

Lakes Oil NL

ABN 62 004 247 214

Annual Report - 30 June 2016

Lakes Oil NL
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30 June 2016

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**Lakes Oil NL
Corporate directory
30 June 2016**

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) Robbert de Weijer (Alternate Director) (resigned 28 September 2016)
Chief Executive Officer	Roland Sleeman
Company secretary	Melanie Leydin
Registered office	Level 14 500 Collins Street Melbourne Victoria 3000
Telephone	(03) 9629 1566
Facsimile	(03) 9629 1624
Share registry	Computershare Investor Services Pty. Ltd. Yarra Falls 452 Johnston Street Abbotsford Victoria 3067
Telephone	1300 850 505
Auditor	Pitcher Partners Level 19 15 William Street Melbourne Victoria 3000
Solicitors	Baker & McKenzie Level 19 CBW 181 William Street Melbourne Victoria 3000
Bankers	Westpac Banking Corporation 360 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



LAKES OIL N.L.

(A.B.N. 62 004 247 214)

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LETTER FROM THE CHAIRMAN

Dear Shareholder

It is with considerable disappointment that, as I write this letter, Lakes Oil finds itself in a position of being unable to carry out exploration activity on its onshore Victorian exploration acreage. This follows the Victorian Government's decision, announced on 30 August 2016, to permanently ban onshore unconventional gas activity and to extend its ban on conventional onshore gas exploration activity to mid-2020, with no indication that the ban will then be lifted.

Shareholders may recall that the Government's ban on onshore gas exploration was introduced in November 2013, thereby extending a fracking moratorium and informal ban that had been introduced just over a year earlier. The ban is clearly contrary to the expressed intent of Victorian Petroleum Legislation, which is to "...encourage the exploration for petroleum...and...promote petroleum production for the benefit of all Victorians...". The ban positions Victoria as the only Australian state to disallow conventional exploration activities, which have been safely conducted for scores of years.

The onshore gas exploration ban has had an adverse impact upon Lakes Oil. Since the ban was introduced, the Company has not only, of necessity, continued to incur underlying costs, such as office space and core staff, it has also had to continue to pay annual and renewal fees for its exploration acreage. These ongoing costs are on top of the scores of millions of exploration dollars that have been spent to get the Company's exploration acreage to the point where we consider that key parts of it would by now have been commercialised if not for the bans imposed by the Victorian Government. But for the exploration ban, Lakes Oil's vision for realising the vast potential of its Otway and Gippsland Basin acreage would have involved drilling a small number of conventional gas wells, details of which are presented in the Directors' Report. Off the back of this drilling campaign, Lakes Oil envisaged it would be in a position to get gas into the Victorian market, not only contributing to the sustainability of existing industry and employment, but also generating royalty income for the benefit of communities within which the Company operates, and for Victorians more generally.

In order to fund ongoing operations, Lakes Oil launched a capital raising program in June 2016 by way of an attractively priced issue of Converting Notes. The program closed on 9 September 2016 but was severely and adversely affected by uncertainty surrounding the Victorian Government's actions and its final decision, with only \$536,660 raised and the Company's two major Shareholders electing to not participate in the raising. Shareholders who did participate were afforded the opportunity to redeem their subscriptions.

In view of the permanent ban on onshore unconventional gas activity and the ongoing ban on conventional onshore gas exploration, the Board undertook to review all available options for protecting and growing Shareholder value. The Victorian Government's adverse actions have forced Lakes Oil to significantly impair its Victorian assets and placed our Company in a precarious financial position, which the Company's Board and management have been working to restore since the Government made its announcement on 30 August 2016. In this regard, I am pleased to report that the Company is in advanced discussions regarding the placement of 58,000 additional Converting Notes on 30 September 2016 and to acquire an interest in exploration acreage outside of Victoria. This will enable the Company to retain the monies raised in its capital raising program, which the Company may otherwise not have been able to retain due to a perceived lack of liquidity of such a small raising. Most importantly, it is also a small but necessary step towards securing the Company's future against the backdrop of the Victorian Government's decisions to prohibit onshore gas exploration in Victoria.

While the Board remains committed to developing Lakes Oil's onshore gas assets in Victoria for the benefit of our Shareholders and all Victorians, the Company is also reviewing certain other options. These include corporate initiatives and evaluation of exploration opportunities, which are intended to further restore the Company's financial condition and to diversify its activities outside Victoria. A decision is also imminent on whether and in what form to proceed against the Victorian Government for the substantial erosion of shareholder value that has resulted from its onshore gas bans. We expect to be in a position to report to Shareholders on these initiatives in the near future. There were some important changes on the corporate front during the last year. Mr Rob Annells, who was responsible for Lakes Oil being relisted on the ASX in 1985 and who subsequently steered the Company as Chairman and Managing Director, retired in May 2016. Rob's contribution to Lakes Oil, including putting together the Victorian exploration portfolio, was instrumental in positioning the Company for what we hope will be eventual success. In June 2016, Mr Andrew Davis resigned from the Board. Andrew was appointed as an independent Director in September 2015 and I thank him for his albeit brief contribution to reinforcing the Company's focus on protection of Shareholder interests.

