



LAKES OIL N.L.

ABN 62 004 247 214

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South Melbourne VIC 3205
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23 October 2019

Mr Todd Lewis
ASX Compliance Pty Limited
Level 4, North Tower
Rialto Towers
525 Collins Street
Melbourne VIC 3000

(By email: Todd.Lewis@asx.com.au)

RESPONSE TO FINANCIAL CONDITION QUERY

In reference to your letter dated 7 October 2019 relating to the Annual Report of Lakes Oil NL (ASX: LKO, 'The Company') lodged with the ASX on 7 October 2019, the responses to your queries in number order are as follows:

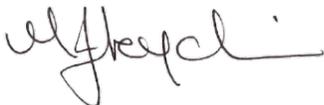
1. Directors' Opinion Financial Report
 - a. Yes
 - b. Yes
2. The Company intends to provide additional information to satisfy the Auditors in order to minimise the risk of the *disclaimer of opinion* within the audit report in future reporting periods. The Company has prepared budgeted cashflow forecasts demonstrating sufficient cash reserves for a 12 month period from the date of signing. While the Company's forecasts included information and assumptions around funding, the auditors were of the opinion that this was not sufficient appropriate audit evidence.
3. The going concern note prepared by the Directors was constructed in conjunction with the Company's cashflow forecast and related assumptions. The Company has raised \$2.27m during the financial year ended 2019 and therefore the Directors are confident that the Company can secure funding as outlined within the going concern note within Company's Annual Report (also noted below) by one or more of the following:
 - a. Raising additional capital over and above the proposed two million dollar capital raising and other funding arrangements being considered. 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;
 - b. Directors and Key Management Personnel providing a funding facility to meet the Company's working capital needs;
 - c. Sale or mortgage of the Company's remaining property not required for ongoing activities (refer to Note 10 for land sold subsequent to year end amounting to \$375,000);
 - d. Continuing to reduce corporate overhead costs if and when required which could involve reduction in employment costs;

- e. Continuing to pursue opportunities to negotiate pre-paid gas supply contracts (at the date of this report no agreement has been signed); and
 - f. Continuing to pursue opportunities to farm-out part of the consolidated entity's exploration interests (at the date of this report no agreements have been signed).
4. Yes. As noted in question 3 above, the Company has funding options to continue quotation of its securities under listing rule 12.2. The Company's prospects to raise further funds and to develop and realise value for its shareholders are greater than they have been for some years as evidenced with the below:
 - a. Drilling the PEL 155 Nangwarry-1 well in the Otway Basin in SA which is expected to commence in December 2019;
 - b. The farm out of the Company's PPL560 PNG tenement following reinstatement of the Company's interest in the license as announced on 4 September 2019; and
 - c. The expiry on 30 June 2020 of the onshore Victorian moratorium which impacts the Company's highly prospective Victorian tenements.
5. Yes. As noted in questions 3 and 4 above, the Company has funding options to address its net current liability position of \$547,120 which represents a small portion of its total assets (\$16,286,135 at 30 June 2019) and to continue quotation of its securities under listing rule 12.2. The Company is satisfied that it has sufficient measures in place to manage its funding obligations.
6. N/A
7. Yes. The Company advises that both the CEO and CFO signed the declarations in conjunction with the Company's Chairman.
8. N/A
9. The Board requested and received regular updates regarding the Company's financial records and discussed them with management to ensure it could make informed decisions about the Company's current and future financial position. The Company's CFO oversees the financial functions in conjunction with the Audit and Risk Committee to ensure it has appropriate levels of internal controls and segregation of duties.
10. Yes. The Board, in conjunction with its Audit and Risk Committee, assesses risks on an ongoing basis. The Board meets at regular Board meetings and assesses key risks of the Company which include the financial position and going concern which is the basis for the disclaimer of opinion contained in the Auditors Report.
11. Yes, confirmed.
12. Yes. The responses have been reviewed and approved by the Board.

Please do not hesitate to contact me if you would like to discuss any of the above matters.

