012, while information regarding potential risks posed by the practice was reviewed by a Gas Market Taskforce. Despite the Taskforce recommending the moratorium



be lifted, the Government elected to instead to expand it to include a total ban on all onshore petroleum exploration activity and then, in August 2016, to extend it indefinitely.

Based upon expert legal advice, it was apparent that the Government was acting without legal power in refusing to allow petroleum exploration activity, the underlying intent of Victorian Petroleum Legislation being to promote exploration for and development of petroleum for the benefit of all Victorians. To protect shareholders' interests, on 27 October 2016 Lakes Oil commenced legal proceedings against the Victorian Government seeking Judicial Review of the Minister's decisions to refuse to consider applications to conduct petroleum exploration operations.

In effective recognition of the validity of Lakes Oil's claim, in November 2016 the Victorian Government introduced to Parliament a Bill to amend the Petroleum Act 1998 to give Government the power to permanently ban fracking and to prohibit conventional petroleum exploration activities until mid 2020. The amendments to the Petroleum Act became law on 16 March 2017, following which the Victorian Government sought to rely upon the amendments in its defence against Lakes Oil's legal proceedings.

Through the legal proceedings, Lakes Oil pointed out that the Petroleum Act 1998, as amended, specifically provides that pre-existing exploration obligations and commitments are exempt from the exploration moratorium. In response to this the Victorian Department of Economic Development, Jobs, Transport and Resources (Department), which has responsibility for oversight of the Petroleum Act 1998, sought to unilaterally make changes to the conditions of Lakes Oil's authorities. Lakes Oil argued that the Department's proposed changes, which in essence sought to vary the conditions of Lakes Oil's authorities to circumvent the legislated exemption, were being made for an improper purpose (to circumvent legislation) and were therefore illegal.

The legal proceedings were heard in the Victorian Supreme Court on 14-15 March 2018 before Justice Macaulay. Lakes Oil was represented by Alan Sullivan, QC. Justice Macaulay handed down his Judgement on 21 September 2018. The Judgement:

- confirmed that the Department's purported unilateral changes to the conditions of Lakes Oil's authorities were invalid; but
- did not support Lakes Oil's contention that pre-existing obligations and commitments are exempt from the exploration moratorium.

Lakes Oil is disappointed by the Judgement of Justice Macaulay and, at the date of this report, is considering its options, one of which is to appeal the Judgement.

ii) Victorian Gas Program

In May 2017 the Victorian Government announced it would be undertaking the \$42.5 million "Victoria Gas Program". The State's Lead Scientist, Amanda Caples, is supervising the Program with assistance of a stakeholder panel. The Program is reportedly investigating the impacts, risk and potential benefits of onshore conventional gas exploration and development, as well offshore prospectivity and options for gas storage, and will include geoscientific, environmental and economic studies.

Despite being Victoria's most advanced and most knowledgeable onshore petroleum exploration company, Lakes Oil was not invited to participate in the Program or the stakeholder panel. Nonetheless, the Company has offered its full support for the study, including open access to the wealth of data amassed over more than 30 years of onshore exploration activity.

iii) Corporate Initiatives and Capital Raisings

- On 13 October 2017 the Company placed 145,454,545 shares to sophisticated investors at an issue price of \$0.0011 (0.11 cent) per share, raising \$160,000 (before costs).
- On 16 and 18 October 2017 the Company placed a further 1,176,000,002 shares to sophisticated investors at an issue price of \$0.0015 (0.15 cent) per share, raising \$1,764,000 (before costs).



- On 7 November 2017 the Company advised that Shareholders would be afforded the opportunity through a Share Purchase Plan ('SPP') to apply for new ordinary shares in the Company at an issue price of \$0.0015 (0.15 cent) per share.
- The SPP opened on 10 November, with a Record Date of 6 November 2017.
- The SPP closed on 8 December 2017, with applications received for 1,363,250,000 new fully paid shares, raising \$2,044,875.

Funds raised under placements and the SPP were used to meet ongoing operational and working capital requirements of the Company, including the costs of the legal proceedings against the Victorian Government, funding of preparatory work for exploration drilling activity in the Company's Queensland exploration tenement ATP1183 and funding of preparatory work for a resumption of conventional onshore exploration activity in Victoria.

iv) Takeover of Rawson Oil & Gas Limited

On 31 July 2018 the Company announced it had entered into a Bid Implementation Agreement (**BIA**) with Rawson Oil & Gas Limited (**Rawson**) pursuant to which the Company, with the support of the Board of Rawson, offered to acquire all of the shares in Rawson on a scrip for scrip basis. The Company's offer was set out in a Bidder's Statement dated 8 August 2018. The Company offered Rawson shareholders 15 Shares for each Rawson share held, with a minimum acceptance condition of 50.1% and with a closing date of 10 September 2018.

On 15 August 2018 the Company announced that the minimum acceptance condition had been satisfied and that its takeover offer was unconditional.

On 7 September, by which time the Company's relevant interest in Rawson had reached 75.96%, the Company extended the closing date of the takeover offer from 10 September to 24 September 2018.

On 14 September 2018, 1,365,579,780 Shares were issued in exchange for Rawson shares in respect of which Rawson shareholders had, as at 13 September 2018, accepted the takeover offer.

When the takeover offer closed on 24 September 2018 the Company's relevant interest in Rawson was 89.18%.

Through the takeover of Rawson, Lakes Oil is making a strategic expansion of its exploration portfolio, the benefits of which are outlined above.



The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Lakes Oil NL (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Directors

The following persons were directors of Lakes Oil NL during the whole of the financial year and up to the date of this report, unless otherwise stated:

Chris Tonkin (Non-executive Chairman)
Barney Berold (Non-executive Director)
Nicholas Mather (Non-executive Director)
Ian Plimer (Non-executive Director)
William Stubbs (Non-executive Director)
Kyle Wightman (Non-executive Director)
Richard Ash (Non-executive Director) - appointed 20 August 2018
Roland Sleeman (Alternate Director) - appointed 5 September 2018

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of Exploration for oil and gas within Australia and the United States.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Financial Results

The loss for the consolidated entity after providing for income tax amounted to \$2,040,130 (30 June 2017: \$7,606,299).

Revenue including other income during the period amounted to \$20,337 (2017: \$105,219), which included interest of \$12,337 and other income of \$8,000.

Operating expenses for the financial year were \$2,060,467 (2017: \$7,711,518). The major expense for the year was due to the administration expenses amounting to \$988,098 (2017: \$1,508,920) resulting from continuing operations. The provision for impairment of the consolidated entity's Exploration and Evaluation assets amounted to \$183,942 (2017: \$4,052,796). Employee benefit expenses amounted to \$165,496 (2017: \$577,133). Share based payments during the period amounted to \$149,358 (2017: \$171,945). Shares were also issued to directors in lieu of directors fees as approved by shareholders at the company's Annual General Meeting held on 16 January 2017 and 13 November 2017.

Financial Position

The net assets of the consolidated entity increased by \$2,128,065 to \$13,204,726 as at 30 June 2018 (2017: \$11,076,661). The consolidated entity's working capital surplus, being current assets less current liabilities was \$1,308,878 at 30 June 2018 (2017: deficit \$1,120,917). During the period the consolidated entity had a negative cash flow from operating activities of \$2,476,302 (2017: \$2,741,012).

Significant changes in the state of affairs

On 13 October 2017, the consolidated entity completed a placement to professional and sophisticated investors issuing a total of 145,454,545 fully paid ordinary shares at an issue price of \$0.0011 (0.11 cents) per share raising a total of \$160,000 (before costs).

On 16 October 2017, the consolidated entity completed a placement to professional and sophisticated investors issuing a total of 696,666,668 fully paid ordinary shares at an issue price of \$0.0015 (0.15 cents) per share raising a total of \$1,045,000 (before costs).

On 18 October 2017, the consolidated entity completed a placement to professional and sophisticated investors issuing a total of 479,333,334 fully paid ordinary shares at an issue price of \$0.0015 (0.15 cents) per share raising a total of \$719,000 (before costs).



On 7 December 2017, the consolidated entity issued a total of 57,982,398 fully paid ordinary shares upon the early conversion of 6,378 LKOGB converting notes.

On 15 December 2017, the consolidated entity completed a Share Purchase Plan to existing shareholders as per the offer document announced on 10 November 2017. A total of 1,363,250,000 fully paid ordinary shares were subscribed at an issue price of \$0.0015 (0.15 cents) per share raising a total of \$2,044,875 (before costs).

On 4 January 2018, the consolidated entity repaid in full a \$1,000,000 mortgage that was held over properties owned by the consolidated entity.

On 12 February 2017, the consolidated entity completed a small scale offering issuing 1,000,000 fully paid ordinary share at \$0.0015 (0.15 cents) per share raising \$1,500 (before costs).

On 7 June 2018, the consolidated entity issued a total of 1,143,784,165 fully paid ordinary shares upon the maturity of 125,815 LKOGB converting notes.

During the year the consolidated entity issued a total of 241,949,554 fully paid ordinary shares to directors in lieu of fees as approved at the company's Annual General Meeting held on 16 January 2017 and 13 November 2017. These shares were allotted following the grant of a waiver in accordance with ASX Listing Rules 10.13.3 and 10.13.5. The waiver states that the price of the shares issued in lieu of directors fees will be the higher of a deemed issue price of \$0.001 and the monthly volume weighted average price of the shares prior to the relevant issue date. The waiver notice is for approval to issue shares in lieu of directors fees for the period 1 December 2017 to 30 November 2018 and as such the waiver as at the date of this report remains in place.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

On 31 July 2018, the consolidated entity announced that it would make an Off-Market Takeover Bid for Rawson Oil & Gas Limited (ASX: RAW). The takeover offer to RAW shareholders consisted of the consolidated entity issuing 15 shares for every RAW share on issue up to a maximum of 1,890,813,330 fully paid ordinary shares. The offer was due to close on 10 September 2018.

On 15 August 2018, the consolidated entity announced the Off-Market Takeover Offer for RAW was unconditional with acceptances exceeding 50.1%.

On 7 September 2018, the consolidated entity announced the first supplementary bidders statement which noted that the offer would be extended until 24 September 2018.

On 14 September 2018, the consolidated entity issued a total of 1,365,579,780 fully paid ordinary shares as part of the consideration of ordinary shares in RAW under its Off-Market Takeover Bid for an interest of 80.74% of the ordinary shares in RAW, on the terms set out in its bidder's statement dated 8 August 2018 (offer).