Finally, I would like to thank Lakes Oil's small but dedicated staff for their continued input during challenging times and our Shareholders for their patience and support. We have had many supportive calls from Shareholders before and following the Victorian Government's adverse decision on onshore gas in Victoria and I am sure that together we will work our way through the disappointing outcome from the Victorian Government and rebuild to a successful Company.

Chris Tonkin
Chairman

Exploration and Operational Summary

The Victorian Government's ban on all onshore petroleum exploration activities remained in place for the entire financial year, thereby preventing the company from undertaking its core business of exploring for oil and gas in Victoria. On 30 August 2016 the Government announced the ban would be made permanent in respect of unconventional exploration activity and fracking, and would be extended to mid-2020 in respect of conventional exploration activity. These changes are to be implemented through Legislation, details of which are not yet available.

In view of the Victorian Government's repeated, adverse decisions regarding onshore conventional gas exploration, it is not anticipated that the company will be able to undertake any exploration activity within onshore Victoria until 2020 at the earliest. The year-end status of, and outlook for, the company's onshore Victorian exploration permits is as follows:

Petroleum Retention Lease 2:

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. Lakes Oil's interest in PRL2 is subject to the outcome of discussions with Armour Energy Limited regarding Armour's purported 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 programme of work. Lakes Oil and Armour have reserved their rights in relation to this matter, which is yet to be resolved.

Armour also had an option to acquire 50% of Lakes Oil's interests in the Trifon and Gangell blocks and a 25% interest in the remainder of PRL2 for a total payment of \$30m. The option arrangement had a term of 3 years, which was extended while the term of the Victorian Government's onshore fracking ban was uncertain. Following the Victorian Government's announcement on 30 August 2016 that the ban will be made permanent, Lakes Oil has proposed that the option arrangement be terminated.

As a consequence of the Victorian Government's onshore exploration ban, no exploration activity was undertaken within PRL2 during the financial year. Since the ban is to remain in place until mid-2020 in respect of conventional exploration within PRL2, exploration activity continues to be frustrated.

Absent the Government's adverse decisions regarding onshore gas exploration, Lakes Oil has made preparation for and has 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 that is to target the upper, more permeable section of the massive Strzelecki Formation. Based upon independent modelling Lakes Oil is optimistic that the Wombat-5 well will achieve commercial rates of gas flow. The second proposed development is insertion of a pump into the Wombat-3 well to test that well's potential for production of oil, evidence of which was seen when the well was drilled.

Lakes Oil has in place Letters of Intent for supply of gas from the Wombat Gasfield to Simplot Australia PL and Dow Chemical (Australia) Pty Ltd. The Letters of Agreement were entered into in July 2014. The Victorian Government's adverse decisions regarding onshore gas exploration have frustrated Lakes Oil's ability to commence production of gas and realise a fair return for Shareholders.

Petroleum Retention Lease 3:

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 PEP166 during the financial year. Since the ban is to remain in place in respect of PEP166 future exploration activity continues to be frustrated.

Petroleum Exploration Permit 166:

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. Since the ban is to remain in place in respect of PEP166 future exploration activity continues to be frustrated.

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Petroleum Exploration Permit 169:

Lakes Oil has a 49% interest in PEP166 with Armour Energy holding the remaining 51% interest. Operatorship of the permit has been delegated by Armour 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.

The company has plans to drill the Otway-1 well, a conventional well to be drilled adjacent to, but on the opposite side of a fault from, the Iona Gas Field. The well will be drilled to a depth of 1,500 metres and will target both the Warre Sands and the Eumeralla Formation. The Warre Sands are the basis of historic gas production from the Iona Gasfield and, at the Otway-1 location, are uplifted relative to the Iona Gasfield. 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 the Formation has been historically penetrated, it has been gas charged and, at nearby locations, has flowed gas at commercial rates.

Following the Victorian Government's announcement on 30 August 2016 that the ban on onshore conventional exploration will remain in force until mid-2020, drilling of the Otway-1 is still not possible.

Petroleum Exploration Permit 163:

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. Since the ban is to remain in place in respect of PEP163 future exploration activity continues to be frustrated.

Petroleum Exploration Permits 167 and 175:

Lakes Oil has a 100% interest in PEPs167 & 175, which were acquired in September 2014 and form the basis of the company's 'Portland Energy Project'. As a consequence of the Victorian Government's onshore exploration ban, no exploration activity was undertaken within the permits during the financial year.

