



LAKES OIL NL

ABN 62 004 247 214

10% INTEREST PER ANNUM LISTED UNSECURED CONVERTING NOTES RIGHTS ISSUE PROSPECTUS

For a non-renounceable rights issue of listed unsecured converting notes (Notes) at an issue price of **\$10** each on the basis of 1 Note for every 20,000 Entitlement Securities held. Fractional entitlements will be rounded up to the nearest Note. Entitlement Securities comprise existing issued shares, together with the existing LKOGA Converting Notes multiplied by a share conversion factor of 6,667.

The Maturity Date of the Notes is 31 May 2018, with an ability to convert earlier at any of the prior Interest Payment Dates (30 November 2016, 31 May 2017 and 30 November 2017). Holders of Entitlement Securities may apply for Notes in excess of their entitlement. A maximum of \$7,100,000 can be raised under the issue.

Each Note converts into 9,091 Shares. However, if the 30 Day Average Closing Share Price prior to the Maturity Date is less than 0.11 cents, the number of Shares received on conversion for each Note will be 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 this Prospectus. This Uplift Factor increase only applies if conversion occurs on the Maturity Date.

The closing date for acceptance of this offer is
5 August 2016.

Lakes Oil reserves the right to issue any shortfall within
a 3 month period after the closing date.

This is an important document. Please read it carefully.
If you do not understand the contents of this prospectus
you should consult your stockbroker, accountant,
solicitor or other professional adviser.

THIS IS A SPECULATIVE ISSUE

CORPORATE DIRECTORY

Directors

Chris Tonkin BSc (Hons.), BA, MBA, GAICD, CFTP (Snr) (Non Executive Chairman)
Barney I Berold BCom, MBA (Non Executive)
Nicholas Mather BSc (Hons. Geology) MAusIMM (Non Executive)
Ian R Plimer BSc (Hons), PhD, FTSE, FGS, FAusIMM (Non Executive)
William R Stubbs LLB (Non Executive)
Kyle Wightman BCom, MBA, FAICD, CFTP(Snr) (Non Executive)

Chief Executive Officer

Roland Sleeman BEng (Mech), MBA

Registered Office

Level 14, 500 Collins Street
Melbourne Victoria 3000

Telephone: (03) 9629 1566
Facsimile: (03) 9629 1624

Internet Addresses

E-mail: lakes@lakesoil.com.au
Web site: www.lakesoil.com.au

Note and Share Registry

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067
Telephone: 1300 850 505 (within Australia)
+61 3 9415 4000 (outside Australia)

Trustee

Equity Trustees Limited
Level 2, 575 Bourke Street
Melbourne Victoria 3000

ASX codes

LKO - Shares (current)
LKOGA - Existing listed notes
LKOGB - Notes the subject of this issue

TIMETABLE

Prospectus Date	Thursday 30 June 2016
Closing Date	Friday 5 August 2016
Notes Issue (with despatch of Note confirmation to follow)	Friday 12 August 2016
Commencement of normal trading of Notes on ASX	Monday 15 August 2016

Please note that this timetable is indicative only and is subject to change.

OFFER SUMMARY

This prospectus will enable holders of Entitlement Securities to make an investment in listed unsecured converting notes in Lakes Oil (Notes) by way of a non-renounceable rights issue together with an opportunity to apply for any shortfall which may occur. The price of the offer is \$10 per Note.

The offer structure is based on a similar structure adopted in 2015 and 2012 for similar issues of listed unsecured converting notes and which raised \$4.2 million and \$8.6 million respectively. **It should be noted that the commercial terms of the previous raisings were different as their conversion rate into Shares was at a rate of between 5,000 to 1 and 6,667 to 1, whereas the conversion rate under this offer is at a more generous rate of between 9,091 to 1 and 10,000 to 1 basis depending on the prevailing Lakes Oil Share price on the Maturity Date.**

Summary of Principal Terms

Interest is payable half yearly at the rate of 50 cents per Note immediately following each Interest Payment Date (30 November 2016, 31 May 2017, 30 November 2017 and 31 May 2018), equating to a 10% per annum interest rate (or slightly more with respect to the first interest payment period).

All interest payable is to be maintained in an account controlled by the Paying Trustee on trust for holders of Notes and for their benefit for the purposes of providing for payment of all future interest payments.

The Maturity Date (when conversion into Shares occurs) is 31 May 2018. However, each holder can elect to convert Notes earlier at any of the prior Interest Payment Dates. Notes will also convert early in the case of a change in control at 0.11 cents per Share. The Notes are not redeemable by Lakes Oil. The subscription price of \$10 per Note is only payable once and no further payment is required on conversion of the Notes.

Each Note converts into 9,091 Shares. However, if the 30 Day Average Closing Share Price prior to the Maturity Date is less than 0.11 cents, the number of Shares received on conversion for each Note will be 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 this Prospectus. This Uplift Factor increase only applies if conversion occurs on the Maturity Date.

Entitlement

◆ Entitlement Securities

Shareholders are entitled to 1 Note for every 20,000 fully paid ordinary shares held on the register as at 7 PM on the record date of 14 July 2016 at **\$10** each. Holders of existing LKOGA listed notes are also entitled to subscribe for Notes under this issue (1 for 20,000) as if each existing LKOGA listed note converted into Shares on a 6,667 to 1 basis. Such entitlements are collectively referred to as "**Entitlement Securities**". Fractional entitlements will be rounded up to the nearest Note. Your enclosed Entitlement and Acceptance Form sets out your entitlement. The rights are non-renounceable, so entitlements not taken up will lapse and may be used for shortfall applications.

◆ Shortfall Applications

Holders of Entitlement Securities are invited to apply for additional Notes arising out of any shortfall by applying for shortfall using their Entitlement and Acceptance Form. If any shortfall is not applied for the directors may issue any remaining shortfall in their discretion during the 3 months after the close of the offer at the same price offered – see section 5 for details.

Unless otherwise extended, the closing date for receipt of payment and applications is 5 PM on **5 August 2016**.

Investment Features

Lakes Oil has designed this offer for those persons who would like to receive interest at an attractive rate, as well as convert their Notes into Shares on a favourable basis. In particular:

- The Notes convert to Shares at a maximum price of 0.11 cents per Share, so that holders of Notes stand to gain the full amount if any by which the price of Shares exceeds 0.11 cents following conversion.
- Holders of Notes will be protected, down to a minimum of 0.10 cents per Share, against a price decline in the Shares when the Notes are converted to Shares in May 2018, thereby reducing any potential loss in value at that time.
- Holders will receive a half yearly interest payment of 50 cents for each \$10 Note (face value) held, equivalent to an annual rate of 10% (or slightly more with respect to the first interest payment period), until conversion of the Notes takes place.
- The entire amount of the interest committed to be paid from time to time on all of the Notes will be held in an account administered by an independent trustee for the benefit of holders of Notes.
- Holders of Notes will be able to convert their Notes to Shares early at half yearly intervals prior to the maturity of the Notes in May 2018, providing them additional opportunities to capitalise on favourable share price movements prior to the maturity date in May 2018.
- During the entire life of the Notes they will be listed for quotation on the ASX.