On 21 September 2018, the consolidated entity announced that the Victorian Supreme Court had rejected the consolidated entity's claims that the Victorian Government's state-wide moratorium on on-shore gas exploration was unlawful or ineffective.

During September 2018, the consolidated entity sold a section of the land for a total of \$350,000 (before costs). These funds are intended to be used to ongoing working capital purposes.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Environmental regulation

Lakes Oil holds interest in petroleum exploration permits and mineral licences in Victoria, South Australia, Queensland and the United States of America. 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.



Information on directors

| | |
|--------------------------------------|--|
| Name: | Chris Tonkin |
| Title: | Non-Executive Chairman |
| Qualifications: | BSc (Hons.), BA, MBA, GAICD |
| Experience and expertise: | Mr. Tonkin is the Chairman (appointed 23 May 2016) and a Non-Executive Director (appointed in 2015) 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 36 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. |
| Other current directorships: | Arafura Resources Limited (ASX: ARU) and Rawson Oil & Gas Ltd (ASX: RAW) |
| Former directorships (last 3 years): | Nil |
| Interests in shares: | 57,186,782 fully paid ordinary shares |
| Interests in options: | Nil |
| Interests in rights: | 3,881,945 unlisted performance rights |
| Name: | Barney Berold |
| Title: | Non-Executive Director |
| Qualifications: | BCom, MBA. |
| Experience and expertise: | 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. |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Chair Audit Committee and Chair Remuneration Committee |
| Interests in shares: | 113,462,615 fully paid ordinary shares |
| Interests in options: | Nil |
| Interests in rights: | Nil |
| Name: | Nicholas Mather |
| Title: | Non-Executive Director |
| Qualifications: | BSc (Hons. Geology) MAusIIM |
| Experience and expertise: | Mr. Mather has served on the Board since February 2012 and in addition is currently Managing Director and founder of DGR Global Limited (ASX), Executive Chairman and founder of Armour Energy Ltd (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. |
| Other current directorships: | DGR Global Limited (ASX:DGR), SolGold Plc (LSE:SOLG), Amour Energy Ltd (ASX: AJQ), AusTim Mining Ltd (ASX: ANW) and Dark Horse Resources (ASX: DHR) |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Remuneration Committee Member |
| Interests in shares: | 69,907,453 fully paid ordinary shares |
| Interests in options: | Nil |
| Interests in rights: | Nil |



| | |
|--------------------------------------|---|
| Name: | Ian Plimer |
| Title: | Non-Executive Director |
| Qualifications: | BSc (Hons), PhD. FTSE, FGS, FAusIMM |
| Experience and expertise: | Professor 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. |
| Other current directorships: | Niuminco Group Limited (ASX:NIU), Kefi Minerals Ltd (AIM:KEFI) and unlisted Hancock Prospecting Pty Ltd and TNT Mines Ltd. |
| Former directorships (last 3 years): | Inova Resources Ltd (ASX:IVA, TSX:IVA) and Sun Resources N.L. (ASX:SUR) (resigned 18 February 2016), Silver City minerals Ltd (ASX:SCI) (resigned 19 November 2017) |
| Special responsibilities: | Audit Committee Member |
| Interests in shares: | 59,061,782 fully paid ordinary shares |
| Interests in options: | Nil |
| Interests in rights: | 2,256,945 unlisted performance rights |
| Name: | William Stubbs |
| Title: | Non-Executive Director |
| Qualifications: | LLB |
| Experience and expertise: | Mr 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). 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. |
| Other current directorships: | Amour Energy Ltd (ASX: AJQ), DGR Global Limited (ASX: DGR) |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Audit Committee Member |
| Interests in shares: | 56,561,782 fully paid ordinary shares |
| Interests in options: | Nil |
| Interests in rights: | 3,756,945 unlisted performance rights |
| Name: | Kyle Wightman |
| Title: | Non-Executive Director |
| Qualifications: | BComm, MBA, FAICD, CFTP (Snr) |
| Experience and expertise: | 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). |
| Other current directorships: | Nil |
| Former directorships (last 3 years): | Nil |
| Special responsibilities: | Remuneration Committee Member |
| Interests in shares: | 66,711,637 fully paid ordinary shares |
| Interests in options: | Nil |
| Interests in rights: | 5,000,000 unlisted performance rights |



Name: Richard Ash
Title: Non-Executive Director
Qualifications: BComm, CA
Experience and expertise: Mr Ash is a Chartered Accountant and has a Bachelor of Economics degree with more than 25 years of experience in funds management and finance in Australia and Asia. Prior to forming AAP Capital, Mr Ash was a Managing Director, Head of Asset Finance for Developed Asia and a member of the Australian executive team for Nomura Australia. He has also worked at Westpac, Macquarie Bank and KPMG.
Other current directorships: Rawson Oil & Gas Ltd (ASX: RAW)
Former directorships (last 3 years): Nil
Interests in shares: 22,350,000 Fully paid ordinary shares
Interests in options: Nil
Interests in rights: Nil

Name: Roland Sleeman
Title: Alternate Director
Qualifications: BEng(Mech), MBA
Experience and expertise: Mr Sleeman has over 30 years' experience in oil and gas as well as utilities and infrastructure. Mr Sleeman has served in various senior management roles within the oil and gas industry including with Eastern Star Gas Limited as Chief Commercial Officer and AGL as General Manager of the Goldfields Gas Pipeline. Mr Sleeman has extensive engineering and business experience including negotiation of gas sales agreements that provided a foundation for development of the North West Shelf Project, commercialisation of new gas and power station opportunities and management of major gas transmission pipeline infrastructure. Mr Sleeman has provided specialist commercial regulatory and project development advice to both the public and private sectors. He has served as a Director of Armour Energy Limited since 2011.
Other current directorships: Amour Energy Ltd (ASX: AJQ) and Rawson Oil & Gas Ltd (ASX: RAW)
Former directorships (last 3 years): Nil
Interests in shares: 107,083,332 Fully paid ordinary shares
Interests in options: Nil
Interests in rights: Nil

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary and Chief Executive Officer

Company Secretary

Melanie Leydin has 25 years' experience in the accounting profession including 13 years in the Corporate Secretarial professions and is a company secretary and finance officer for a number of entities listed on the Australian Securities Exchange. She is a Chartered Accountant and a Registered Company Auditor. Since February 2000, she has been the principal of Leydin Freyer, specialising in outsourced company secretarial and financial duties.

Chief Executive Officer

Roland Sleeman is the Chief Executive Officer. Please refer to "Information on Directors" section for further information.



Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2018, and the number of meetings attended by each director were:

| | Full Board | | Nomination and Remuneration Committee | | Audit and Risk Committee | |
|-----------------|------------|------|---------------------------------------|------|--------------------------|------|
| | Attended | Held | Attended | Held | Attended | Held |
| Chris Tonkin | 13 | 13 | - | - | - | - |
| Barney Berold | 13 | 13 | - | - | 2 | 2 |
| Nicholas Mather | 10 | 13 | - | - | - | - |
| Ian Plimer | 10 | 13 | - | - | - | 2 |
| William Stubbs | 12 | 13 | - | - | 2 | 2 |
| Kyle Wightman | 13 | 13 | - | - | - | - |

Held: represents the number of meetings held during the time the director held office.

During the year under review there were no meetings of the Nomination and Remuneration Committee as there were neither increases in remuneration nor new employees hired other than those which were initiated and approved by the entire Board of the Company.

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 Chairman, Executive Officers and other employees.

The remuneration report is set out under the following main headings:

- Details of remuneration
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

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.

ASX Listing rules requires that the aggregate non-executive directors' remuneration shall be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 16 January 2017, where the shareholders approved a maximum aggregate remuneration of \$300,000. No amendments have been made to the available Non-Executive director remuneration pool since that date.

The Remuneration Committee has the responsibility to assess the appropriateness of the nature and amount of emoluments for the Executives 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.

The Remuneration Committee has the responsibility to review the appropriateness of the nature and amount of emoluments for Senior Executives as recommended by the Chief Executive Officer (CEO). These recommendations are made by the CEO 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 CEO 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 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 (excluding the CEO agreement which specifies as fixed term), 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.

Voting and comments made at the company's 13 November 2017 Annual General Meeting ('AGM')

The company received 99.43% of 'for' votes in relation to its remuneration report for the year ended 30 June 2017. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

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.

- Chris Tonkin (Non-Executive Chairman)
- Barney Berold (Non-Executive Director)
- Nicholas Mather (Non-Executive Director)
- Ian Plimer (Non-Executive Director)
- William Stubbs (Non-Executive Director)
- Kyle Wightman (Non-Executive Director)

There are two 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:

- Roland Sleeman (Chief Executive Officer)
- Tim O'Brien (Operations Manager)

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.



| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | Total |
|--|----------------------------|----------------------------|--------------------|--------------------------|--------------------------|------------------------|----------------|
| | Cash salary and fees \$ | Termination payments \$ | Non-monetary \$ | Super-annuation \$ | Long service leave \$ | Equity-settled * \$ | |
| 2018 | | | | | | | |
| <i>Non-Executive Directors:</i> | | | | | | | |
| Barney Berold | 8,316 | - | - | 2,892 | - | 22,125 | 33,333 |
| Nicholas Mather | - | - | - | - | - | 33,333 | 33,333 |
| Ian Plimer | 8,316 | - | - | 2,892 | - | 22,125 | 33,333 |
| William Stubbs | 8,316 | - | - | 2,892 | - | 22,125 | 33,333 |
| Chris Tonkin | 8,316 | - | - | 2,892 | - | 22,125 | 33,333 |
| Kyle Wightman | 2,916 | - | - | 2,892 | - | 27,525 | 33,333 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| Roland Sleeman | 155,063 | - | - | - | - | - | 155,063 |
| Tim O'Brien | 219,696 | - | - | 20,871 | 2,472 | - | 243,039 |
| | <u>410,939</u> | <u>-</u> | <u>-</u> | <u>35,331</u> | <u>2,472</u> | <u>149,358</u> | <u>598,100</u> |

* Equity settled remuneration for Non-Executive directors and employees relates to share issued in lieu of directors fees as approved by shareholders at the company's Annual General Meeting held on 16 January 2016 and 13 November 2017.