The company has plans for drilling of two pilot 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. Although the Eumeralla Formation has been intersected multiple times since the 1960's and has always contained gas, in the absence of pipeline infrastructure and gas markets it has not been of historic interest. This situation has, of course, now changed dramatically. 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.

Lakes Oil has commissioned independent assessments that confirm the gas-in-place potential of the Eumeralla Formation. While ASX Listing mean the assessments cannot be released until further exploration/appraisal work has been completed, they underpin the potential of the Portland Energy Project to fundamentally change the landscape of gas supply into the eastern Australian gas market.

Following the Victorian Government's announcement on 30 August 2016 that the ban on onshore conventional exploration will remain in force until mid-2020, drilling of the Greenslopes-2 and Portland Energy-1 wells is still not possible.

Lakes Oil has submitted applications for suspension of all onshore Victorian exploration commitments and extension of the term of all onshore Victorian exploration permits.

The year-end status of, and outlook for, Lakes Oil's petroleum acreage, other than that which is onshore Victorian, is as follows:

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 activities. It is presently envisaged this may be possible in 2017/18.

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Queensland Petroleum Exploration Permits ATP 642P and ATP 662P:

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 the Queensland opportunities.

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.

Through its wholly owned subsidiary, Commonwealth Mining Pty Ltd, Lakes Oil also held an interest in three Victorian coal exploration leases (ELs 5333, 5334 and 5394). No exploration activities were undertaken within the leases during the financial year. Post year end the leases were relinquished as they were considered to be non-core.

**Lakes Oil NL
Directors' report
30 June 2016**

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 2016.

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 (Chairman) - Appointed as Chairman 23 May 2016 and appointed Non-executive Director 9 September 2015
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)
Andrew Davis (Non-executive Director) - Appointed 9 September 2015, resigned 2 June 2016
Robert Annells (Executive Chairman) - Resigned 20 May 2016
Robbert de Weijer (Alternate Director) - Resigned 28 September 2016

Principal activities

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

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 \$49,588,605 (30 June 2015: \$2,743,366).

Revenue including other income during the period amounted to \$1,204,807 (2015: \$327,280), which included interest of \$28,382 and other income of \$141,032 including \$1,035,393 in R&D tax concessions.

Operating expenses for the financial year were \$50,614,121 (2015: \$3,070,646). The major expense for the year was due to the provision for impairment of the consolidated entities Exploration and Evaluation assets following the Governments' decision on 30 August 2016 to ban onshore gas exploration in the amount of \$47,357,247 (2015: \$10,474). Employment benefit costs amounted to \$1,546,094 (2015: \$1,179,749), with an increase largely due to termination payouts to the former chairman during the financial year. Administration expenses amounted to \$865,243 (2015: \$969,131) resulting from continuing operations. Share based payments during the period amounted to \$127,587 (2015: Nil) which represented options issued to employees (non-directors) as part of their respective remuneration packages.

The net assets of the consolidated entity decreased by \$49,188,160 to \$6,822,106 as at 30 June 2016 (2015: \$56,010,266) which is largely due to the provision for impairment of Exploration and evaluation assets as mentioned above. The consolidated entity's working capital, being current assets less current liabilities was \$93,597 at 30 June 2016 (2015: \$2,626,122). During the period the consolidated entity had a negative cash flow from operating activities of \$2,201,383 (2015: \$3,227,692).

Significant changes in the state of affairs

On 9 October 2015, the Company issued 227,815,000 fully paid ordinary shares, following early conversion of 45,563 listed unsecured converting notes, in accordance with the conditions announced in the prospectus dated 11 March 2015.

On 8 January 2016, the Company issued 58,000,000 unlisted options exercisable at 0.005 cents (0.5 cents) per option, expiring on the 8 January 2021 to (non-director) employees pursuant to their respective remuneration packages.

On 6 April 2016, the Company issued 136,620,000 fully paid ordinary shares, following early conversion of 27,324 listed unsecured converting notes in accordance with the conditions announced in the Prospectus dated 11 March 2015.

On 30 June 2016, the Company announced that it would undertake a Non-Renounceable Rights Issue of listed converting notes at an issue price of \$10 per note. The rights issue was on a basis of 1 convertible note for every 20,000 fully paid ordinary shares and existing LKOGA listed noteholders were also entitled to subscribe to 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. The maximum notes to be issued was 710,000 which could raise up to \$7,100,000 (before costs).

During the year interest of \$349,428 was paid to convertible note holders from the fund held by Equity Trustees (refer to note 11 for further information). A total of 364,435,000 fully paid ordinary shares were issued due to convertible note holders electing to convert 72,887 convertible notes.

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

Subsequent to the end of the year the consolidated entity sold its investment in Greenerth Energy Limited (ASX:GER) for a total of \$751,199.

On 30 August 2016, the Victorian government announced a decision to ban unconventional gas exploration in Victoria, and to extend the ban on conventional gas exploration in Victoria until 30 June 2020.