The precise conditions of issue of the Notes are set out in Annexure A and are summarised in section 2 of this prospectus.

1. RISK FACTORS SUMMARY

This is a speculative issue. The Notes carry with them the following key risk factors, which are set out in more detail in section 7 of this prospectus, together with other risk factors which are also described in section 7:

- There is no minimum subscription level and the issue is not underwritten. Lakes Oil's cash balance as at 30 June 2016 is approximately \$750,000. The current cash balance is not sufficient to cover the intended use of funds for the period ending 30 June 2017 which are set out in section 6 of this prospectus. There is no guarantee that Lakes Oil will be able to secure additional funding under this offer, the success of which is dependant on shareholder support and the ability to obtain investor support for any shortfall that may arise. If such support under this offer is insufficient, then Lakes Oil will need to consider implementing some or all of the alternative funding strategies set out in section 6 of this prospectus. None of these alternatives have been determined at present, and any need to implement a funding alternative would be considered if required having regard to the circumstances at that time. However, no assurance can be given that Lakes Oil will be able to implement any specific alternative.
- The auditor's opinion in Lakes Oil's audited accounts for the financial year ended 30 June 2015 and the accounts for the half-year ended 31 December 2015 as reviewed by the external auditors are subject to a qualification that its ability to carry on as a going concern is subject to its ability to raise sufficient funding.
- The current moratorium ban described in this prospectus on onshore natural gas exploration imposed by the Victorian Government restricts the ability of Lakes Oil and its joint venture partners from conducting anything except geological and geophysical analysis aspects of their planned exploration works program for onshore permits in Victoria.
- Holders of Notes have no right to a repayment of their investment, and their entitlements will be fully satisfied through the issue of Shares on conversion as well as the payment of interest. Investors should appreciate that an investment in Notes carries risks. The Notes may trade at a price of less than \$10, and liquidity may be thin. The Notes are not redeemable in any circumstance, and in the event of external administration or liquidation (ie, insolvency), the Notes convert into Shares which are likely to then be of minimal value. In those circumstances, holders do not have a right to repayment of the principal value of the Notes, and holders do not have an ability to claim as a creditor in insolvency with respect to the principal value of the Notes.

2. NOTES SUMMARY

The full conditions of issue are set out in Annexure A, and a summary of the key terms is set out as follows:

Issuer	Lakes Oil NL ABN 62 004 247 214
Securities	Converting Notes
Issue price	\$10 per Note
Entitlement offer	Holder of Entitlement Securities are offered a non-renounceable right to subscribe for 1 Note for every 20,000 fully paid ordinary shares they hold or are entitled to in Lakes Oil. Fractional entitlements will be rounded up to the nearest Note.
Size of issue	Up to \$7,100,000.
Shareholder shortfall applications	As the offer is not underwritten, holders of Entitlement Securities will have the right to apply for additional Notes arising from any shortfall. The directors reserve the right to place any residual shortfall at their discretion during the 3 months after the close of the offer.
Listed	The Notes will be listed on ASX.
Disclosure Document	The Notes are issued under a "limited disclosure" section 713 prospectus under the Corporations Act. For details see section 10 of this prospectus.
Term and Maturity Date	31 May 2018 unless Notes are converted earlier as set out below.
Interest Calculation	Interest is payable at the rate of 50 cents per Note within 10 Business Days following each Interest Payment Date (reduced proportionately in the event of an earlier Change of Control).
Interest Payment via the Paying Trustee	<p>Interest is payable half yearly at the rate of 50 cents per Note immediately following each Interest Payment Date (30 November 2016, 31 May 2017, 30 November 2017 and 31 May 2018), equating to an approximate 10% per annum interest rate.</p> <p>Lakes Oil will on the date of issue of the Notes deposit an amount in excess of the estimated interest on the Notes in an account controlled by the Paying Trustee for holders of Notes and for their benefit for the purposes of providing for payment of all future interest payments.</p> <p>If Lakes Oil becomes an externally administered body corporate within the meaning of the Corporations Act, (essentially being insolvent), all interest on the Notes which would potentially be payable in the future on any future Interest Payment Date will immediately become due and payable to the holders of Notes.</p>

Conversion ratio	Each Note converts into 9,091 Shares. However, if the 30 Day Average Closing Share Price prior to the Maturity Date is less than 0.11 cents, the number of Shares received on conversion for each Note will be 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 this Prospectus. This Uplift Factor increase only applies if conversion occurs on the Maturity Date.
Early Conversion	<p>Election by Holder: Each holder of Notes can elect to convert the Notes early by notice to Lakes Oil with effect from 30 November 2016, 31 May 2017 or 30 November 2017 (Early Conversion Dates). Any Notes the subject of early conversion will be the subject of a share issue at the conversion ratio within 10 Business Days of the Early Conversion Date, when final payment of interest on the Notes so converted up to the Early Conversion Date will be made.</p> <p>Change of Control: There will be automatic early conversion of the Notes in the event of a Change of Control, namely if:</p> <p>(a) a takeover bid within the meaning of the Corporations Act is made for the shares in Lakes Oil and the bidder acquires a relevant interest in 50% of Lakes Oil's ordinary shares and the bid is declared unconditional; or</p> <p>(b) a court orders a meeting to be held in relation to a proposed scheme of arrangement in relation to Lakes Oil the effect of which is that a person will acquire a relevant interest in at least 90% of the ordinary shares in Lakes Oil and shareholders pass the resolutions by the requisite majorities, with conversion to occur within 10 Business Days after the relevant event referred to in paragraph (a) or (b) occurs together with final payment of interest.</p> <p>External Administration: If Lakes Oil becomes an externally administered body corporate within the meaning of the Corporations Act, (essentially being insolvent), the Notes will automatically convert into Shares which are likely to then be of minimal value. In those circumstances, holders do not have a right to repayment of the principal value of the Notes, and holders do not have an ability to claim as a creditor in insolvency with respect to the principal value of the Notes.</p>
Security ranking	The Notes are unsecured.
Non redeemable	Notes are not redeemable for cash by Lakes Oil in any circumstances.
Capital reconstruction	The conversion ratio will be adjusted by any capital reconstruction in accordance with the ASX Listing Rules and will otherwise comply with Listing Rule requirements in this regard.
Trustee and Note Trust Deed	A third party corporate trustee (Equity Trustees Limited) has been appointed as trustee pursuant to a Note Trust Deed, which sets out in detail the obligations of Lakes Oil.
Participation in future issues	Notes carry an entitlement to participate in future issues of Shares in Lakes Oil prior to conversion on the same basis as holders of Shares as though Early Conversion had taken place.

Voting rights

Holders of Notes do not have a right to vote at general meetings of shareholders of Lakes Oil prior to conversion.

Taxation

Interest on the Notes is expected to be taxable in the hands of holders. Non-resident holders and holders who do not provide a tax file number may have withholding deductions applied from shares intended to be issued in lieu of interest. Holders of Notes will need to obtain their own tax advice.

Lakes Oil through the share registry will make contact with holders of Notes in due course regarding the provision of a tax file number, as well as the provision of bank account details for the purposes of crediting of interest.