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | Total |
|--|----------------------------|----------------------------|--------------------|--------------------------|--------------------------|-------------------------|----------------|
| | Cash salary and fees \$ | Termination payments \$ | Non-monetary \$ | Super-annuation \$ | Long service leave \$ | Equity-settled*** \$ | |
| 2017 | | | | | | | |
| <i>Non-Executive Directors:</i> | | | | | | | |
| Barney Berold | 17,941 | - | - | 2,892 | - | 12,500 | 33,333 |
| Nicholas Mather | 18,055 | - | - | - | - | 15,278 | 33,333 |
| Ian Plimer | 17,941 | - | - | 2,892 | - | 12,500 | 33,333 |
| William Stubbs | 17,941 | - | - | 2,892 | - | 12,500 | 33,333 |
| Chris Tonkin | 17,941 | - | - | 2,892 | - | 12,500 | 33,333 |
| Kyle Wightman | 17,941 | - | - | 2,892 | - | 12,500 | 33,333 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| Roland Sleeman | 136,250 | - | - | - | - | 54,167 | 190,417 |
| Ingrid Campbell* | 207,868 | 50,342 | - | 26,597 | - | - | 284,807 |
| Tim O'Brien | 179,696 | - | - | 20,871 | 7,801 | 40,000 | 248,368 |
| Leslie Smith** | 38,279 | - | - | 66 | - | - | 38,345 |
| | <u>669,853</u> | <u>50,342</u> | <u>-</u> | <u>61,994</u> | <u>7,801</u> | <u>171,945</u> | <u>961,935</u> |

* Ms Campbell resigned as Chief Geologist on 23 March 2017.

** Mr Smith resigned as Chief Financial Officer on 30 June 2016 and therefore the payments noted above relate to settlement of leave entitlements.

*** Equity settled remuneration for Non-Executive directors and employees relates to shares issued in lieu of directors fees as approved by shareholders at the company's Annual General Meeting held on 16 January 2017.



The proportion of remuneration linked to performance and the fixed proportion are as follows:

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|--|--------------------|------|---------------|------|---------------|------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| <i>Non-Executive Directors:</i> | | | | | | |
| Chris Tonkin | 100% | 100% | - | - | - | - |
| Barney Berold | 100% | 100% | - | - | - | - |
| Nicholas Mather | 100% | 100% | - | - | - | - |
| Ian Plimer | 100% | 100% | - | - | - | - |
| William Stubbs | 100% | 100% | - | - | - | - |
| Kyle Wightman | 100% | 100% | - | - | - | - |
| <i>Other Key Management Personnel:</i> | | | | | | |
| Roland Sleeman | 100% | 100% | - | - | - | - |
| Ingrid Campbell | - | 100% | - | - | - | - |
| Tim O'Brien | 100% | 100% | - | - | - | - |
| Leslie Smith | - | 100% | - | - | - | - |

Share-based compensation

Issue of shares

A total of 241,949,554 fully paid ordinary shares were issued to directors in lieu of directors fees as approved at the company's Annual General Meeting held on 16 January 2016 and 13 November 2017.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

| Grant date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value per option at grant date |
|----------------|-----------------------------------|----------------|----------------|-------------------------------------|
| 8 January 2016 | 8 January 2016 | 8 January 2021 | \$0.005 | \$0.001 |

Options granted carry no dividend or voting rights.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2018.

Performance rights

There were no performance rights over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2018.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2018 are summarised below:

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------|---------|----------|---------|---------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenue (excluding fair value gains and losses) (\$'000) | 20 | 64 | 1,205 | 51 | 79 |
| Loss before tax (\$'000) | (2,040) | (7,606) | (49,589) | (2,743) | (3,168) |
| Change in share price (%) | 150 | - | (50) | (33) | (40) |

The remuneration policy is not directly related to the consolidated entity's performance and the above data is provided for information only.



Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by any director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|------------------------|--|--|-------------------|---------------------|--------------------------------------|
| <i>Ordinary shares</i> | | | | | |
| Barney Berold | 77,074,444 | 36,388,171 | - | - | 113,462,615 |
| William Stubbs | 20,173,611 | 36,388,171 | - | - | 56,561,782 |
| Roland Sleeman | 57,083,332 | - | 50,000,000 | - | 107,083,332 |
| Tim O'Brien | 9,500,000 | - | 10,000,000 | - | 19,500,000 |
| Christopher Tonkin | 20,798,611 | 36,388,171 | - | - | 57,186,782 |
| Ian Plimer | 12,673,611 | 36,388,171 | 10,000,000 | - | 59,061,782 |
| Kyle Wightman | 18,416,666 | 38,294,971 | 10,000,000 | - | 66,711,637 |
| Nick Mather | 11,805,554 | 58,101,899 | - | - | 69,907,453 |
| | <u>227,525,829</u> | <u>241,949,554</u> | <u>80,000,000</u> | <u>-</u> | <u>549,475,383</u> |

Option holding

The number of options over ordinary shares in the company held during the financial year by any director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|-------------------------------------|--|----------|-----------|---------------------------------|--------------------------------------|
| <i>Options over ordinary shares</i> | | | | | |
| Tim O'Brien | 20,000,000 | - | - | - | 20,000,000 |
| | <u>20,000,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>20,000,000</u> |

The options granted to employees (non-director) as listed above vested upon on the date of grant. A term of the option specifies that if an employee ceases employment then the respective options will lapse 60 days after ceasing employment.

Performance rights holding

The number of performance rights over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Granted | Vested | Expired/ forfeited/ other | Balance at the end of the year |
|--|--|----------|----------|---------------------------------|--------------------------------------|
| <i>Performance rights over ordinary shares</i> | | | | | |
| William Stubbs | 3,756,945 | - | - | - | 3,756,945 |
| Christopher Tonkin | 3,881,945 | - | - | - | 3,881,945 |
| Ian Plimer | 2,256,945 | - | - | - | 2,256,945 |
| Kyle Wightman | 5,000,000 | - | - | - | 5,000,000 |
| | <u>14,895,835</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>14,895,835</u> |

Other transactions with key management personnel and their related parties

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. Armour Energy Ltd is party to an agreement with Lakes Oil NL as described in the tenement table detailed in the shareholder information section.

Mr Nicholas Mather's remuneration is settled via an entity that is controlled by Mr Mather called Samuel Capital Pty Ltd. Mr Roland Sleemans' remuneration is also settled via an entity controlled by Mr Sleeman ATF The Sleeman Trust.



This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Lakes Oil NL under option at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under option |
|----------------|----------------|----------------|---------------------|
| 8 January 2016 | 8 January 2021 | \$0.005 | 20,000,000 |

Options expired

The options listed above were issued to employees (non-director) in line with their respective remuneration packages as detailed in the options holding table set out on the proceeding page.

Shares issued on the exercise of options

There were no ordinary shares of Lakes Oil NL issued on the exercise of options during the year ended 30 June 2018 and up to the date of this report.

Shares under performance rights

Unissued ordinary shares of Lakes Oil NL under performance rights at the date of this report are as follows:

| Grant date | Expiry date | Hurdle price | Number under rights |
|---------------|-------------|--------------|---------------------|
| 24 March 2017 | 1 July 2022 | \$0.008 | 752,876,031 |

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the company or of any other body corporate.

The performance rights listed above were granted as free attaching rights in relation to the non-renounceable entitlement offer announced 14 February 2017.

Shares issued on the exercise of performance rights

There were no ordinary shares of Lakes Oil NL issued on the exercise of performance rights during the year ended 30 June 2018 and up to the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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



Proceedings on behalf of the company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 25 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 25 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

Pitcher Partners continues in office in accordance with section 327 of the Corporations Act 2001.

Rounding of amounts

Lakes Oil NL is a type of Company that is referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest dollar.

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

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Chris Tonkin'.

Chris Tonkin
Chairman

28 September 2018

**LAKES OIL NL
ACN 004 247 214
AND CONTROLLED ENTITIES
AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF LAKES OIL N.L**

In relation to the independent audit for the year ended 30 June 2018, 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 APES 110 Code of Ethics for Professional Accountants.

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



B POWERS
Partner

28 September 2018



PITCHER PARTNERS
Melbourne

Lakes Oil NL
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018



| | Note | Consolidated 2018 \$ | 2017 \$ |
|--|-------------|---|---------------------------|
| Revenue | | | |
| Interest income | 5 | 12,337 | 12,320 |
| Other income | 5 | 8,000 | 51,524 |
| Fair value gains on financial assets through profit or loss | | - | 41,375 |
| | | <u>20,337</u> | <u>105,219</u> |
| Expenses | | | |
| Employee benefits expense | | (165,496) | (577,133) |
| Share based payments | | (149,358) | (171,945) |
| Depreciation expenses | 6 | (20,803) | (26,812) |
| Loss on disposal of assets | | (19,385) | (231,002) |
| Impairment expense | 6 | (183,942) | (4,130,205) |
| Accounting and audit expenses | | (77,623) | (135,083) |
| Administrative expenses | 6 | (988,098) | (1,508,920) |
| Consulting expenses | | (221,855) | (377,141) |
| Finance costs | | (80,857) | (297,026) |
| Marketing and promotion expenses | | (21,900) | (27,607) |
| Rent and occupancy expenses | | <u>(131,150)</u> | <u>(228,644)</u> |
| Loss before income tax expense | | (2,040,130) | (7,606,299) |
| Income tax expense | 7 | <u>-</u> | <u>-</u> |
| Loss after income tax expense for the year attributable to the owners of Lakes Oil NL | | (2,040,130) | (7,606,299) |
| Other comprehensive income for the year, net of tax | | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year attributable to the owners of Lakes Oil NL | | <u>(2,040,130)</u> | <u>(7,606,299)</u> |
| | | Cents | Cents |
| Basic loss per share | 34 | (0.01) | (0.05) |
| Diluted loss per share | 34 | (0.01) | (0.05) |