On 16 September 2016, the consolidated entity completed a non-renounceable Rights Issue issuing 53,666 converting notes at \$10 each raising \$536,660 before costs. This was substantially less than had been expected as a consequence of concerns about the Victorian Government's adverse decisions regarding onshore gas exploration in Victoria.

On 30 September 2016 the consolidated entity was in advanced discussions to issue a further 58,000 converting notes representing funding of \$580,000 and to acquire an interest in exploration acreage outside of Victoria.

No other matter or circumstance has arisen since 30 June 2016 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, 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.

**Lakes Oil NL
Directors' report
30 June 2016**

Information on directors

Name:	Chris Tonkin
Title:	Chairman (appointed 23 May 2016) and Non-executive Director (Appointed 9 September 2015)
Qualifications:	BSc (Hons.), BA, MBA, GAICD, CFTP (Snr)
Experience and expertise:	<p>Chris 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.</p> <p>He has over 35 years' experience as a senior business executive with an extensive industry background in business development and management, finance and strategy development across all major industry sectors and particularly natural resources as an advisor and financier to the mining and metals and oil and gas industries.</p>
Other current directorships:	Arafura Resources Limited (ASX:ARU)
Former directorships (last 3 years):	Nil
Interests in shares:	6,500,000 fully paid ordinary shares
Interests in options:	Nil
Interests in converting notes:	Nil
Name:	Barney Berold
Title:	Non-executive director
Qualifications:	BCom, MBA.
Experience and expertise:	<p>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.</p>
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Chair Audit Committee and Chair Remuneration Committee
Interests in shares:	54,157,778 fully paid ordinary shares
Interests in options:	Nil
Interests in converting notes:	2,000 listed converting notes maturing 31 March 2017

**Lakes Oil NL
Directors' report
30 June 2016**

Name: Nicholas Mather
Title: Non-executive Director
Qualifications: BSc (Hons. Geology) MAusIIM
Experience and expertise: Mr. Nicholas (Nick) Mather has served on the Board since February 2012 and in addition is currently Managing Director and founder of DGR Global Limited (ASX), 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), AusTin Mining Ltd (ASX: ANW) and Dark Horse Resources (ASX: DHR)

Former directorships (last 3 years): Orbis Gold Limited (ASX:OBS) (resigned 16 February 2015)

Special responsibilities: Remuneration Committee Member

Interests in shares: Nil

Interests in options: Nil

Interests in converting notes: Nil

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

Other current directorships: Silver City minerals Ltd (ASX:SCI), 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)

Special responsibilities: Audit Committee Member

Interests in shares: Nil

Interests in options: Nil

Interests in converting notes: Nil

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

Other current directorships: DGR Gloabl Limited (ASX:DGR)
 Former directorships (last 3 years): Alchemia Limited (ASX:ACL) and Bemax Resources Limited (ASX:BMX)
 Special responsibilities: Audit Committee Member
 Interests in shares: 6,000,000 fully paid ordinary shares
 Interests in options: Nil
 Interests in converting notes: Nil

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): Indophil Resources NL (ASX:IRN) and Inova Resources Ltd (ASX:IVA, TSX:IVA)
 Special responsibilities: Remuneration Committee Member
 Interests in shares: 3,000,000 fully paid ordinary shares
 Interests in options: Nil
 Interests in converting notes: Nil

Name: Robbert de Weijer (resigned 28 September 2016)
 Title: Alternate Director
 Qualifications: B.Eng (Mech)
 Experience and expertise: Mr de Weijer is the appointed Alternate Director for Mr. Mather and Mr. Stubbs. Mr de Weijer joined Armour Energy Ltd as Chief Executive Officer in July 2013 to drive the Company's project and corporate development initiatives. Mr de Weijer's most recent role was as Chief Executive Officer (Australia) for Dart Energy Ltd, an unconventional gas exploration and production company operational in 8 countries. Prior to joining Dart Energy Ltd Mr De Weijer, under secondment from Shell, held the position of Chief Operating Officer for Arrow Energy Ltd, one of Australia's leading coal bed methane companies. His career with Shell spanned 23 years during which he gained extensive experience within the oil and gas industry and held a variety of senior management roles in multiple countries spanning Europe, the Middle East and Australia.