3. EFFECT OF OFFER ON CAPITAL STRUCTURE

There are currently 11,865,239,705 Shares on issue.

In addition, there are 349,322 listed unsecured converting notes which convert into Shares on either of 30 September 2016 or 31 March 2017 at a rate of between 5,000 to 1 and 6,667 to 1 depending on the Share price at the date they mature. This will increase the number of Shares on issue by between 1,746,610,000 Shares and 2,328,929,774 Shares.

The issue of all of the Notes under this prospectus would when converted increase the number of Shares by between 6,454,610,000 and 7,100,000,000 Shares.

In addition and as set out in section 11 of this prospectus, shareholder approval will be sought at the November 2016 annual general meeting for the issue of \$100,000 of Shares to the directors in aggregate in lieu of cash for 50% of their reduced directors fees, with the issue price to be based on the market Share price at that time.

In addition there are 58,000,000 options held by non director employees exercisable at 0.5 cents each expiring on 8 January 2021.

4. APPLICATIONS

The Entitlement and Acceptance Form should be completed in accordance with the instructions contained on it. You should carefully read this prospectus and the application lodgement instructions (including payment details) before applying. You can apply using cheque, credit card or BPAY®. If payment is made by cheque, a cheque for the total amount due must accompany the form. All applications are subject to payments clearing.

Notes issued in respect of applications received by the closing date of 5 August 2016 are expected to be quoted on a deferred settlement basis on 8 August 2016 and allotted on 12 August 2016 (with despatch of written Note confirmation to follow) and normal trading to occur on 15 August 2016. Investors who wish to sell Notes immediately following the close of the offer should ensure they will be or have been issued Notes before committing a trade. The Notes will be issued onto the same SRN or HIN that generated the entitlement. Holders of Notes may enquire through Computershare's Investor Centre website (www.investorcentre.com) and satisfy themselves of the number of Notes which are to be issued to them. Otherwise they should consider waiting for written proof of the issue of Notes into their name before they trade.

Application monies will be held in trust in a subscription account until the issue of Notes occurs. Lakes Oil will be entitled to any interest earned in this account.

In respect of successful applications lodged by or through holders of financial services licences on a deferred delivery basis, Lakes Oil will pay a brokerage fee of 5% (including acceptances of entitlements, shortfall applications or general shortfall applications).

5. SHORTFALL APPLICATIONS

If there is any shortfall after the close of the offer, the directors may offer the shortfall to other investors at the same price as the offer under this prospectus. Such applications will only be accepted until 3 months after the close of the offer or until the whole of any shortfall has been allotted whichever is the earlier and only then at the directors' discretion. Lakes Oil may accept shortfall acceptances progressively during this period. Lakes Oil may close the acceptance of shortfall applications earlier than that maximum period should the directors feel that they have raised sufficient capital.

6. USE OF FUNDS

Lakes Oil's cash balance as at 30 June 2016 is approximately \$750,000. If the offer is fully subscribed, a further \$7,100,000 less interest set aside with respect to the Notes (\$1,420,000) and capital raising costs (approximately \$200,000) would be raised. Accordingly if the offer is fully subscribed and before any cash is used with respect to the year ending 30 June 2017, Lakes Oil's estimated cash would be \$6,230,000. If the offer is not fully subscribed, then Lakes Oil's estimated cash would be less than this amount.

Lakes Oil cash flow forecast as at the date of this prospectus contemplates a net cash outflow of approximately \$2,600,000 for the year ending 30 June 2017 (excluding the interest set aside for the Notes and the capital raising costs each described in the paragraph above). This includes expenditure on exploration and research activities contemplated of \$270,000 and the repayment of a \$1 million loan due to be repaid in April 2017.

There is no guarantee that Lakes Oil will be able to secure additional funding under this offer to fund these expenses, the success of which is dependant on shareholder support and the ability to obtain investor support for any shortfall that may arise. If such support under this offer is insufficient, then Lakes Oil will need to consider implementing some or all of the following alternative funding strategies:

- Sale of Gippsland real estate properties (which have a book value of \$1.8 million) subject to the loan repayment of the loan described above which is secured over these properties and which is included in the net cash outflow described above, or alternatively seek to reach agreement to extend the term of that loan.
- Farm-out of existing exploration projects.
- Further equity funding (recognising that Lakes Oil has in the past successfully sought equity capital to fund its activities).

None of these alternatives have been determined at present, and any need to implement a funding alternative would be considered if required having regard to the circumstances at that time including the amount raised under the offer. However, no assurance can be given that Lakes Oil will be able to implement any specific alternative or raise any particular amount through implementing any of them. For details regarding the funding risks faced by Lakes Oil, please refer to the risk factor titled "Funding Risk" in section 7 of this prospectus.

7. RISK FACTORS

Due to the inherently uncertain nature of oil and gas exploration, an investment made under this prospectus should be considered speculative. Investors should realise that the value of their investment may fluctuate and that a dividend is not expected to be declared by Lakes Oil in the absence of exploration success. Whilst Lakes Oil attempts to minimise the following risk factors, the majority of them are beyond its control. This list of risk factors should not be taken as exhaustive of the risks faced by Lakes Oil or by investors. These factors and others not specifically referred to may materially affect the performance of Lakes Oil and the value of the Notes and Shares:

- (a) **Investment Risk:** Holders of Notes have no right to a repayment of their investment, and their entitlements will be fully satisfied through the issue of Shares on conversion as well as the payment of interest. Investors should appreciate that an investment in Notes carries risks. The Notes may trade at a price of less than \$10, and liquidity may be thin. The Notes are not redeemable in any circumstance, and in the event of external administration or liquidation (ie, insolvency), the Notes convert into Shares which are likely to then be of minimal value. In those circumstances, holders do

not have a right to repayment of the principal value of the Notes, and holders do not have an ability to claim as a creditor in insolvency with respect to the principal value of the Notes.