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Lakes Oil NL
Statement of financial position
As at 30 June 2018



| | Note | Consolidated 2018 \$ | 2017 \$ |
|--|-------------|---|--------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 1,286,550 | 593,176 |
| Trade and other receivables | 9 | 215,335 | 141,472 |
| Held for sale asset | 10 | 320,000 | 406,080 |
| Other financial assets | 11 | - | 137,206 |
| Prepayments | | 46,239 | 27,490 |
| Total current assets | | <u>1,868,124</u> | <u>1,305,424</u> |
| Non-current assets | | | |
| Other receivables | 12 | 12,000 | 12,000 |
| Property plant and equipment | 13 | 988,362 | 1,329,165 |
| Exploration and evaluation | 14 | 11,195,486 | 11,163,871 |
| Total non-current assets | | <u>12,195,848</u> | <u>12,505,036</u> |
| Total assets | | <u>14,063,972</u> | <u>13,810,460</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 15 | 465,516 | 1,192,244 |
| Converting notes | 16 | - | 133,039 |
| Borrowings | 17 | - | 1,000,000 |
| Provisions | 18 | 93,730 | 101,058 |
| Total current liabilities | | <u>559,246</u> | <u>2,426,341</u> |
| Non-current liabilities | | | |
| Provisions | 19 | 300,000 | 307,458 |
| Total non-current liabilities | | <u>300,000</u> | <u>307,458</u> |
| Total liabilities | | <u>859,246</u> | <u>2,733,799</u> |
| Net assets | | <u>13,204,726</u> | <u>11,076,661</u> |
| Equity | | | |
| Share capital - ordinary shares and converting notes | 20 | 127,044,347 | 122,876,152 |
| Reserves | 21 | 19,800 | 25,740 |
| Accumulated losses | | (113,859,421) | (111,825,231) |
| Total equity | | <u>13,204,726</u> | <u>11,076,661</u> |

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

Lakes Oil NL
Statement of changes in equity
For the year ended 30 June 2018



| Consolidated | Contributed equity \$ | Share based payment reserve \$ | Accumulated losses \$ | Total equity \$ |
|--|--|---|--|----------------------------------|
| Balance at 1 July 2016 | 111,015,298 | 57,420 | (104,250,612) | 6,822,106 |
| Loss after income tax expense for the year | - | - | (7,606,299) | (7,606,299) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | (7,606,299) | (7,606,299) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 20) | 11,860,854 | - | - | 11,860,854 |
| Lapse of options | - | (31,680) | 31,680 | - |
| Balance at 30 June 2017 | <u>122,876,152</u> | <u>25,740</u> | <u>(111,825,231)</u> | <u>11,076,661</u> |
| Consolidated | Contributed equity \$ | Share based payment reserve \$ | Accumulated losses \$ | Total equity \$ |
| Balance at 1 July 2017 | 122,876,152 | 25,740 | (111,825,231) | 11,076,661 |
| Loss after income tax expense for the year | - | - | (2,040,130) | (2,040,130) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | (2,040,130) | (2,040,130) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 20) | 4,168,195 | - | - | 4,168,195 |
| Lapse of options | - | (5,940) | 5,940 | - |
| Balance at 30 June 2018 | <u>127,044,347</u> | <u>19,800</u> | <u>(113,859,421)</u> | <u>13,204,726</u> |

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

Lakes Oil NL
Statement of cash flows
For the year ended 30 June 2018



| | | Consolidated | |
|--|-------------|---------------------|----------------|
| | Note | 2018 | 2017 |
| | | \$ | \$ |
| Cash flows from operating activities | | | |
| Receipts | | 8,090 | 17,000 |
| Payments to suppliers and employees | | (2,209,739) | (2,374,354) |
| Payments for exploration and evaluation costs | | (215,557) | (266,200) |
| Interest received | | 12,246 | 4,843 |
| Finance costs | | (71,342) | (122,301) |
| Net cash used in operating activities | 33 | (2,476,302) | (2,741,012) |
| Cash flows from investing activities | | | |
| Proceeds from disposal of financial assets | | - | 758,542 |
| Proceeds from sale of land | | 386,695 | - |
| Payments for investment in NavGas Pty Ltd | | - | (400,000) |
| Proceeds from trustee investment | | - | 27,757 |
| Net cash from investing activities | | 386,695 | 386,299 |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 3,895,374 | 1,505,752 |
| Share issue transaction costs | | (112,393) | (224,692) |
| Proceeds from issue of converting notes | | - | 1,375,055 |
| Payment of note issue costs | | - | (190,468) |
| Converting note interest paid | | - | (279,576) |
| Repayment of borrowings | | (1,000,000) | - |
| Net cash from financing activities | | 2,782,981 | 2,186,071 |
| Net increase/(decrease) in cash and cash equivalents | | 693,374 | (168,642) |
| Cash and cash equivalents at the beginning of the financial year | | 593,176 | 761,818 |
| Cash and cash equivalents at the end of the financial year | 8 | <u>1,286,550</u> | <u>593,176</u> |

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



Note 1. General information

The financial statements cover Lakes Oil NL as a consolidated entity consisting of Lakes Oil NL and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Lakes Oil NL's functional and presentation currency.

Lakes Oil NL is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 14, 500 Collins St
Melbourne VIC 3000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 September 2018. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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).

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 2018 of \$2,040,130 (2017: \$7,606,299) and at reporting date has net assets of \$13,204,726 (2017: \$11,076,661) including \$11,195,486 (2017: \$11,163,871) of capitalised exploration, evaluation and development costs.

The Directors have concluded that the going concern basis is appropriate, based on analysis of the consolidated entity's existing cash reserves and internal cash flow forecasts which include their current estimate of expected future capital raisings and future financial commitments and other cash flows over the next 12 months.

Subsequent to year end the year consolidated entity sold a section of the land for a total of \$350,000 (before costs). These funds are intended to be used to ongoing working capital purposes.

The consolidated entity has prepared a detailed cash flow forecast which includes the assumption of capital raisings to the minimum amount of \$4 million which is anticipated to occur within three months. The detailed cash flow forecast takes into consideration the commitments of Rawson Oil & Gas Limited which the consolidated entity acquired a majority shareholding through an Off-Market Takeover Offer which occurred subsequent to year end.

If the actual outcomes differ significantly from the cash flow forecasts and the consolidated entity has additional cash requirements, the consolidated entity may need to take one or more of the following measures when necessary:

- Raise additional capital. The consolidated entity has demonstrated its ability to raise capital during the year and the Directors are confident that a future capital raising would be successful;
- Sale or mortgage of property;
- Continue to reduce corporate overhead costs;
- Continue to pursue opportunities to negotiate pre-paid gas supply contracts, however at the date of this report no agreements have been signed;
- Continue 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;



Note 2. Significant accounting policies (continued)

Subsequent to the end of the financial year the consolidated entity has progressed plans to raise required capital. On the basis of the disclosures above a material uncertainty exists for the consolidated entity to continue as a going concern.

On this basis no adjustments have been made to the financial report relating to the recoverability and classification of the carrying amount of the assets or the amount and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern. Accordingly, the financial report has been prepared on a going concern basis.

If the going concern basis of accounting is found to be no longer appropriate, the recoverable amounts of the assets shown on the consolidated statement of financial position sheet are likely to be significantly less than the amounts disclosed and the extent of the liabilities may differ significantly, from those reflected.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

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.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation to fair value of financial assets to fair value and liabilities at fair value through profit or loss and certain classes of property, plant and equipment.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 30.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Lakes Oil NL ('company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Lakes Oil NL and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.



Note 2. Significant accounting policies (continued)

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Lakes Oil NL's functional and presentation currency.

Foreign currency transactions

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

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

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.



Note 2. Significant accounting policies (continued)

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 component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

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. On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost.

The remainder of the proceeds are allocated to the conversion option/equity component that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. 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.

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/conversion option is not remeasured after initial recognition. The corresponding interest on convertible notes is expensed to profit or loss.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

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

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

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

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

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

Comparatives

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2018.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.



Note 2. Significant accounting policies (continued)

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity has assessed the impact of the standard and expects that there will not be a material impact on the carrying values of financial instruments.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 January 2018 but it is expected to have no material impact as there are no contracts with customers.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 January 2019 but no material impact is expected as the consolidated entity currently has no leases.



Note 3. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

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. Deferred tax assets arising from tax losses are not recognised at balance date as realisation of the benefit is not probable.

Employee benefits provision

As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Provision for restoration costs

A provision has been made for the present value of anticipated costs for future rehabilitation of land explored or mined. The consolidated entity's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The consolidated entity recognises management's best estimate for assets retirement obligations and site rehabilitations in the period in which they are incurred. Actual costs incurred in the future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.



Note 3. Critical accounting judgements, estimates and assumptions (continued)

Exploration costs

Exploration costs have been capitalised on the basis that the consolidated entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

Note 4. Operating segments

The consolidated entity has two reportable segments as described below:

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

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

During the prior year the consolidated entity sold all shares held in Vivid Technology Limited (VIV) and therefore as at 30 June 2018 the consolidated entities' interest in the renewable energy sector had ceased.

Operating segment information

| | Segment 1 | Segment 2 | Total |
|---------------------------------------|--------------------|-----------|--------------------|
| | \$ | \$ | \$ |
| Consolidated - 2018 | | | |
| Revenue | | | |
| <i>Unallocated revenue:</i> | | | |
| Interest income | | | 12,337 |
| Other income | | | 8,000 |
| Total revenue | | | <u>20,337</u> |
| Total operating result | (2,019,327) | - | (2,019,327) |
| Deprecation | (20,803) | - | (20,803) |
| Loss before income tax expense | <u>(2,040,130)</u> | - | <u>(2,040,130)</u> |
| Income tax expense | | | - |
| Loss after income tax expense | | | <u>(2,040,130)</u> |

| | Segment 1 | Segment 2 | Total |
|---------------------------------------|--------------------|------------------|--------------------|
| | \$ | \$ | \$ |
| Consolidated - 2017 | | | |
| Revenue | | | |
| Segment revenue | - | 41,375 | 41,375 |
| Total segment revenue | <u>-</u> | <u>41,375</u> | <u>41,375</u> |
| <i>Unallocated revenue:</i> | | | |
| Interest income | | | 12,320 |
| Other income | | | 51,524 |
| Total revenue | | | <u>105,219</u> |
| Total operating result | (7,373,352) | (206,135) | (7,579,487) |
| Deprecation | (26,812) | - | (26,812) |
| Loss before income tax expense | <u>(7,400,164)</u> | <u>(206,135)</u> | <u>(7,606,299)</u> |
| Income tax expense | | | - |
| Loss after income tax expense | | | <u>(7,606,299)</u> |



Note 4. Operating segments (continued)

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.