Yours sincerely,

LAKES OIL NL



Melanie Leydin
Company Secretary



7 October 2019

Mr Matthew Watkins
Assistant Company Secretary
Lakes Oil N.L
Level 4
100 Albert Road
Melbourne Australia 3205

By email: mwatkins@leydinfreyer.com.au

Dear Mr Watkins

Lakes Oil N.L ('LKO'): Financial Condition Query

ASX refers to:

1. LKO's 2019 Annual Financial Report lodged with the ASX on 7 October 2019 ("Financial Report") which included an Independent Audit Report from Pitcher Partners on pages 64 to 66 ("Auditor's Report").
2. The Disclaimer of Opinion in the Auditor's Report (page 25) which reads as follows ("Disclaimer"):

"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 2019, 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

As described in Note 2 Going Concern the consolidated entity reported an operating loss of \$3,349,348 (2018: \$2,040,130) and has net current liabilities of \$547,120 (2018: \$1,308,878 net current assets). The consolidated entity's ability to continue as a going concern is dependent on a number of factors including but not limited to obtaining additional funding and the continued forbearance of major creditors including but not limited to the Australian Taxation Office (ATO) in relation to the Innovation Science Australia R&D tax liability of \$1,280,318.

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 and continue to have the support of its creditors, 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 or of an unconditional right to defer payment to the ATO.

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 including securing an unconditional right to defer payment to the ATO, 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."

3. LKO's Corporate Governance Statement for 2019 lodged on the ASX Market Announcements Platform on 7 October 2019 which, on page 6 provides confirmation that LKO complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

"The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively."

4. LKO's Appendix 4C – Quarterly Cash Flow Report for the period ended 30 June 2019 lodged 31 July 2019, which disclosed the following:

- 4.1 LKO had operating cash flows of (\$856,000);
4.2 LKO had cash at the end of the quarter of \$2,877,000; and
4.3 LKO had anticipated cash outflows for the following quarter of \$3,000,000

5. ASX Listing Rules 12.1, 12.2 and 19.11A:

Financial condition

Listing Rule 12.1 *The level of any entity's operations must, in ASX's opinion, be sufficient to warrant the continued operation of the entity's securities and its continued listing.*

Listing Rule 12.2 *An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.*

Listing Rule 19.11A *If a listing rule requires an entity to give ASX accounts, the following rules apply*

...

(b) The accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.

Request for Information

In light of the Auditor's Report, the Disclaimer, the information contained in the Financial Report, Corporate Governance Disclosure, the Appendix 4C Disclosure and the application of the listing rules stated above, please respond to each of the following questions:

1. Is LKO able to confirm that in the Directors' Opinion, the Financial Report:
- (a) complies with the relevant Accounting Standards; and
 - (b) gives a true and fair view of LKO's financial performance and position?
2. Given the Disclaimer relates to the Auditor's inability to determine whether the going concern basis of preparation is appropriate, what steps does LKO intend to take to obtain unqualified audit/review report for future financial periods?

In your response, please explain why the Auditor has been unable to obtain sufficient information to determine whether the going concern basis of preparation is appropriate?

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3. Given the Disclaimer relates to the Auditor's inability to determine whether the going concern basis of preparation is appropriate, please explain how the Directors satisfied themselves that the going concern basis of preparation is appropriate and LKO's financial report adheres to the current Australian Accounting Standards?

In answering this question, reference should be made to the underlying assumptions used by the Directors in coming to this conclusion.

4. Does LKO consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion.
5. Does LKO consider that the financial condition is sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2, commenting specifically on LKO's net current liability position of \$547,120? In answering this question, please explain the basis for this conclusion
6. If the answer to questions 4 or 5 is "No", please explain what steps LKO has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.
7. In relation to the Financial Report, did the Board receive the CFO and CEO declaration, as described in section 4.2 of LKO's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of LKO have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of LKO and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?
8. If the answer to Question 7 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of LKO's Corporate Governance Disclosure?
9. What enquiries did the Board make of management to satisfy itself that the financial records of LKO have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of LKO?
10. Commenting specifically on the disclaimer of opinion, does the board consider that LKO has a sound system of risk management and internal control which is operating effectively?
11. Please confirm that LKO is complying with the Listing Rules and, in particular, Listing Rule 3.1 and 12.2.
12. Please confirm that LKO's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of LKO with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and LKO's response to the market. Accordingly, LKO's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by no later than **9:30 am AEDT Friday, 11 October 2019**.

Any response should be sent to me by return email at ListingsComplianceMelbourne@asx.com.au. It should not be sent to the ASX Market Announcements Office.

Enquiries

If you have any queries regarding any of the above, please contact me.

Yours sincerely

Todd Lewis
Adviser, Listings Compliance (Melbourne)