Other current directorships: N/A
 Former directorships (last 3 years): N/A
 Interests in shares: N/A
 Interests in options: N/A
 Interests in converting notes: N/A

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Name: Robert Annells
Title: Executive chairman (resigned on 20 May 2016)
Qualifications: CPA, F.Fin
Experience and expertise: Mr. Annells is a former member of the Australian Stock Exchange with over 40 years' experience in the securities industry, and is also a qualified accountant. His experience includes provision of corporate and investment advice to the business and resources industries.
Other current directorships: N/A
Former directorships (last 3 years): N/A
Interests in shares: N/A
Interests in converting notes: N/A

Name: Andrew Davis
Title: Non-executive director (Appointed 9 September 2015; resigned on 2 June 2016)
Qualifications: LLB
Experience and expertise: Mr Davis was born and educated in Sydney and attended Sydney University where he graduated in Law in 1963 and was admitted as a barrister. He has been a director of and involved in the management of a number of private and public companies in various industries. He was involved in quarrying as the Chairman of Gosford Quarries, the well-known dimension stone company. He was for a number of years Managing Director of Territorial Resources Inc., a small public oil and gas company headquartered in Houston Texas with interests in Texas and a number of other states in the United States
Other current directorships: N/A
Former directorships (last 3 years): N/A
Interests in shares: N/A
Interests in options: N/A
Interests in converting notes: N/A

'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

Melanie Leydin was appointed Company Secretary on the 1 July 2016, she currently holds a Bachelor of Business majoring in Accounting and Corporate Law. She is a member of the Institute of Chartered Accountants and is a Registered Company Auditor. She graduated from Swinburne University in 1997, became a Chartered Accountant in 1999 and since February 2000 has been the principal of chartered accounting firm, Leydin Freyer.

The practice provides outsourced company secretarial and accounting services to public and private companies specialising in the Resources, technology, bioscience and biotechnology sector.

Melanie has over 23 years' experience in the accounting profession and has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, reorganisation of Companies and shareholder relations.

Leslie Smith resigned as the Company Secretary on 1 July 2016. Mr Smith has previously held senior financial and company secretarial roles in various industries.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2016, 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	11	14	-	-	-	-
Barney Berold	14	14	-	-	2	2
Nicholas Mather	13	14	-	-	-	-
Ian Plimer	13	14	-	-	2	2
William Stubbs	12	14	-	-	2	2
Kyle Wightman	14	14	-	-	-	-
Robbert de Weijer (Alternate)	2	14	-	-	-	-
Robert Annells*	12	14	-	-	-	-
Andrew Davis*	9	14	-	-	-	-

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
- Service agreements
- 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.

The Remuneration Committee has the responsibility to assess the appropriateness of the nature and amount of emoluments for the Executive Chairman on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality executive.

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.

**Lakes Oil NL
Directors' report
30 June 2016**

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.

During the year the Executive Chairman resigned and therefore the Remuneration Committee will meet in the coming financial year to adopt any new remuneration policies as necessary.

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.

Subsequent to year end the Board has elected to reduce its fees by 33% from 1 July 2016 until a date to be agreed and, subject to shareholder approval, to pay 50% of the reduced fee by way of shares (instead of cash).

An aggregate of \$100,000 of shares are to be issued to the directors in lieu of directors fees. Shareholders' approval for their issue will be sought at the November 2016 annual general meeting, with the issue price to be based on the market price at that time.

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.

- Robert Annells (Executive Chairman) Resigned 20 May 2016
- Chris Tonkin (Chairman) Appointed as Chairman 23 May 2016 and appointed Non-executive Director 9 September 2015
- 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)
- Andrew Davis (Non-executive Director) Appointed 9 September 2015, resigned 2 June 2016

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

- Roland Sleeman (Chief Executive Officer) Appointed 8 June 2016
- Ingrid Campbell (Chief Geologist)
- Tim O'Brien (Operations Manager)
- Leslie Smith (Chief Financial Officer and Company Secretary) Resigned 1 July 2016

Lakes Oil NL
Directors' report
30 June 2016

Amounts of remuneration

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

2016	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	
	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Barney Berold	15,000	-	-	35,000	-	-	50,000
Andrew Davis**	33,231	-	-	3,157	-	-	36,388
Nicholas Mather	50,000	-	-	-	-	-	50,000
Ian Plimer	45,662	-	-	4,338	-	-	50,000
William Stubbs	45,662	-	-	4,338	-	-	50,000
Chris Tonkin**	37,037	-	-	3,518	-	-	40,555
Kyle Wightman	45,662	-	-	4,338	-	-	50,000
<i>Executive Directors:</i>							
Robert Annells*	311,400	350,000	-	29,600	-	-	691,000
<i>Other Key Management Personnel:</i>							
Roland Sleeman***	10,833	-	-	-	-	54,167	65,000
Ingrid Campbell	185,496	-	-	35,000	3,685	14,850	239,031
Tim O'Brien	219,696	-	-	20,878	4,020	19,800	264,394
Leslie Smith	155,400	-	-	24,996	-	14,850	195,246
	<u>1,155,079</u>	<u>350,000</u>	<u>-</u>	<u>165,163</u>	<u>7,705</u>	<u>103,667</u>	<u>1,781,614</u>

* Mr Annells resigned as Chairman and Chief Executive on 20 May 2016.