All assets and liabilities on the statement of financial position are based in Australia.

| | Consolidated | |
|------------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Revenue | | |
| Segment revenue | - | 41,375 |
| Interest revenue | 12,337 | 12,320 |
| Other income | 8,000 | 51,524 |
| | <hr/> | <hr/> |
| Total revenue | <u>20,337</u> | <u>105,219</u> |

Note 5. Revenue

| | Consolidated | |
|---|---------------------|---------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Revenue from continuing operations | | |
| Interest - Other persons/corporations | 12,337 | 12,320 |
| Other Income | 8,000 | 51,524 |
| | <hr/> | <hr/> |
| Total | <u>20,337</u> | <u>63,844</u> |

Accounting policy for revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

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



Note 6. Expenses

| | Consolidated | |
|--|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Loss before income tax includes the following specific expenses: | | |
| <i>Depreciation Expense</i> | | |
| Property, plant and equipment | 20,803 | 26,812 |
| <i>Impairment Expense</i> | | |
| Land | - | 77,409 |
| Exploration and evaluation | 183,942 | 4,052,796 |
| Total impairment | 183,942 | 4,130,205 |
| <i>Administrative Expense</i> | | |
| Travel and accommodation | 36,965 | 53,964 |
| Share registry costs and listing fees | 137,548 | 367,141 |
| Legal fees | 551,466 | 820,578 |
| Directors fees | 168,874 | 182,648 |
| Insurance premiums | 110,714 | 99,434 |
| Office expenses | 45,533 | 103,292 |
| Less portion attributed to exploration permits capitalised | (63,002) | (118,137) |
| Total administrative | 988,098 | 1,508,920 |

Specific items

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

Note 7. Income tax

| | Consolidated | |
|--|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i> | | |
| Loss before income tax expense | (2,040,130) | (7,606,299) |
| Tax at the statutory tax rate of 27.5% | (561,036) | (2,091,732) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-deductible expenses and timing differences | (17,596) | 30,724 |
| Impairment of exploration and evaluation assets | 50,584 | 1,114,520 |
| impairment of land | - | 21,287 |
| Benefit of tax losses not brought to account | (528,048) | (925,201) |
| | 528,048 | 925,201 |
| Income tax expense | - | - |



Note 7. Income tax (continued)

| | Consolidated | |
|---|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Tax losses not recognised</i> | | |
| Unused tax losses for which no deferred tax asset has been recognised | 82,154,931 | 79,803,271 |
| Potential tax benefit @ 27.5% | 22,592,606 | 21,945,900 |

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed or, failing that, the same business test is passed.

The taxation benefits of tax losses and temporary difference not brought to account will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by law; and
- (iii) no change in tax legislation adversely affects the consolidated entity in realising the benefits from deducting the losses.

Lakes Oil NL (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head 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.

Accounting policy for income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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



Note 8. Current assets - cash and cash equivalents

| | Consolidated | |
|-----------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Cash at bank | 1,216,050 | 482,676 |
| Cash on deposit | 70,500 | 110,500 |
| | <u>1,286,550</u> | <u>593,176</u> |

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 9. Current assets - trade and other receivables

| | Consolidated | |
|----------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Debtors | 209,348 | 123,338 |
| GST receivable | 5,987 | 18,134 |
| | <u>215,335</u> | <u>141,472</u> |

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

Details of the terms and conditions of related party receivables are set out in Note 29.

Impairment of receivables

The ageing of the receivables provided for above are as follows:

| | Consolidated | |
|-------------------------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Not past due (within 30 days) | 112,266 | 141,472 |
| Past due (outside 30 days) | 103,069 | - |
| | <u>215,335</u> | <u>141,472</u> |

The consolidated entity's management considers that all financial assets that are not impaired or past due are of good credit quality.

Accounting policy for trade and other receivables

Other receivables are recognised at amortised cost, less any provision for impairment.



Note 10. Current assets - held for sale asset

| | Consolidated | |
|----------------------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Held for sale asset - Land | <u>320,000</u> | <u>406,080</u> |

The held for sale asset noted above at 30 June 2018 related to a property that was sold subsequent to year end and had therefore been reclassified from a non-current asset to a current asset.

Accounting policy for held for sale assets

Assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised. Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

Note 11. Current assets - Other financial assets

| | Consolidated | |
|--------------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Cash held on trust | <u>-</u> | <u>137,206</u> |

The cash held on trust 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.

During the year the LKOGB Listed Unsecured Converting Notes matured and all required interest amounts were settled.

Note 12. Non-current assets - Other receivables

| | Consolidated | |
|------------------|---------------------|---------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Security deposit | <u>12,000</u> | <u>12,000</u> |

The security deposit listed above relates to deposits held by government departments in relation to security over mining tenements.



Note 13. Non-current assets - Property plant and equipment

| | Consolidated | |
|----------------------------------|-----------------------|-------------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Land and buildings - at cost | 1,591,477 | 1,911,477 |
| Less: Accumulated depreciation | (97,589) | (90,856) |
| Less: Accumulated Impairments | (548,410) | (548,410) |
| | <u>945,478</u> | <u>1,272,211</u> |
| Leasehold improvements - at cost | 258,275 | 258,275 |
| Less: Accumulated depreciation | (251,191) | (247,649) |
| | <u>7,084</u> | <u>10,626</u> |
| Plant and equipment - at cost | 203,764 | 203,764 |
| Less: Accumulated depreciation | (167,964) | (157,436) |
| | <u>35,800</u> | <u>46,328</u> |
| | <u><u>988,362</u></u> | <u><u>1,329,165</u></u> |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Land and buildings \$ | Leasehold improvements \$ | Plant and equipment \$ | Total \$ |
|----------------------------------|--------------------------------------|--|---------------------------------------|-----------------------|
| Balance at 1 July 2016 | 1,765,538 | 15,940 | 82,857 | 1,864,335 |
| Disposals | (2,600) | - | (22,269) | (24,869) |
| Impairment of assets | (77,409) | - | - | (77,409) |
| Transfers to held for sale asset | (406,080) | - | - | (406,080) |
| Depreciation expense | (7,238) | (5,314) | (14,260) | (26,812) |
| Balance at 30 June 2017 | 1,272,211 | 10,626 | 46,328 | 1,329,165 |
| Transfers to held for sale asset | (320,000) | - | - | (320,000) |
| Depreciation expense | (6,733) | (3,542) | (10,528) | (20,803) |
| Balance at 30 June 2018 | <u><u>945,478</u></u> | <u><u>7,084</u></u> | <u><u>35,800</u></u> | <u><u>988,362</u></u> |

Impairment Loss on Land and Buildings

The accumulated impairment losses on the freehold land and buildings are based on the independent valuations obtained from Lee Property Valuers and Advisors on 5 September 2017. 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 were included in Impairment of property, plant and equipment within the statement of comprehensive income, as there were no amounts 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.

Subsequent to year end the consolidated entity sold one of their properties to a third party and therefore this property was reclassified as a held for sale asset.

Valuations of freehold land and buildings

The carrying values of freehold land, and buildings on freehold land have been based upon cost less any accumulated impairment loss. The land and buildings have been valued in accordance with AASB 13.



Note 13. Non-current assets - Property plant and equipment (continued)

Accounting policy for property, plant and equipment

Land and buildings are carried at cost, less depreciation and impairment for buildings. Impairments and depreciation identified during the period are recognised in the statement of profit and loss and other comprehensive income.

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

Land is not depreciated. Depreciation on plant and equipment is calculated on a diminishing value basis to write off the net cost of each item over their expected useful lives. Depreciation on leasehold improvements is calculated on a straight line basis to write off the net cost of the items over the relevant lease term. The expected useful lives are as follows:

| | |
|-----------------------|----------------|
| Motor vehicles | 5 years |
| Technical equipment | 3-10 years |
| Computer equipment | 3 years |
| Plant and equipment | 7 years |
| Office Equipment | 8 years |
| Building | 40 years |
| Leasehold improvement | the lease term |

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

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Note 14. Non-current assets - exploration and evaluation

| | Consolidated | |
|--------------------------------|---------------------|-------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Exploration and evaluation | 62,938,989 | 62,723,432 |
| Less: Provision for impairment | (51,743,503) | (51,559,561) |
| | <u>11,195,486</u> | <u>11,163,871</u> |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | \$ |
|--------------------------------------|-------------------|
| Balance at 1 July 2016 | 5,172,635 |
| Additions through asset acquisitions | 9,820,836 |
| Expenditure during the year | 223,196 |
| Provision for impairment | (4,052,796) |
| Balance at 30 June 2017 | 11,163,871 |
| Expenditure during the year | 215,557 |
| Provision for impairment | (183,942) |
| Balance at 30 June 2018 | <u>11,195,486</u> |



Note 14. Non-current assets - exploration and evaluation (continued)

Significant judgment is required in determining whether it is likely that future economic benefits will be derived from the capitalised exploration and evaluation expenditure.

During the prior year the consolidated entity had an independent experts report completed by SRK Consulting. According to the published report each valuation of the consolidated entity's areas of interest in Victoria and Queensland significantly exceeded the carrying book value at 30 June 2018. Given the Victorian Government's recent decision to ban onshore petroleum activities there is an uncertainty around the probability that the consolidated entity will be able to continue exploration activities in each area of interest.

During the prior and current year the consolidated entity impaired all its expenditure that it had capitalised in relation to its Victorian exploration acreage in view of the Victorian Government's 30 August 2016 announcement that all unconventional onshore gas exploration is to be banned. The consolidated entity also booked an impairment expense of \$23,294 (2017: \$3,897,112) on its Eagle California asset following the independent valuation that was completed by SRK Consulting.

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.

Accounting policy for exploration and evaluation assets

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.

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.

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. Refer to note 19.

Note 15. Current liabilities - trade and other payables

| | Consolidated | |
|----------------------------|---------------------|------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Trade and accrued payables | 456,123 | 1,153,133 |
| Other payables | 9,393 | 39,111 |
| | <u>465,516</u> | <u>1,192,244</u> |

Refer to note 23 for further information on financial instruments.

Terms and conditions relating to the above financial instruments:



Note 15. Current liabilities - trade and other payables (continued)

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

Accounting policy for trade payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at their nominal amount. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 16. Current liabilities - converting notes

| | Consolidated | |
|------------------|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Converting notes | - | 133,039 |

Refer to note 23 for further information on financial instruments.

The listed unsecured converting notes issued by Lakes Oil NL during the prior financial 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.

The listed unsecured converting notes matured during the year and as such all interest payments were settled in full.

Note 17. Current liabilities - borrowings

| | Consolidated | |
|----------|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Mortgage | - | 1,000,000 |

On 5 April 2016 Lakes Oil NL fully owned subsidiary drew down a \$1,000,000 loan secured by a mortgage over land it owns. The loan was repayable 12 months from commencement date and Lakes Oil NL is guarantor for the loan. The repayment date of the loan was extended and subsequently the loan was repaid in January 2018.

Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Note 18. Current liabilities - provisions

| | Consolidated | |
|--------------------|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Annual leave | 31,829 | 41,629 |
| Long service leave | 61,901 | 59,429 |
| | 93,730 | 101,058 |



Note 18. Current liabilities - provisions (continued)

Accounting policy for employee benefits

Short-term employee benefits

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled wholly 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.

Termination benefits

When applicable, the consolidated entity recognises a liability and expense for termination benefits at the earlier of:

- (a) the date when the entity can no longer withdraw the offer for termination benefits; and
- (b) when the entity recognises costs for restructuring pursuant to AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the costs include termination benefits.

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.

Note 19. Non-current liabilities - provisions

| | Consolidated | |
|--------------------|---------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Long service leave | - | 7,458 |
| Restoration costs | 300,000 | 300,000 |
| | <u>300,000</u> | <u>307,458</u> |

Accounting policy for provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Accounting policy for other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled wholly within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.



Note 20. Equity - Share capital - ordinary shares and converting notes

| | 2018 | Consolidated | | 2017 |
|---------------------------------------|-----------------------|-----------------------|--------------------|--------------------|
| | No. | 2017 | 2018 | 2017 |
| | | No. | \$ | \$ |
| Ordinary shares - fully paid | 28,776,319,346 | 24,646,898,682 | 127,044,347 | 121,976,841 |
| Converting notes (LKOGB) - fully paid | - | 132,193 | - | 899,311 |
| | <u>28,776,319,346</u> | <u>24,647,030,875</u> | <u>127,044,347</u> | <u>122,876,152</u> |

The converting notes (LKOGBs) were issued under a "limited disclosure" section 713 prospectus under the Corporations Act 2001 (Cth) dated 27 June 2016. Interest is payable half yearly at the rate of 50 cents per note, with the last payment due on 31 May 2018 equating to 10% per annum interest rate.

The maturity date (when conversion into shares occurs) was 31 May 2018. These notes offer early conversion opportunities to noteholders. Notes would convert in the case of a change in control at 0.11 cents per share. The notes were not redeemable by Lakes Oil NL.

Each note converted into 9,091 shares. However if the 30 Day Average Closing Share Price prior to the maturity date was less than 0.11 cents, the number of shares received on conversion for each note would have been increased to a maximum of 10,000 shares on the basis of an uplift factor formula (having regard to the 30 day Average Closing Share Price with a minimum price of 0.10 cents) as set out in the prospectus. This uplift factor increase only applies on conversion at maturity date.

There was no additional payment required upon conversion.

During the year 132,193 (2017: 7,606) LKOGB notes were converted into 1,201,766,563 fully paid ordinary shares (2017: 69,146,146).

During the year interest of \$129,004 (2017: \$138,764) was paid from funds held by equity trustees on behalf of the company (refer to note 11 for further information) to holders of converting notes.

All LKOGB converting notes have matured during the year.



Note 20. Equity - Share capital - ordinary shares and converting notes (continued)

Movements in ordinary share capital

| Details | Date | Shares | | \$ |
|---|-------------------|-----------------------|----------|--------------------|
| Balance | 1 July 2016 | 11,865,239,705 | | 108,090,033 |
| Shares issued on conversion of notes (LKOGA's) | 7 October 2016 | 26,725,000 | - | 44,760 |
| Issue of shares to an employee of the company | 17 October 2016 | 30,000,000 | \$0.001 | 30,000 |
| Shares issued on conversion of notes (LKOGB's) | 6 December 2016 | 18,818,370 | - | 17,158 |
| Shares issued to DHR for NavGas Pty Ltd acquisition | 18 January 2017 | 9,600,000,000 | \$0.001 | 9,420,836 |
| Shares issued to Directors in lieu of fees | 20 January 2017 | 50,000,004 | \$0.001 | 50,000 |
| Issue of shares to an employee of the company | 20 January 2017 | 10,000,000 | \$0.001 | 10,000 |
| Shares issued to the CEO | 20 January 2017 | 18,055,556 | \$0.001 | 18,056 |
| Share issued on settlement of a liability | 20 January 2017 | 25,000,000 | \$0.001 | 25,000 |
| Shares issued to the CEO | 10 February 2017 | 9,027,778 | \$0.001 | 9,028 |
| Shares issued to Directors in lieu of fees | 10 February 2017 | 4,166,664 | \$0.002 | 8,333 |
| Shares issued to the CEO | 14 March 2017 | 9,027,778 | \$0.001 | 9,028 |
| Shares issued to Directors in lieu of fees | 14 March 2017 | 4,166,664 | \$0.002 | 8,333 |
| Completion of Rights issue | 24 March 2017 | 341,934,880 | \$0.002 | 683,870 |
| Shares issued on conversion of notes (LKOGA's) | 7 April 2017 | 2,149,856,250 | - | 2,880,505 |
| Shares issued to the CEO | 11 April 2017 | 9,027,778 | \$0.001 | 9,028 |
| Shares issued to Directors in lieu of fees | 11 April 2017 | 4,166,664 | \$0.002 | 8,333 |
| Shares issued to the CEO | 11 May 2017 | 9,027,776 | \$0.001 | 9,028 |
| Shares issued to Directors in lieu of fees | 11 May 2017 | 694,444 | \$0.002 | 1,389 |
| Completion of Rights issue and shortfall | 5 June 2017 | 410,941,151 | \$0.002 | 821,882 |
| Shares issued on conversion of notes (LKOGB's) | 7 June 2017 | 50,327,776 | - | 45,638 |
| Shares issued to Directors in lieu of fees | 13 June 2017 | 694,444 | \$0.002 | 1,389 |
| Capital raising costs and note issue costs adjustments on conversions | | - | - | (224,786) |
| Balance | 30 June 2017 | 24,646,898,682 | | 121,976,841 |
| Shares issued to Directors in lieu of fees | 10 July 2017 | 1,388,890 | \$0.001 | 1,389 |
| Shares issued to Directors in lieu of fees | 9 August 2017 | 1,388,890 | \$0.001 | 1,389 |
| Shares issued to Directors in lieu of fees | 13 September 2017 | 3,421,640 | \$0.001 | 3,422 |
| Shares issued to Directors in lieu of fees | 13 October 2017 | 5,998,340 | \$0.001 | 5,998 |
| Share placement | 13 October 2017 | 145,454,545 | \$0.0011 | 160,000 |
| Share placement | 16 October 2017 | 696,666,668 | \$0.0015 | 1,045,000 |
| Share placement | 18 October 2017 | 479,333,334 | \$0.0015 | 719,000 |
| Shares issued to Directors in lieu of fees | 13 November 2017 | 2,999,170 | \$0.002 | 5,998 |
| Shares issued on conversion of notes (LKOGB's) | 7 December 2017 | 57,982,398 | - | 52,579 |
| Shares issued to Directors in lieu of fees | 13 December 2017 | 144,891,900 | \$0.001 | 144,892 |
| Shares issued to Directors in lieu of fees | 13 December 2017 | 36,222,900 | \$0.002 | 72,443 |
| Share Purchase Plan | 15 December 2017 | 1,363,250,000 | \$0.0015 | 2,044,875 |
| Shares issued to Directors in lieu of fees | 12 January 2018 | 6,223,340 | \$0.002 | 12,447 |
| Shares issued to Directors in lieu of fees | 12 February 2018 | 12,446,680 | \$0.001 | 12,447 |
| Share placement | 12 February 2018 | 1,000,000 | \$0.0015 | 1,500 |
| Shares issued to Directors in lieu of fees | 14 March 2018 | 12,446,680 | \$0.001 | 12,447 |
| Shares issued to Directors in lieu of fees | 9 April 2018 | 6,223,340 | \$0.002 | 12,447 |
| Shares issued to Directors in lieu of fees | 14 May 2018 | 4,148,892 | \$0.003 | 12,447 |
| Shares issued on conversion of notes (LKOGB's) | 7 June 2018 | 1,143,784,165 | - | 1,037,200 |
| Shares issued to Directors in lieu of fees | 12 June 2018 | 4,148,892 | \$0.003 | 12,447 |
| Capital raising costs and note issue costs adjustments on conversions | | - | - | (302,861) |
| Balance | 30 June 2018 | <u>28,776,319,346</u> | | <u>127,044,347</u> |



Note 20. Equity - Share capital - ordinary shares and converting notes (continued)

Movements in converting notes on issue (LKOGB)

| Details | Date | Converting notes | \$ |
|--|-------------------|---------------------|-------------|
| Balance | 1 July 2016 | - | - |
| Issue of converting notes | 16 September 2016 | 44,299 | 368,208 |
| Issue of converting notes | 3 October 2016 | 58,000 | 481,343 |
| Issue of converting notes | 29 November 2016 | 37,500 | 309,245 |
| Shares issued on conversion of notes | 6 December 2016 | (2,070) | (17,158) |
| Shares issued on conversion of notes | 7 June 2017 | (5,536) | (51,859) |
| Capital raising costs | | - | (190,468) |
| Balance | 30 June 2017 | 132,193 | 899,311 |
| Shares issued on conversion of notes | 7 December 2017 | (6,378) | (52,579) |
| Shares issued on conversion of notes | 7 June 2018 | (125,815) | (1,037,200) |
| Note issue costs adjustments on conversion | | - | 190,468 |
| Balance | 30 June 2018 | - | - |

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment.

The consolidated entity is subject to certain financing arrangements and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2017 Annual Report.

Accounting policy for issued capital

Ordinary shares are classified as equity and paid up capital is recognised at the fair value of the consideration received by the consolidated entity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.



Note 21. Equity - reserves

| | Consolidated | |
|------------------------------|--------------|--------|
| | 2018 | 2017 |
| | \$ | \$ |
| Share-based payments reserve | 19,800 | 25,740 |

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | Share-based payments reserve \$ |
|-------------------------|------------------------------------|
| Balance at 1 July 2016 | 57,420 |
| Lapse of options | (31,680) |
| Balance at 30 June 2017 | 25,740 |
| Lapse of options | (5,940) |
| Balance at 30 June 2018 | 19,800 |

Note 22. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 23. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

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

The consolidated entity does not have any derivative instruments, except for the listed unsecured converting notes on issue. Refer to share capital note 20.

Market risk

Market or Price risk

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).

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.

Cash deposits attract interest at the prevailing floating interest rate. The interest rate risk on cash and cash equivalents does not have a material effect on the consolidated entity.