- (b) **Funding Risk:** This issue is partly not underwritten, and aside from this there is no minimum subscription level. Lakes Oil's cash balance as at 30 June 2016 is approximately \$750,000. The current cash balance is not sufficient to cover the intended use of funds for the period ending 30 June 2017 which are set out in section 6 of this prospectus. There is no guarantee that Lakes Oil will be able to secure additional funding under this offer, the success of which is dependant on shareholder support and the ability to obtain investor support for any shortfall that may arise. If such support under this offer is insufficient, then Lakes Oil will need to consider implementing some or all of the alternative funding strategies set out in section 6 of this prospectus. None of these alternatives have been determined at present, and any need to implement a funding alternative would be considered if required having regard to the circumstances at that time. However, no assurance can be given that Lakes Oil will be able to implement any specific alternative. The auditor's opinion in Lakes Oil's audited accounts for the financial year ended 30 June 2015 and the accounts for the half-year ended 31 December 2015 as reviewed by the external auditors are subject to a qualification that its ability to carry on as a going concern is subject to its ability to raise sufficient funding.
- (c) **Moratorium Risk:** The Victorian Government currently has a moratorium on approvals for onshore natural gas activities in the State. The effect of this on Lakes Oil is that the Minister will not accede to any request/proposal for exploration activities for onshore natural gas, including work over activities on existing wells. This restricts the ability of Lakes Oil and its joint venture partners from conducting anything except geological and geophysical analysis using consultants' latest techniques to prepare aspects of their planned exploration works program in onshore Victoria. The moratorium is currently due to be reviewed by the Victorian government in August 2016. There is no guarantee that the moratorium will be lifted, or that Lakes Oil and its joint venture partners will be permitted to conduct onshore natural gas exploration operations in Victoria in the future. The inability to conduct onshore exploration activities in Victoria significantly inhibits the ability of Lakes Oil to explore for hydrocarbons on its onshore Victorian permits. In particular, Lakes Oil and its joint venture parties are prevented from undertaking core parts of the work programs required in relation to the Victorian permits.
- (d) **Contractual Dispute Risk:** Contractual disputes with joint venture partners, operators and contractors can arise from time to time. Some of Lakes Oil's projects are conducted as joint ventures. Where a venture partner does not satisfy its financial or other commitments or act in the best commercial interest of the project, it could have a material adverse effect on the interests of Lakes Oil. Lakes Oil is unable to predict the risk of financial failure, non-compliance with obligations or default by a participant in any venture to which Lakes Oil is, or may become, a party, or insolvency or managerial failure by any of contractors used by Lakes Oil in its exploration activities. Given that Lakes Oil has entered into joint venture and farmout agreements, the inability of those joint venturers or farminees to meet contracted obligations would adversely affect Lakes Oil's capacity to carry out its own activities. An example of contractual dispute risk is that the Lakes Oil 2015 Annual Report page 14 summarises previous Lakes Oil ASX disclosures that in relation to PRL2, each of Armour Energy Ltd and Lakes Oil have reserved their rights in relation to whether Armour Energy Ltd has properly exercised a matching right to earn a 50% interest in the permit (and this matter is not yet determined).
- (e) **Exploration Company Risk:** As Lakes Oil is an exploration company, the market's perception of the value of its shares can alter significantly from time to time which can cause fluctuations in price. Fluctuations may also occur as a result of factors influencing the price of shares in exploration companies or share prices generally, as well as drilling activities by other parties in the same general region. The price of shares rises and falls and many factors affect the price of shares including local and international stock markets, movements in interest rates, economic and political conditions and investor and consumer sentiment. The stockmarkets generally remain volatile.
- (f) **Industry Nature Risk:** Oil and gas exploration activity, especially drilling, by its nature is risky. Where exploration is successful, drilling operations can be affected by breakdowns, adverse weather conditions, site and geographical conditions, operational risks, shortage or delays in the delivery of

rings and/or other equipment, industrial disputes, government regulations, environmental issues and unanticipated costs. Hazards incident to the exploration and development of oil and gas properties such as unusual or unexpected formations, pressures or other factors are inherent in drilling and operating wells and may be encountered by Lakes Oil. Exploration may be unsuccessful. Exploration may prove to be more costly than expected or the proposed timing of exploration may not be achieved, thus potentially putting strains on Lakes Oil's financial position.

- (g) **Impairment of Non-Financial Assets Risk:** As at 30 June 2015, Lakes Oil's assets included \$52.1 million of capitalised exploration expenditure, evaluation and development costs. As at 31 December 2015 such costs were \$52.3 million. These assets are tested annually for impairment in accordance with accounting standard requirements to assess whether the carrying value may exceed its recoverable amount. An impairment loss is recognised where the carrying amount exceeds its recoverable amount (namely the higher of its fair value less costs and its value in use). Due to the current Victorian moratorium on oil and gas exploration, there is uncertainty regarding the appropriate carrying value. This will be reassessed at the time the 30 June 2016 financial accounts are finalised having regard to and depending on the outcome of the current Victorian moratorium review. It may be the case that Lakes Oil will need to recognise an impairment loss in the 30 June 2016 financial accounts, although this and the extent of any such impairment loss that might apply has not presently been determined. Any such loss would be a non cash item.
- (h) **Operating Risk:** Industry operating risks include the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures or discharges of toxic gasses, the occurrence of any of which could result in substantial losses to Lakes Oil due to injury or loss of life, severe damage to, or destruction of property, natural resources and equipment, pollution or other environmental damage, cleanup responsibilities, regulatory investigation and penalties and suspension of operations, the occurrence of any of which could result in substantial losses to Lakes Oil. Damages occurring as a result of such risks may give rise to claims against Lakes Oil. The occurrence of an event that is not covered, or fully covered, by insurance could have a material adverse effect on the business, financial condition and results of operations of Lakes Oil.
- (i) **Commercial Discovery Risk:** Even if an apparently viable deposit is identified, there is no guarantee that it can be profitably exploited. While drilling may yield some hydrocarbons there can be no guarantee that any discovery will be sufficiently productive to justify commercial development or cover operating costs. There can be no assurance that Lakes Oil will achieve production as this will depend on a wide range of factors, including development decisions, capital costs and operating costs and the ability of Lakes Oil to fund these costs.
- (j) **Reserve and Resource Estimates Risk:** Hydrocarbon reserve and resource estimates are expressions of judgement based on knowledge, experience and industry practice. In addition, such estimates are necessarily imprecise and depend to a significant extent on interpretations, which may prove inaccurate. The calculation of any possible volume of hydrocarbons in a prospect may be proved incorrect by future exploration/production, mapping and/or drilling. An example of this reserve and resource estimate risk is that the Lakes Oil 2015 Annual Report page 16 summarises previous Lakes Oil ASX disclosures that in relation to PEP 167 and PEP 175, Lakes Oil believes that it has identified a major new onshore basin-centred gas province, that Lakes Oil has received reports estimating gas in place in this regard, that the numbers given are large but heavily qualified, and that it will require proof of concept wells to be drilled conventionally and additional work to be conducted to test the existence of potentially moveable gas. Due to the Victorian Government's moratorium on onshore gas exploration, Lakes Oil has been unable to carry out the additional work necessary to provide more definition and substance to the reports.
- (k) **Regulatory Risk:** It may not always be possible for Lakes Oil to participate in the exploitation of successful discoveries made in any areas in which Lakes Oil has an interest. Such exploitation will involve the need to obtain the necessary licences or clearances from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretions by such authorities. It may or may not be possible for such conditions to be satisfied. Further the decision to proceed to further exploitation may require the participation of other companies whose interests and objectives may not

be the same as Lakes Oil. Such further work may require Lakes Oil to meet or commit to financing obligations for which it may not have planned.