** Mr Tonkin and Mr Davis were appointed as Non-executive directors on 9 September 2015. Mr Davis resigned on 2 June 2016. Mr Tonkin was appointed as Chairman on 20 May 2016.

*** Mr Sleeman was appointed on 8 June 2016.

**Lakes Oil NL
Directors' report
30 June 2016**

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
2015	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Barney Berold	15,000	-	-	35,000	-	-	50,000
Nicholas Mather	50,000	-	-	-	-	-	50,000
Ian Plimer	45,662	-	-	4,338	-	-	50,000
William Stubbs	45,662	-	-	4,338	-	-	50,000
Kyle Wightman*	41,488	-	-	3,940	-	-	45,428
<i>Executive Directors:</i>							
Robert Annells	342,108	-	5,000	31,642	-	-	378,750
<i>Other Key Management Personnel:</i>							
Ingrid Campbell	185,496	-	-	35,000	-	-	220,496
Tim O'Brien	240,821	-	-	22,877	-	-	263,698
Leslie Smith	155,400	-	-	24,996	-	-	180,396
	1,121,637	-	5,000	162,131	-	-	1,288,768

* Mr Wightman was appointed on 4 August 2014.

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2016	2015	2016	2015	2016	2015
<i>Non-Executive Directors:</i>						
Chris Tonkin	100%	-	-	-	-	-
Barney Berold	100%	100%	-	-	-	-
Andrew Davis	100%	-	-	-	-	-
Nicholas Mather	100%	100%	-	-	-	-
Ian Plimer	100%	100%	-	-	-	-
William Stubbs	100%	100%	-	-	-	-
Kyle Wightman	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
Robert Annells	100%	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
Roland Sleeman	17%	-	-	-	83%	-
Ingrid Campbell	94%	100%	-	-	6%	-
Tim O'Brien	92%	100%	-	-	8%	-
Leslie Smith	92%	100%	-	-	8%	-

**Lakes Oil NL
Directors' report
30 June 2016**

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Mr Roland Sleeman
 Title: Chief Executive Officer
 Agreement commenced: 8 June 2016
 Term of agreement: To 8 December 2016, with the Company having the option to extend for 6 months.
 Details: Remuneration for the contract period consists of \$4,167 per week. Either party may terminate the agreement by giving two (2) month's written notice to the other party at any time, for any reason.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2016 are set out below:

Name	Date	Shares	Issue price	\$
Roland Sleeman	29 June 2016	54,166,666	\$0.001	54,167

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.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2016 are set out below:

Name	Number of options granted during the year 2016	Number of options granted during the year 2015	Number of options vested during the year 2016	Number of options vested during the year 2015
Ingrid Campbell	15,000,000	-	15,000,000	-
Tim O'Brien	20,000,000	-	20,000,000	-
Leslie Smith	15,000,000	-	15,000,000	-

Lakes Oil NL
Directors' report
30 June 2016

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2016 are set out below:

Name	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
Ingrid Campbell	14,850	-	-	6%
Tim O'Brien	19,800	-	-	8%
Leslie Smith	14,850	-	-	8%

Additional information

The earnings of the consolidated entity for the five years to 30 June 2016 are summarised below:

	2016 \$	2015 \$	2014 \$	2013 \$	2012 \$
Revenue (excluding fair value gains and losses) (\$'000)	1,205	51	79	572	47
Loss before tax (\$'000)	(49,589)	(2,743)	(3,168)	(2,953)	(3,024)
Change in share price (%)	(50)	(33)	(40)	-	(25)

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	54,157,778	-	-	-	54,157,778
William Stubbs	6,000,000	-	-	-	6,000,000
Roland Sleeman	-	54,166,666	-	-	54,166,666
Ingrid Campbell	2,300,000	-	-	(1,300,000)	1,000,000
Tim O'Brien	13,250,000	-	4,000,000	-	17,250,000
Leslie Smith	2,126,600	-	-	-	2,126,600
Robert Annells**	107,237,259	-	-	(107,237,259)	-
Andrew Davis*	-	-	5,000,000	(5,000,000)	-
	<u>185,071,637</u>	<u>54,166,666</u>	<u>9,000,000</u>	<u>(113,537,259)</u>	<u>134,701,044</u>

* Mr Davis held 5,000,000 shares upon his appointment on 9 September 2015 and held the same shares upon his cessation as director on 2 June 2016.

** Mr Annells resigned as an Executive Director on 20 May 2016 and therefore, at the end of the year a disclosure is no longer required.