Note 23. Financial instruments (continued)

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.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. The consolidated entity continues monitor its cash reserves in relation to its contractual liabilities to determine that they have sufficient working capital to continue as a going concern. Refer to note 2 for going concern plans and uncertainties.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| | Weighted average interest rate % | Less than 6 months \$ | Between 6 and 12 months \$ | Between 1 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|------------------------------------|---|-----------------------------|-------------------------------------|--------------------------------|--------------------|--|
| Consolidated - 2018 | | | | | | |
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade and other payables | - | 465,516 | - | - | - | 465,516 |
| Total non-derivatives | | 465,516 | - | - | - | 465,516 |
| Consolidated - 2017 | | | | | | |
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade and other payables | - | 1,192,244 | - | - | - | 1,192,244 |
| <i>Interest-bearing - variable</i> | | | | | | |
| Borrowings | 12.00% | - | 1,000,000 | - | - | 1,000,000 |
| Convertible notes payable | 10.00% | - | 133,039 | - | - | 133,039 |
| Total non-derivatives | | 1,192,244 | 1,133,039 | - | - | 2,325,283 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.



Note 23. Financial instruments (continued)

Fair value of financial instruments

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the consolidated entity are as follows:

| Consolidated | 2018 | | 2017 | |
|--|-----------------------|------------------|-----------------------|------------------|
| | Carrying amount \$ | Fair value \$ | Carrying amount \$ | Fair value \$ |
| <i>Assets</i> | | | | |
| Cash and cash equivalents | 1,286,550 | 1,286,550 | 593,176 | 593,176 |
| Other receivables | 215,335 | 215,335 | 141,472 | 141,472 |
| Other financial assets (excluding security deposits) | - | - | 137,206 | 137,206 |
| Held for sale assets | 320,000 | 320,000 | 406,080 | 406,080 |
| | <u>1,821,885</u> | <u>1,821,885</u> | <u>1,277,934</u> | <u>1,277,934</u> |
| <i>Liabilities</i> | | | | |
| Trade and other payables | 465,516 | 465,516 | 1,192,244 | 1,192,244 |
| Borrowings | - | - | 1,000,000 | 1,000,000 |
| Converting notes | - | - | 133,039 | 133,039 |
| | <u>465,516</u> | <u>465,516</u> | <u>2,325,283</u> | <u>2,325,283</u> |

Note 24. Key management personnel disclosures

Compensation

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

| | Consolidated | |
|------------------------------|----------------|----------------|
| | 2018 \$ | 2017 \$ |
| Short-term employee benefits | 410,939 | 669,853 |
| Post-employment benefits | 35,331 | 61,994 |
| Long-term benefits | 2,472 | 7,801 |
| Termination benefits | - | 50,342 |
| Share-based payments | 149,358 | 171,945 |
| | <u>598,100</u> | <u>961,935</u> |

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. Armour Energy Ltd is party to an agreement with Lakes Oil NL as described in the tenement table detailed in the shareholder information section.

Mr Nicholas Mathers' remuneration is settled via an entity that is controlled by Mr Mathers called Samuel Capital Pty Ltd. Mr Roland Sleemans' remuneration is also settled via an entity controlled by Mr Sleeman ATF The Sleeman Trust.



Note 25. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Pitcher Partners, the auditor of the company:

| | Consolidated 2018 \$ | 2017 \$ |
|---|-------------------------------------|--------------------|
| <i>Audit services - Pitcher Partners</i> | | |
| Audit or review of the financial statements | 62,623 | 93,200 |
| <i>Other services - Pitcher Partners</i> | | |
| Taxation services | 7,500 | 15,555 |
| | <u>70,123</u> | <u>108,755</u> |

Note 26. Contingent assets

There were no contingent assets at 30 June 2018 and 30 June 2017.

Note 27. Contingent liabilities

During the year the consolidated entity was notified by AusIndustry that the Research and Development Tax Incentive claim from the 2014 financial year had been rejected. The consolidated entity then lodged an internal review appeal with Ausindustry. The internal appeal was upheld by Ausindustry and as a result the consolidated entity lodged an appeal with the Administrative Appeals Tribunal (AAT).

The consolidated entity is required to file and serve any evidence with the AAT on or before 30 November 2018 in relation to the proceedings. Ausindustry is then required to file and serve its statements of issues, facts and contentions and any further evidence on which it relies for the proceedings on or before 29 March 2019. The consolidated entity is required to file and serve any revised statement of issues, facts and contentions and any evidence in reply to Ausindustry's filings on or before 26 April 2019. After these events occur the AAT will set down a date for the hearing after which it will then hand down its findings in relation to the appeal.

The consolidated entity is unable quantify the contingent liability as a result of the uncertainty surrounding the details of the claim.

There were no other contingent liabilities at 30 June 2018 and 30 June 2017.

Note 28. Commitments

| | Consolidated 2018 \$ | 2017 \$ |
|---|-------------------------------------|--------------------|
| <i>Lease commitments - operating</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 60,534 | 179,555 |
| One to five years | - | 60,534 |
| | <u>60,534</u> | <u>240,089</u> |
| <i>Bank guarantees in relation to rental premises and exploration permits</i> | | |
| Maximum amount bank may call | <u>70,500</u> | <u>110,500</u> |



Note 28. Commitments (continued)

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 six years. Each work program has minimum expenditure and exploration activity requirements which must be satisfied to retain the permit.

The current financial commitment as at 30 June 2018 on the work programs across all tenements for the next 24 months is \$15.7m (30 June 2017: \$16.5m). Approximately \$15.2m of this commitment relates to our three Queensland licences. Following applications by the entity for a 2 year extension to extend the permit to 6 years from the original 4 years the work programs for each of these three licenses have recently been extended out to 30 June 2020. Following the subsequent event relating to the Off-Market Takeover Offer of Rawson Oil & Gas Limited the consolidated entity has reviewed the exploration commitments and has a net exposure of \$3.0m.

The balance of the current financial commitment relates to annual rentals and applications for suspensions and extensions in relation to the entity's Victorian tenements, on the basis that the Victorian Government has not approved any exploration activities under our work programs since the imposition of its administrative moratorium in 2013. If Lakes' legal challenge to the legislative moratorium is successful, and Lakes is allowed to carry out its work program commitments, then our financial commitment across the Victorian permits will increase to \$115m.

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).

Note 29. Related party transactions

Ultimate parent

Lakes Oil NL is the ultimate Australian parent entity.

Interests in subsidiaries are set out in note 31.

Director-related entity

Disclosures relating to key management personnel are set out in note 24 and the remuneration report included in the directors' report.

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. Armour Energy Ltd is party to an agreement with Lakes Oil NL as described in the tenement table detailed in the shareholder information section.

Receivable from and payable to related parties

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

| | Consolidated | |
|---|---------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Current receivables: | | |
| Trade receivables from director related entity Amour Energy Ltd | - | 49,668 |

As noted above two of the Directors of Lakes Oil NL Nicholas Mather and William Stubbs, are Directors of Armour Energy Ltd and as at 30 June 2018 an amount of nil (2017: \$49,668) was receivable from Armour Energy Ltd.



Note 29. Related party transactions (continued)

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 30. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | Parent | |
|----------------------------|-------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Loss after income tax | (1,769,174) | (7,751,898) |
| Total comprehensive income | (1,769,174) | (7,751,898) |

Statement of financial position

| | Parent | |
|--|---------------|---------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Total current assets | 1,477,576 | 788,846 |
| Total assets | 8,133,504 | 6,609,035 |
| Total current liabilities | 559,246 | 1,426,341 |
| Total liabilities | 559,246 | 1,433,799 |
| Equity | | |
| Share capital - ordinary shares and converting notes | 127,044,059 | 122,875,864 |
| Share-based payments reserve | 19,800 | 25,740 |
| Accumulated losses | (119,489,601) | (117,726,368) |
| Total equity | 7,574,258 | 5,175,236 |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

With the exception of the matter referred to below, the parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2017 and 30 June 2018.

On 5 April 2016 Lakes Oil NL fully owned subsidiary drew down a \$1,000,000 loan secured by a mortgage over land it owns. Lakes Oil NL was guarantor for the loan. The loan was repaid during January 2018.

Contingent liabilities

Refer to note 27 as the consolidated entity's contingent liability relates directly to the parent entity.

The parent entity had no contingent liabilities as at 30 June 2017.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2018.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.



Note 31. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|---------------------------------------|---|---------------------------|-------------------|
| | | 2018 % | 2017 % |
| Commonwealth Mining Pty Ltd | Australia | 100.00% | 100.00% |
| EOIL Pty Ltd | Australia | 100.00% | 100.00% |
| Gippsland Petroleum Pty Ltd | Australia | 100.00% | 100.00% |
| Mirboo Ridge Pty Ltd | Australia | 100.00% | 100.00% |
| Otway Resources Pty Ltd | Australia | 100.00% | 100.00% |
| Owens Lane Pty Ltd | Australia | 100.00% | 100.00% |
| Petro Tech Pty Ltd | Australia | 100.00% | 100.00% |
| Geothermal Energy Victoria Pty Ltd | Australia | 100.00% | 100.00% |
| Portland Energy Project Pty Ltd | Australia | 100.00% | 100.00% |
| The Gippsland Gas Corporation Pty Ltd | Australia | 100.00% | 100.00% |
| Three Corners Oil & Gas Pty Ltd | Australia | 100.00% | 100.00% |
| Lakes Oil Inc. | USA | 100.00% | 100.00% |
| NavGas Pty Ltd | Australia | 100.00% | 100.00% |
| Mingoola Gold Pty Ltd | Australia | 100.00% | 100.00% |

Note 32. Events after the reporting period

On 31 July 2018, the consolidated entity announced that it would make an Off-Market Takeover Bid for Rawson Oil & Gas Limited (ASX: RAW). The takeover offer to RAW shareholders consisted of the consolidated entity issuing 15 shares for every RAW share on issue up to a maximum of 1,890,813,330 fully paid ordinary shares. The offer was due to close on 10 September 2018.

On 15 August 2018, the consolidated entity announced the Off-Market Takeover Offer for RAW was unconditional with acceptances exceeding 50.1%.

On 7 September 2018, the consolidated entity announced the first supplementary bidders statement which noted that the offer would be extended until 24 September 2018.

On 14 September 2018, the consolidated entity issued a total of 1,365,579,780 fully paid ordinary shares as part of the consideration of ordinary shares in RAW under its Off-Market Takeover Bid for an interest of 80.74% of the ordinary shares in RAW, on the terms set out in its bidder's statement dated 8 August 2018 (offer).