- (l) **Market Pricing Risk:** Potential investors should consider the impacts of supply and demand for commodities (especially oil and gas), fluctuations in the prices of those commodities, exchange rates, Australia's inflation rates, taxation laws and interest rates. All of these factors have a bearing on operating costs, potential revenue and share prices. In particular, the price of oil is volatile and cannot be controlled. Oil and gas prices have fluctuated widely in recent years, and if the price of hydrocarbons falls significantly and remains depressed, this could affect the financial viability of any reserves discovered. There is no assurance that, even if significant quantities of hydrocarbon products are discovered, a profitable market may exist for their sale. The marketability of hydrocarbons is also affected by numerous other factors beyond the control of Lakes Oil, including government regulations relating to royalties, allowable production and importing and exporting of oil and gas and petroleum products, the effect of which cannot be accurately predicted.
- (m) **Environmental Risk:** In relation to the exploration permits held by Lakes Oil, issues can arise from time to time with respect to abandonment costs, consequential clean up costs and environmental concerns. Lakes Oil could become subject to liability if, for example, there is environmental pollution and consequential clean up costs at a later point in time. It is not possible to quantify any such contingent liability. Whilst no guarantee can be given, Lakes Oil is not aware of any advices which would suggest that there is any particular exposure in relation to any of its present interests.
- (n) **Governmental Risk:** The impact of actions by governments may affect Lakes Oil's operations including matters such as necessary approvals, land access, sovereign risk, additional or increased taxation and royalties which are payable on the proceeds of the sale of any successful exploration. Further, the approval of contractual arrangements in relation to exploration permits as well as the renewal of exploration permits is each a matter of governmental discretion and no guarantee can be given in this regard. A failure to obtain any approval would mean that the ability of Lakes Oil to participate in or develop any project may be limited or restricted either in part or absolutely. Industry profitability can be affected by changes in tax policies and the interpretation and application thereof.
- (o) **Native Title Risk:** Native title rights may adversely impact on Lakes Oil's operations. If Lakes Oil's ability to conduct exploration and/or development and production activities is adversely affected, this may have a material adverse effect on Lakes Oil's performance and share price.

8. TRUST DEED SUMMARY

The following is a summary of certain key features of the Trust Deed, which governs the basis on which the Notes are issued. To obtain a complete understanding of the Trust Deed it should be referred to in full, and a copy has been released to ASX and can be inspected together with other announcements on the Lakes Oil and ASX websites.

The Trust Deed provides for the appointment of Equity Trustees Limited as trustee for holders of Notes, is dated 27 June 2016 and is entered into between Lakes Oil and the Trustee.

Generally, the Trust Deed contains provisions which are in a manner customary for a document of this nature.

The Trust Deed provides that the Trustee holds its rights to enforce the obligations of Lakes Oil on trust for the benefit of holders of Notes.

The Trust Deed places various obligations on Lakes Oil to comply with the terms of issue of the Notes. Lakes Oil covenants to do all things as shall be required for giving effect to the Trust Deed and conferring the full benefit of it upon holders of Notes and the Trustee. In addition Lakes Oil agrees to comply with the terms of issue of Notes, as well as a variety of other matters.

Holders of Notes representing not less than 10% of the values of the Notes may requisition a meeting of holders of Notes, including for the purposes of giving the Trustee directions or instructions in relation to the exercise of the Trustee's powers. The Trustee may also convene such a meeting. Each holder of Notes is

entitled to at least 14 Business Days notice of a meeting, or 21 Business Days in the case of a special resolution.

The Trustee is indemnified from liability by Lakes Oil to the maximum extent permitted by law. The Trust Deed also contains provisions limiting the liability of the Trustee in a manner customary for a document of this nature.

The Trustee may resign at any time on giving not less than 30 days' notice. The Trustee may also be removed by the holders of Notes. A resignation or removal does not take effect until a successor trustee has been appointed.

Lakes Oil and the Trustee may by deed between them amend, vary, modify or add to the Trust Deed without requiring the agreement or approval of holders of Notes if in the opinion of the Trustee the change is necessary or desirable to correct an error or to comply with any law or to comply with the ASX Listing Rules, the change is of a formal or technical nature, or the change is not likely to be materially prejudicial to the interests of holders of Notes.

9. PAYING TRUSTEE AGREEMENT

The following is a summary of certain key features of the Paying Trustee Agreement, which governs the basis on which the interest on the Notes are held on trust for and for the benefit of holders of Notes. To obtain a complete understanding of the Paying Trustee Agreement it should be referred to in full, and a copy has been released to ASX and can be inspected together with other announcements on the Lakes Oil and ASX websites.

The Paying Trustee Agreement provides for the appointment of Equity Trustees Limited as paying trustee for holders of Notes with respect to interest payments, is dated 27 June 2016 and is entered into between Lakes Oil, the Paying Trustee and the Trustee.

The Paying Trustee Agreement provides that on the date that Notes are issued, Lakes Oil must pay monies into an account controlled by the Paying Trustee, to be used to pay interest to the holders of Notes (Interest Account). The amount to be paid is \$1,420,000 (representing 20% of funds raised) on the basis that \$7,100,000 of Notes are issued, with this amount being proportionately reduced if less than the maximum amount of Notes are issued.

The Paying Trustee must hold the funds in the Interest Account on trust until such time that they are to be released in accordance with the Paying Trustee Agreement. In particular, the Interest Account is to be used for the purposes of paying interest to the holders of Notes in accordance with the terms of the Trust Deed.

Funds may only be paid out of the Interest Account to Lakes Oil to the extent that all future payments of interest to holders of Notes remains provided for in the Interest Account.

10. ADDITIONAL INFORMATION

As announced to ASX on 23 May 2016 Mr Robert Annells resigned as Chairman and Chief Executive of the Company and Mr Chris Tonkin became Chairman. As announced to ASX on 3 June 2016, Mr Andrew Davis resigned as a director. As announced to ASX on 29 June 2016, Mr Roland Sleeman has assumed the role of Chief Executive.

The latest available market sale price of Shares on the ASX on 28 June 2016 immediately prior to the lodgement of this prospectus with the ASIC was 0.10 cents. During the three months prior to that date the Shares traded on the ASX within the range of 0.10 cents to 0.20 cents.

The latest available market sale price of existing listed LKOGA notes on the ASX on 28 June 2016 prior to the lodgement of this prospectus with the ASIC was \$6.50. During the three months prior to that date the LKOGA notes traded on the ASX within the range of \$6.50 to \$8.50.

Lakes Oil will make application to the ASX within seven days after the date of this prospectus for the Notes to be granted official quotation. Lakes Oil has been in consultation with ASX in this regard and does not see any issues in obtaining the listing of Notes on ASX. However, if official quotation is not granted within 3

months after the date of this prospectus or any longer period permitted by law, then all application monies will be refunded without interest as soon as practicable.

A shareholding in Lakes Oil is held subject to its Constitution which is similar to those of other publicly listed no-liability companies and which states that the ASX Listing Rules prevail in the event of any inconsistency. In particular, shareholders are entitled to receive notices of and attend and vote at general meetings where they have one vote on a show of hands and one vote per ordinary share on a poll. Subject to the Constitution, the Corporations Act and the ASX Listing Rules, shares are freely transferable. Dividends are payable to shareholders in proportion to the shares held by them respectively. In a winding up, the liquidator may with the sanction of a special resolution of shareholders divide the assets of Lakes Oil amongst the shareholders and may determine how the division shall be carried out as between them. The Constitution may be inspected on Lakes Oil's website.