**Lakes Oil NL
Directors' report
30 June 2016**

Converting Notes

The number of converting notes 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>Converting notes</i>					
Barney Berold	2,000	-	-	-	2,000
Ingrid Campbell	150	-	-	(150)	-
Tim O'Brien	2,000	-	-	(400)	1,600
Leslie Smith	213	-	-	-	213
	<u>4,363</u>	<u>-</u>	<u>-</u>	<u>(550)</u>	<u>3,813</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>					
Ingrid Campbell	-	15,000,000	-	-	15,000,000
Tim O'Brien	-	20,000,000	-	-	20,000,000
Leslie Smith	-	15,000,000	-	-	15,000,000
	<u>-</u>	<u>50,000,000</u>	<u>-</u>	<u>-</u>	<u>50,000,000</u>

	Vested and exercisable	Vested and unexercisable	Balance at the end of the year
<i>Options over ordinary shares</i>			
Ingrid Campbell	15,000,000	-	15,000,000
Tim O'Brien	20,000,000	-	20,000,000
Leslie Smith	15,000,000	-	15,000,000
	<u>50,000,000</u>	<u>-</u>	<u>50,000,000</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 6 month after the ceasing of employment.

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	58,000,000

The options listed above were issued to employees (non-director) in line with their respective remuneration packages.

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 2016 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 26 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 26 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.

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



Chris Tonkin
Chairman

30 September 2016

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 2016, to the best of my knowledge and belief there have been:

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

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



B POWERS
Partner

30 September 2016



PITCHER PARTNERS
Melbourne

Lakes Oil NL
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2016

	Note	Consolidated 2016 \$	2015 \$
Revenue			
Interest income	5	28,382	30,197
Other income	5	141,032	21,250
Fair value gains on financial assets through profit or loss	10	-	275,833
Research and development tax concession	5	1,035,393	-
		<u>1,204,807</u>	<u>327,280</u>
Expenses			
Employee benefits expense		(1,546,094)	(1,179,749)
Share based payments		(127,587)	-
Depreciation expenses	6	(39,647)	(59,960)
Impairment loss on exploration and evaluation assets	14	(47,357,247)	(10,474)
Accounting and audit expenses		(62,295)	(85,974)
Administrative expenses	6	(865,243)	(969,131)
Consulting expenses		(214,597)	(215,298)
Finance costs		(62,496)	(98,680)
Marketing and promotion expenses		(139,604)	(244,626)
Fair value gains on financial assets through profit or loss	10	(179,291)	-
Rent and occupancy expenses		(199,311)	(206,754)
		<u>(49,588,605)</u>	<u>(2,743,366)</u>
Loss before income tax expense		(49,588,605)	(2,743,366)
Income tax expense	7	-	-
		<u>-</u>	<u>-</u>
Loss after income tax expense for the year attributable to the owners of Lakes Oil NL		(49,588,605)	(2,743,366)
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>(49,588,605)</u>	<u>(2,743,366)</u>
		Cents	Cents
Basic loss per share	35	(0.42)	(0.03)
Diluted loss per share	35	(0.42)	(0.03)

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 2016

	Note	Consolidated 2016 \$	2015 \$
Assets			
Current assets			
Cash and cash equivalents	8	761,818	2,685,532
Trade and other receivables	9	86,249	78,086
Financial assets at fair value through profit or loss	10	924,044	1,103,335
Other financial assets	11	385,302	868,105
Other current assets	12	38,680	37,636
Total current assets		<u>2,196,093</u>	<u>4,772,694</u>
Non-current assets			
Property plant and equipment	13	1,864,335	1,903,982
Exploration and evaluation	14	5,172,635	52,118,429
Total non-current assets		<u>7,036,970</u>	<u>54,022,411</u>
Total assets		<u>9,233,063</u>	<u>58,795,105</u>
Liabilities			
Current liabilities			
Trade and other payables	15	683,601	548,079
Converting notes	16	216,360	374,432
Borrowings	17	1,000,000	1,000,000
Provisions	18	202,535	224,061
Total current liabilities		<u>2,102,496</u>	<u>2,146,572</u>
Non-current liabilities			
Borrowings	19	-	312,028
Provisions	20	308,461	326,239
Total non-current liabilities		<u>308,461</u>	<u>638,267</u>
Total liabilities		<u>2,410,957</u>	<u>2,784,839</u>
Net assets		<u>6,822,106</u>	<u>56,010,266</u>
Equity			
Share capital - ordinary shares and converting notes	21	111,015,298	110,672,272
Reserves	22	57,420	-
Accumulated losses		(104,250,612)	(54,662,006)
Total equity		<u>6,822,106</u>	<u>56,010,266</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 2016