On 21 September 2018, the consolidated entity announced that the Victorian Supreme Court had rejected the consolidated entity's claims that the Victorian Government's state-wide moratorium on on-shore gas exploration was unlawful or ineffective.

During September 2018, the consolidated entity sold a section of the land for a total of \$350,000 (before costs). These funds are intended to be used to ongoing working capital purposes.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.



Note 33. Reconciliation of loss after income tax to net cash used in operating activities

| | Consolidated | |
|---|---------------------|--------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Loss after income tax expense for the year | (2,040,130) | (7,606,299) |
| Adjustments for: | | |
| Depreciation and amortisation | 20,803 | 26,812 |
| Write off of non-current assets | 183,942 | 4,130,205 |
| Net loss on disposal of non-current assets | 19,385 | 231,002 |
| Net fair value gain on other financial assets | - | (41,375) |
| Share-based payments | 149,358 | 171,945 |
| Non-cash interest | (5,107) | 7,477 |
| Capital raising fee | - | (22,623) |
| Change in operating assets and liabilities: | | |
| Decrease in receivables | (73,863) | (55,224) |
| Decrease in other current assets | (18,749) | 11,191 |
| Increase/(decrease) in trade and other payables | (726,727) | 518,383 |
| Increase/(decrease) in employee benefits | 14,786 | (112,506) |
| Net cash used in operating activities | <u>(2,476,302)</u> | <u>(2,741,012)</u> |

Note 34. Loss per share

| | Consolidated | |
|---|-----------------------|-----------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Loss after income tax attributable to the owners of Lakes Oil NL | <u>(2,040,130)</u> | <u>(7,606,299)</u> |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | <u>26,540,191,167</u> | <u>16,880,066,236</u> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>26,540,191,167</u> | <u>16,880,066,236</u> |
| | Cents | Cents |
| Basic loss per share | (0.01) | (0.05) |
| Diluted loss per share | (0.01) | (0.05) |

During the year the consolidated entity made a loss from continuing operations and therefore the options over ordinary shares on issue are non-dilutive.

Accounting policy for earnings per share

Basic earnings loss share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Lakes Oil NL, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings loss share

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



Note 35. Share-based payments

Set out below are summaries of options granted under the plan:

2018

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired Forfeited Other | Balance at the end of the year |
|---------------------------------|-------------|----------------|----------------------------------|---------|-----------|-------------------------|--------------------------------|
| 08/01/2016 | 08/01/2021 | \$0.0050 | 26,000,000 | - | - | (6,000,000) | 20,000,000 |
| | | | 26,000,000 | - | - | (6,000,000) | 20,000,000 |
| Weighted average exercise price | | | \$0.005 | \$0.00 | \$0.00 | \$0.005 | \$0.005 |

* Employee options lapsed due to cessation of employment with the company as set out within the employee offer letter.

2017

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired forfeited other | Balance at the end of the year |
|---------------------------------|-------------|----------------|----------------------------------|---------|-----------|-------------------------|--------------------------------|
| 08/01/2016 | 08/01/2021 | \$0.0050 | 58,000,000 | - | - | (32,000,000) | 26,000,000 |
| | | | 58,000,000 | - | - | (32,000,000) | 26,000,000 |
| Weighted average exercise price | | | \$0.005 | \$0.00 | \$0.00 | \$0.005 | \$0.005 |

* Employee options lapsed due to cessation of employment with the company as set out within the employee offer letter.

The options issued during prior financial years have been valued using the Black Scholes method.

Set out below are the options exercisable at the end of the financial year:

| Grant date | Expiry date | 2018 Number | 2017 Number |
|------------|-------------|-------------------|-------------------|
| 08/01/2016 | 08/01/2021 | 20,000,000 | 26,000,000 |
| | | <u>20,000,000</u> | <u>26,000,000</u> |

The weighted average share price during the financial year was \$0.002 (2017: \$0.001).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.5 years (2017:3.5 years).

The options listed above were granted to employees of the company (non-director) pursuant to their respective remuneration packages. The options were issued as incentive based remuneration to align employee and company strategy's. The options vested upon issue with an expiry date of 8 January 2016 or 60 days after cessation of employment. The expected volatility has been calculated using the trading history of the consolidated entity over the previous 5 years prior to issue which is consistent with the life of the option.

A total of 241,949,554 fully paid ordinary share were issued to directors in lieu of directors fees as approved at the company's Annual General Meeting held on 16 January 2017 and 13 November 2017.

Accounting policy for share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.



Note 35. Share-based payments (continued)

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.



In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Chris Tonkin', written over a horizontal line.

Chris Tonkin
Chairman

28 September 2018

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
LAKES OIL NL AND CONTROLLED ENTITIES

Report on the Audit of the Financial Report

Disclaimer of Opinion

We were engaged to audit the financial report of Lakes Oil NL "the Company" and its controlled entities "the consolidated entity", which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

We do not express an opinion on the accompanying financial report of the consolidated entity. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report.

Basis for Disclaimer of Opinion

The consolidated entity's ability to continue as a going concern is dependent on obtaining additional funding. As at the date of this report the consolidated entity has been unable to secure unconditional commitments to provide sufficient funding to ensure the consolidated entity is a going concern. As described in Note 2 Going Concern, the Directors believe that the consolidated entity will secure sufficient funding, however, at the date of this auditor's report the consolidated entity and its Directors have been unable to provide sufficient evidence of unconditional committed funding for the cash requirements of the consolidated entity for the twelve months from the date of this auditor's report. We have been unable to obtain alternative evidence which would provide sufficient appropriate audit evidence as to whether the consolidated entity may be able to obtain such financing or be successful with alternative measures, and hence remove significant doubt of its ability to continue as a going concern within twelve months of the date of this auditor's report.

Responsibilities of Management and Those Charged with Governance 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 preparing the financial report, the directors are responsible for assessing the ability of the consolidated entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the consolidated entity or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
LAKES OIL NL AND CONTROLLED ENTITIES

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to conduct an audit of the consolidated entity's financial report in accordance with Australian Auditing Standards and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report

We are independent of the consolidated entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Report on Other Legal and Regulatory Requirements

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 24 to 28 of the directors' report for the year ended 30 June 2018. In our opinion, the Remuneration Report of Lakes Oil NL and controlled entities, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.



B POWERS
Partner



PITCHER PARTNERS
Melbourne

28 September 2018



The shareholder information set out below was applicable as at 18 September 2018.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| | Number of holders over ordinary shares | Number of holders of options over ordinary shares | Number of holders of rights over ordinary shares |
|---------------------------------------|--|--|---|
| 1 to 1,000 | 355 | - | - |
| 1,001 to 5,000 | 226 | - | 2 |
| 5,001 to 10,000 | 411 | - | 2 |
| 10,001 to 100,000 | 3,651 | - | 159 |
| 100,001 and over | 7,307 | 1 | 522 |
| | <u>11,950</u> | <u>1</u> | <u>685</u> |
| Holding less than a marketable parcel | <u>6,388</u> | <u>-</u> | <u>-</u> |

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

| | Ordinary shares Number held | % of total shares issued |
|--|--------------------------------|--------------------------------|
| Dark Horse Resources Limited | 9,642,047,344 | 31.99 |
| Timeview Enterprises Pty Ltd | 3,389,375,000 | 11.24 |
| Armour Energy Ltd | 2,125,000,000 | 7.05 |
| DGR Global Limited | 408,065,120 | 1.35 |
| DGR Global Limited | 334,094,250 | 1.11 |
| Mr James Sinton Spence | 227,656,080 | 0.76 |
| HSBC Custody Nominees (Australia) Limited | 224,260,673 | 0.74 |
| Mrs Lynley Hardie | 208,521,000 | 0.69 |
| Mr Peter Ashley Bubendorfer (Pajbubendorfer Family A/C) | 199,081,164 | 0.66 |
| Hardie Garnet Pty Ltd (Hardie Family No 2 A/C) | 186,449,550 | 0.62 |
| Pacific Atlantic Commerce Pty Ltd (Highfield Super Fund A/C) | 150,000,000 | 0.50 |
| Citicorp Nominees Pty Limited | 146,505,053 | 0.49 |
| Mr Duncan John Hardie | 129,146,070 | 0.43 |
| Marew Enterprises Pty Ltd (Parr Family A/C) | 120,000,000 | 0.40 |
| Mr Robert Mcdowell | 83,353,126 | 0.28 |
| J P Morgan Nominees Australia Limited | 78,014,362 | 0.26 |
| Samuel Capital Pty Ltd | 69,907,453 | 0.23 |
| JBWERE (NZ) Nominees Limited (43941 A/C) | 67,735,901 | 0.22 |
| Mr Kyle Wightman | 66,711,637 | 0.22 |
| Skeew Pty Ltd | 66,666,667 | 0.22 |
| | <u>17,922,590,450</u> | <u>59.46</u> |



Unquoted equity securities

| | Number on issue | Number of holders |
|--|----------------------------|------------------------------|
| Options over ordinary shares issued | 20,000,000 | 1 |
| Performance rights over ordinary shares issued | 752,876,031 | 685 |

Substantial holders

Substantial holders in the company are set out below:

| | Ordinary shares % of total shares issued |
|------------------------------|---|
| Number held | |
| Dark Horse Resources Limited | 9,642,047,344 31.99 |
| Timeview Enterprises Pty Ltd | 3,389,375,000 11.24 |
| Armour Energy Ltd | 2,125,000,000 7.05 |

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Tenements

| Location (basin name) | Joint operation or Permit name | Interest owned % |
|------------------------------|---------------------------------------|-----------------------------|
| Otway | PEP 163 | 100.00 |
| Otway | PEP167 | 100.00 |
| Otway | PEP 169 | 49.00 |
| Otway | PEP175 | 100.00 |
| Gippsland | PRL 2–Overall Permit | 100.00 |
| Gippsland | PRL 2–Trifon Field | 57.50 |
| Gippsland | PRL 3 | 100.00 |
| Gippsland | PEP 166 | 75.00 |
| Gippsland | VIC/P43(V) | 100.00 |
| Gippsland | VIC/P44(V) | 100.00 |
| Eromanga/Cooper E | ATP642P | 100.00 |
| Eromanga/Cooper E | ATP662P | 100.00 |
| California USA | Eagle Prospect | 17.96 |
| Surat/Bowen | ATP 1183 | 100.00 |
| Pirie Torrens, SA | EL 5694 | 100.00 |