Offers of entitlements under this prospectus will not be made to holders of Entitlement Securities with registered addresses outside Australia and New Zealand as the directors consider that it is unreasonable to do so having regard to the small number of such persons, the number and value of entitlements which would be offered to them and the cost of complying with the overseas legal and regulatory requirements. Lakes Oil will, instead, send such persons details of the issue with advice that this offer will not be made to them.

This prospectus does not constitute an offer in any jurisdiction where or to any person to whom it would not be lawful to make such an offer.

The Notes are classified as unsecured notes for the purposes of section 283BH of the Corporations Act.

This prospectus is dated 28 June 2016 and a copy of it has been lodged with the Australian Securities and Investments Commission (ASIC). The ASIC takes no responsibility as to the contents of this prospectus. No Notes will be issued on the basis of this prospectus later than 13 months after its date of issue.

Applicants may wish to access information about Lakes Oil through its website at www.lakesoil.com.au, including information which is released after the lodgement date of this prospectus. This is a limited disclosure prospectus and does not purport to contain all the information that investors and their professional advisers would reasonably require to make an informed assessment of the assets and liabilities, financial position and performance, profits and losses and prospects of Lakes Oil. For the purposes of section 713 of the Corporations Act and ASIC Class Order 00/195, Lakes Oil is a disclosing entity and hence is subject to regular reporting and continuous disclosure obligations. Information that is already in the public domain as a consequence has not been (and is not required to be) included in this prospectus. Copies of documents lodged with ASIC by or in relation to Lakes Oil may be obtained from or inspected at an ASIC office. Lakes Oil will provide a copy of each of the following documents free of charge to any person who requests them during the application period for this prospectus:

- the annual financial report of Lakes Oil for the year ended 30 June 2015;
- the financial report for the half-year ended 31 December 2015; and
- any other continuous disclosure notices given by Lakes Oil to ASX after 23 October 2015 (being the date of lodgement with ASIC of Lakes Oil's 2015 annual financial report and before the lodgement of the copy of this prospectus with ASIC).

Date	Description of Announcement
29/06/2016	Market Update
03/06/2016	Director Resignation - Mr Andrew Davis
23/05/2016	Resignation of Executive Chairman – Appointment of Chairman
29/04/2016	Quarterly Activities and Cashflow Report March 2016
12/04/2016	Change in substantial shareholding
05/04/2016	Appendix 3B - Issue of shares on conversion of notes
10/03/2016	Financial Report for the Half Year Ended 31 December 2015

10/03/2016	Listed unsecured converting notes - 2nd interest payment
10/03/2016	Interest Payment - LKOGA
29/01/2016	Quarterly Activities and Cashflow Report December 2015
08/01/2016	Appendix 3B - Issue of Options to Employees
23/11/2015	Results of Annual General Meeting 23 November 2015
23/11/2015	Chairman's Address to Shareholders - AGM 2015
30/10/2015	Quarterly Activities and Cashflow Report September 2015

Computershare Investor Services Pty Limited has consented in writing to be named in this prospectus as the Note and Share registry for Lakes Oil. It has not authorised the issue of this prospectus and accordingly makes no representation regarding and takes no responsibility for any statements or information in or omissions from this prospectus. It is entitled to a fee based on its normal commercial terms for acting in that capacity.

The Trustee and Paying Trustee (Equity Trustees Limited) has consented in writing to be named in this prospectus as the trustee for holders of Notes and as the paying trustee for holders of Notes. The Trustee and Paying Trustee has not authorised the issue of this prospectus and accordingly makes no representation regarding, and takes no responsibility for, any statements or information in or omissions from this prospectus. The Trustee and Paying Trustee is entitled to a fee of \$35,000 per annum for each of the 2 years they act in those capacities.

Roland Sleeman has consented in writing to be named in this prospectus as Chief Executive Officer in the form and context in which he is named. He has not authorised the issue of this prospectus and accordingly makes no representation regarding and takes no responsibility for any statements or information in or omissions from this prospectus.

A distribution statement in an approved form will be provided to holders of Notes setting out the extent to which any interest has been franked although no franking is anticipated (given that the Notes are equity interests for Australian tax purposes.)

Important Information for New Zealand investors

This offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act 2001 and regulations made under that Act. In New Zealand, this is subpart 6 of Part 9 of the Financial Markets Conduct Act 2013 and Part 9 of the Financial Markets Conduct Regulations 2014.

This offer and the content of the offer document are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act 2001 and Regulations (Australia) set out how the offer must be made. There are differences in how securities are regulated under Australian law. For example, the disclosure of fees for collective investment schemes is different under the Australian regime.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities. Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to this offer. If you need to make a complaint about this offer, please contact the Financial Markets Authority, Wellington, New Zealand (<http://fma.govt.nz>). The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian securities is not the same as for New Zealand securities. If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The offer may involve a currency exchange risk. The currency for the Notes is not New Zealand dollars. The value of the Notes will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant. If you expect the Notes to pay any amounts in

a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

11. DIRECTORS' INTERESTS

Directors are entitled to receive directors' fees and benefits totalling approximately \$50,000 each for each of the years ended 30 June 2016 and the previous year (pro-rated for less than a full year's service). For the year ending 30 June 2017 the six directors each expect to receive a cash directors fee of \$16,667 and (subject to shareholder approval to be sought at the November 2016 annual general meeting) shares to the value of \$16,667 each, with the issue price to be based on the market Share price at that time.

As at the date of this prospectus, the directors held the following interests in the share capital of Lakes Oil:

Director	Number Shares
BI Berold	54,157,778
N Mather	Nil
IR Plimer	Nil
WR Stubbs	6,000,000
C Tonkin	Nil
K Wightman	Nil

In addition, Mr Berold held 2,000 existing LKOGA notes as at the date of this prospectus.

12. STATEMENT BY DIRECTORS

Each director has consented to the issue of this prospectus in the form and context in which it is issued.



CHRIS TONKIN
Chairman

13. DEFINITIONS

In this prospectus the following definitions apply:

\$	Australian dollars, exclusive of GST
30 Day Average Closing Share Price	the average closing price of the Shares on ASX on the 30 Business Days prior to the Maturity Date where sales were recorded.
Business Day	a day on which banks are open for business in Melbourne, other than a Saturday, a Sunday or a public holiday
Interest Payment Date	30 November 2016, 31 May 2017, 30 November 2017 and 31 May 2018.
Lakes Oil	Lakes Oil NL (ABN 62 004 247 214), and where the context requires includes its wholly owned subsidiaries
Maturity Date	31 May 2018
Notes	listed unsecured converting notes in Lakes Oil
Shares	fully paid ordinary shares in the capital of Lakes Oil
Trust Deed	the trust deed dated 27 June 2016 between Lakes Oil and the Trustee
Trustee and Paying Trustee	Equity Trustees Limited
Uplift Factor	0.11 cents divided by the 30 Day Average Share Price prior to the Maturity Date, with a minimum 30 Day Average Share Price of 0.10 cents. The Uplift Factor only applies where the 30 Day Average Closing Share Price prior to the Maturity Date is less than 0.11 cents.

ANNEXURE A: CONDITIONS OF ISSUE OF NOTES

The following are the conditions of issue of the Notes, which forms part of the Trust Deed as described above:

1 Definitions

30 Day Average Closing Share Price means the average closing price of the Shares on ASX on the 30 Business Days prior to the Maturity Date where sales were recorded.

ASX means ASX Limited or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.

ASX Settlement means ASX Settlement Pty Ltd, the body which administers the CHESS system in Australia.

ASX Settlement Operating Rules means the settlement operating rules of ASX Settlement.

Business Day means a day on which Banks are open for business in Melbourne other than a Saturday, a Sunday or a public holiday.

Change in Control Conversion Date has the meaning given in Condition 3.3.

Change in Control Event has the meaning given in Condition 3.3.

Company means Lakes Oil NL ABN 62 004 247 214.

Conversion means the conversion of a Note by exercise of the Conversion Right attached to the Note.

Conversion Date means subject to Condition 3.13 the earlier of:

- (a) the Maturity Date;
- (b) the Early Conversion Date; or
- (c) the Change in Control Conversion Date.

Conversion Rate means the rate of Conversion of each Note into Shares on:

- (a) a 9,091 Share to 1 Note basis (the ratio being based on a conversion price of 0.11 cents per Share); or
- (b) a 9,091 Share to 1 Note basis multiplied by the Uplift Factor (the ratio being based on a conversion price of between 0.10 and 0.11 cents per Share) where the 30 Day Average Closing Share Price prior to the Maturity Date is less than 0.11 cents (rounded upwards to the nearest Share in the case of fractions) up to a maximum of a 10,000 to 1 Note basis,

subject to any adjustment of the rate pursuant to Condition 3.5.

Conversion Right means the right to convert a Note to Shares in accordance with these conditions.

Corporations Act means the *Corporations Act 2001* (Cth).

Early Conversion Date means any of 30 November 2016, 31 May 2017 or 30 November 2017.

Interest Payment Date means 30 November 2016, 31 May 2017, 30 November 2017 and 31 May 2018.

Interest Payment Amount means 50 cents per Note.

Issue Date means the date of issue of the Notes.

Listing Rules means the ASX Listing Rules.

Maturity Date means 31 May 2018.

Notes means, at any time, so many of these converting notes created and issued by the Company under these Conditions of Issue as are outstanding up to a maximum value of \$7,100,000.

Note Holder or **holder of Notes** means, in relation to any of the Notes at any time, the person registered in the Register as the holder of those Notes.

Paying Trustee means Equity Trustees Limited ABN 46 004 031 298 as trustee of the Lakes Oil Converting Notes Paying Trust (No.3).

Paying Trustee Agreement means the Paying Trustee Agreement dated 27 June 2016 between the Company, the Trustee in its capacity as trustee for the holders of the Notes and the Paying Trustee in its capacity as paying trustee for the holders of the Notes.

Shares means fully paid ordinary shares in the capital of the Company.

Trust Deed means the trust deed dated 27 June 2016 between the Company and the Trustee setting out further rights and obligations of the Company, the Trustee and Note Holders.

Trustee means Equity Trustees Limited ABN 46 004 031 298 or such other entity appointed as trustee pursuant to the Trust Deed from time to time.

Uplift Factor means 0.11 cents divided by the 30 Day Average Share Price prior to the Maturity Date, with a minimum 30 Day Average Share Price of 0.10 cents.

2 General Terms of Issue

Terms of Issue

- 2.1 Each of the Notes shall:
- (a) have an issue price of \$10;
 - (b) be paid for in full on application;
 - (c) subject to Condition 3.5, convert in the manner and at the times provided by Condition 3 into Shares at the Conversion Rate;
 - (d) bear interest on the basis set out in Condition 4 (provided that the interest ceases to be payable from the Conversion Date); and
 - (e) be initially quoted on ASX, and subject to Condition 3.3 the Company will use its best endeavours to maintain the listing of Notes (as a class) on ASX until the Maturity Date.

Status

- 2.2 The Notes:
- (a) constitute unsecured obligations of the Company;
 - (b) confer contractual rights on the Note Holders as set out in these Conditions and the Trust Deed;
 - (c) do not (until Conversion) confer on Note Holders any right as a member or shareholder of the Company, including voting rights; and
 - (d) confer on Note Holders a right to be given copies of all documents sent by the Company to shareholders (whether in connection with a general meeting of Shareholders or otherwise).
- 2.3 Each Note Holder by accepting an issue of Notes:
- (a) agrees to be bound by these Conditions and the provisions of the Trust Deed; and

- (b) acknowledges that it has contractual rights against the Company as set out in these conditions but that the Notes do not (until Conversion) confer any right as a member of the Company.

3 Conversion

Conversion Right

- 3.1 Each Note Holder has the right to elect to convert the Notes early by giving written notice to the Company before an Early Conversion Date. Any Notes the subject of early Conversion will be the subject of a Share issue at the Conversion Rate within 10 Business Days of the Early Conversion Date, when final payment of interest up to the Early Conversion Date will be made.
- 3.2 Any Notes which have not converted by the Maturity Date will automatically convert on that date.

Early Conversion – Change of Control

- 3.3 There will be automatic early Conversion in the event that:
 - (a) a takeover bid within the meaning of the Corporations Act is made for the Shares and the bidder acquires a relevant interest in 50% of the Company's Shares and the bid is declared unconditional; or
 - (b) a court orders a meeting to be held in relation to a proposed scheme of arrangement in relation to the Company the effect of which is that a person will acquire a relevant interest in at least 90% of the Shares in the Company and the Company's shareholders pass the resolution by the requisite majorities,

(each a "*Change in Control Event*"), with the Conversion to occur within 10 Business Days after the relevant Change in Control Event occurs (the "*Change in Control Conversion Date*") together with the final payment of interest based on the rate of 10% per annum calculated on a daily basis for the period from the most recent Interest Payment Date to the Change in Control Conversion Date.

Right to participate in new issues of ordinary shares

- 3.4 Note Holders are entitled to participate in future issues of Shares prior to Conversion on the same basis as shareholders as though Conversion had taken place (without any Uplift Factor applying).

Adjustment of Conversion Rate

- 3.5 If the Company reorganises its capital, the Conversion Rate or the conversion price or both will be adjusted in accordance with the Listing Rules applicable at the time of the reorganisation, and so that Note Holders will not receive a benefit that holders of Shares do not receive. Unless the Listing Rules require otherwise, the Conversion Rate must be adjusted as follows:
 - (a) **Reduction in capital:** If the issued capital of the Company is reduced, the entitlement of a Note Holder to convert its Notes to Shares at the Conversion Rate will be reduced in the same proportion and manner as the issued capital is so reduced (subject to any provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of the members of the Company approving the reduction of capital) but in all other respects the Conversion Rights will remain unchanged;
 - (b) **Consolidation of capital:** If the issued capital of the Company is consolidated, the entitlement of a Note Holder to convert its Notes to Shares at the Conversion Rate will be reduced in the same proportion and manner as the issued capital is so consolidated (subject to any provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of the members of the Company approving the consolidation of capital) but in all other respects the Conversion Rights will remain unchanged; and
 - (c) **Subdivision of Capital:** If the issued capital of the Company is subdivided, the entitlement of a Note Holder to convert its Notes to Shares at the Conversion Rate will be increased in

the same proportion and manner as the issued capital is so subdivided (subject to any provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of the members of the Company approving the subdivision of capital) but in all other respects the Conversion Rights will remain unchanged.

Conversion to Shares

- 3.6 The Company covenants with each Note Holder that it will issue Shares for the Notes in respect of which Note Holders have elected to exercise Conversion Rights, at the Conversion Rate on the relevant Conversion Date (as applicable).
- 3.7 Upon the exercise of a Conversion Right in respect of a Note, the Note Holder will be deemed to have applied for such number of Shares as will be issued upon the conversion of those Notes at the Conversion Rate.
- 3.8 All Shares issued upon conversion of Notes will rank in all respects equally with the then existing Shares of the Company and will rank for dividends declared by the Company on its Shares after the Conversion Date of the Notes.
- 3.9 After the issue of such Shares, if the Company is listed on the ASX, the Company will apply for quotation of such Shares on the ASX to allow them to be traded.

Costs of Conversion and listing

- 3.10 Except as otherwise stated in these Conditions, the Company will pay the expenses (but excluding any taxes or stamp duties for which the holders of Shares would ordinarily be liable) of the issue of, and all expenses of obtaining a listing for, Shares issued on Conversion.

Conversion Right warranties

- 3.11 The Company must, whilst there are any Notes:
- (a) **Listing:** subject to Condition 3.3, use its best endeavours to:
 - (i) maintain a listing for all the Shares on the ASX;
 - (ii) obtain and maintain a listing on the ASX for all the Shares issued on the exercise of any of the Conversion Rights;
 - (iii) obtain and maintain a listing for all the Shares issued on the exercise of any of the Conversion Rights on any other stock exchanges on which any other Shares are then listed; and
 - (iv) promptly give to the Note Holders notice of the delisting of the Shares (as a class) by the ASX, or any other stock exchange on which they are listed from time to time;
 - (b) **Conversion to ordinary shares:** ensure that all Shares issued upon Conversion will be duly and validly issued, fully paid and registered in the name of the Note Holder; and
 - (c) **Consents:** use its best endeavours to obtain, as and when required, and having once obtained, maintain, all necessary governmental and regulatory consents to enable:
 - (i) the Company to allot and issue the Shares to be issued upon conversion of the Notes; and
 - (ii) the Company to make all payments required to be made by it in respect of the Notes.

Bound by Constitution

- 3.12 Each Note Holder acknowledges that on the issue of Shares on the exercise of the Conversion Right, the Note Holder will be bound by the Constitution of the Company in so far as it relates to Shares.

Conversion on External Administration

- 3.13 Subject to Condition 3.17, if the Company becomes an externally-administered body corporate (within the meaning of the Corporations Act) and notwithstanding any other provision of these Conditions, there will be automatic early Conversion, with the Conversion to occur within 10 Business Days (and any other future entitlements to Conversion shall thereupon cease).

Interest

- 3.14 The Notes will attract interest at each Interest Payment Date (which will be used for record date purposes), with interest payable at the Interest Payment Amount.
- 3.15 Interest will be payable by the Company within 10 Business Days of each Interest Payment Date (provided that interest ceases to be payable from any earlier date that Conversion occurs).
- 3.16 The Company will on the date of issue of any Notes deposit with the Paying Trustee an amount in excess of the estimated interest on the Notes in an interest account controlled by the Paying Trustee where such amounts will be held on trust for, and for the benefit of, the holders of Notes in accordance with the terms of the Paying Trustee Agreement.
- 3.17 If the Company becomes an externally-administered body corporate (within the meaning of the Corporations Act) and notwithstanding any other provision of these Conditions, all interest on the Notes which would potentially be payable in the future on any future Interest Payment Date will immediately become due and payable, and shall be paid in accordance with the Paying Trustee Agreement.

4 Title to Notes

- 4.1 Except as ordered by a court of competent jurisdiction or as required by law, the Company:
- (a) may treat the registered holder of any Note as the absolute owner (notwithstanding any notice of ownership or writing on the Note or any notice of previous loss or theft or of any trust or any other interest);
 - (b) is not required to obtain any proof of ownership and is not required to verify the identity of the registered holder; and
 - (c) is not required to recognise or give effect to any legal or equitable interest in any Note not entered on the Register notwithstanding that the Issuer may have actual or constructive notice thereof.

5 Transfer of Notes

- 5.1 The Notes are transferable at any time.
- 5.2 Subject to these Conditions and the Trust Deed and unless the Corporations Act, ASX Settlement Operating Rules or Listing Rules require otherwise, a Note Holder will be entitled to transfer their Notes or any part thereof by lodging with the Company at the address of the Register on which the Note Holder's Notes are for the time being recorded, a proper instrument of transfer duly stamped if necessary, executed by the transferor and executed by the transferee. No fee will be charged for the registration of a transfer.
- 5.3 The transferor shall be deemed to remain the owner of the Notes until the name of the transferee is entered in the Register in respect thereof.
- 5.4 Any person becoming entitled to Notes in consequence of the death or bankruptcy of any holder of such Notes, may, upon producing evidence of the Note Holder's title as the Directors shall think sufficient, be registered as the holder of such Notes.

6 Non-Redeemable

6.1 The Notes are not redeemable in any circumstance by the Company.

7 Payment to Note Holders

7.1 Any interest shall be paid in accordance with the Trust Deed.

7.2 If several persons are entered in the Register as joint holders of any Notes then without prejudice to the last preceding Condition, the payment to any one of such persons for any moneys payable on or in respect of such Notes shall be as effective a discharge to the Company as if the person to whom payment is made were the sole registered holder of such Notes.

7.3 The Company shall be entitled to deduct and withhold from any payment to be made to a Note Holder, any amount which the Company is required to deduct or withhold in respect of such payment under any applicable taxation or other law.

8 Notices

8.1 A notice given to a Note Holder pursuant to a provision of these Conditions shall be in writing or electronic form and may be given to a Note Holder by being delivered to him by e-mail, facsimile, or posted in a pre-paid envelope and addressed to the address appearing in the register or to such other address as he has notified the Company in writing.

8.2 A notice given to any one of joint Note Holders is sufficient notice to all of those joint Note Holders.

9 Variation of Conditions

9.1 These Conditions may be amended, varied, modified or added to in accordance with the terms set out in the Trust Deed.

10 Trustee's Power to Enforce

10.1 Without limiting the rights and discretion of the Trustee under the Trust Deed, the Trustee may at its discretion and without further notice institute such proceedings against the Company as it may think fit to enforce any obligation, condition or provision binding on the Company under the Trust Deed and these Conditions.

11 Conditions Binding on Parties and Successors

11.1 These Conditions and the provisions of the Trust Deed shall be binding on the Company, the Trustee and the Note Holders and all persons claiming through or under them respectively. These Conditions shall be governed by and construed in accordance with the laws of Victoria.