Consolidated	Contributed equity \$	Share based payment reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2014	107,140,272	-	(51,918,640)	55,221,632
Loss after income tax expense for the year	-	-	(2,743,366)	(2,743,366)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(2,743,366)	(2,743,366)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 21)	3,563,500	-	-	3,563,500
Capital raising costs	(31,500)	-	-	(31,500)
Balance at 30 June 2015	<u>110,672,272</u>	<u>-</u>	<u>(54,662,006)</u>	<u>56,010,266</u>
Consolidated	Contributed equity \$	Share based payment reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2015	110,672,272	-	(54,662,006)	56,010,266
Loss after income tax expense for the year	-	-	(49,588,605)	(49,588,605)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(49,588,605)	(49,588,605)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 21)	343,026	-	-	343,026
Share-based payments (note 22 & 36)	-	57,420	-	57,420
Balance at 30 June 2016	<u>111,015,298</u>	<u>57,420</u>	<u>(104,250,612)</u>	<u>6,822,106</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 2016

	Note	Consolidated 2016 \$	2015 \$
Cash flows from operating activities			
Receipts		21,250	21,238
Payments to suppliers and employees		(2,812,457)	(2,776,831)
Payments for exploration and evaluation costs		(411,453)	(531,981)
Receipts from joint operation partners towards exploration and evaluation costs		-	98,153
Interest received		28,380	29,885
Finance costs		(62,496)	(68,156)
Research and development tax concession refund		1,035,393	-
		<u>1,035,393</u>	<u>-</u>
Net cash used in operating activities	34	<u>(2,201,383)</u>	<u>(3,227,692)</u>
Cash flows from investing activities			
Purchase of trustee investments		-	(843,850)
Purchase of exploration permits	14	-	(1,486,386)
Proceeds from trustee investment		95,669	205,892
		<u>95,669</u>	<u>205,892</u>
Net cash from/(used in) investing activities		<u>95,669</u>	<u>(2,124,344)</u>
Cash flows from financing activities			
Proceeds from issue of shares	21	182,000	28,500
Proceeds from issue of converting notes		-	4,222,090
Converting note interest paid		-	(110,185)
Payment of note issue costs		-	(156,850)
Proceeds from borrowings		1,000,000	1,000,000
Repayment of borrowings		(1,000,000)	-
		<u>1,000,000</u>	<u>1,000,000</u>
Net cash from financing activities		<u>182,000</u>	<u>4,983,555</u>
Net decrease in cash and cash equivalents		(1,923,714)	(368,481)
Cash and cash equivalents at the beginning of the financial year		<u>2,685,532</u>	<u>3,054,013</u>
Cash and cash equivalents at the end of the financial year	8	<u><u>761,818</u></u>	<u><u>2,685,532</u></u>

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

Lakes Oil NL
Notes to the financial statements
30 June 2016

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 30 September 2016. 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 below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

None of these Accounting Standards and Interpretations had a material effect.

Any new, revised or amending 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.

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 financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity reported a net loss of \$49,588,605 (2015: \$2,743,366) after impairment of \$47,357,247. The significant movement in the net loss is as a result of the forced impairment on the Company's Victorian Assets amounting \$47,357,247 following the Victorian Government's adverse decisions regarding onshore gas exploration in Victoria. This is a non-cash movement and one-off in nature. Excluding the impairment, the net loss would have been \$2,231,358.

The working capital position as at 30 June 2016 of the consolidated entity results in an excess of current assets over current liabilities of \$93,597 (30 June 2015: \$2,626,122). The consolidated entity had net operating cash outflows of \$2,201,383 (2015: \$3,227,692). The cash balance as at 30 June 2016 was \$761,818 (30 June 2015: \$2,685,532).

Note 2. Significant accounting policies (continued)

During the year and subsequent to 30 June 2016 the following events have taken place to support the going concern basis of accounting for the consolidated entity:

Converting Note Raising

- On 16 September 2016, the consolidated entity completed a non-renounceable Rights Issue issuing 53,666 converting notes at \$10 each raising \$536,660 before costs. This was substantially less than had been expected as a consequence of concerns about the Victorian Government's adverse decisions regarding onshore gas exploration in Victoria.
- On 30 September 2016 the consolidated entity was in advanced discussions to issue a further 58,000 converting notes representing funding of \$580,000 and to acquire an interest in exploration acreage outside of Victoria.
- As a result of Victorian Government's adverse decisions regarding onshore gas exploration, the Company offered all applicants a 4 week period to lodge redemption requests and this closes on 3 October 2016. There has been redemption requests to date for approximately 10,000 notes.

Other Funding

- The consolidated entity is in discussion regarding other project acquisitions and funding facilities including the potential of litigation funding.
- Subsequent to year end management entered into discussions with parties to progress the sale of the land held by the consolidated entity.

Cost Reductions/Debt renegotiations

- The consolidated entity has agreed in principle (subject to documentation which is in the process of being prepared) to a 9 month extension to the current \$1m mortgage facility that is due in April 2017 which would extend its repayment to January 2018.
- Subsequent to the end of the financial year the Directors fees have temporarily reduced by 33% and the Directors have agreed to receive 50% of their fees in shares (subject to shareholder approval at the upcoming Annual General Meeting).
- Management continue to implement measures to reduce the consolidated entity's cash burn on a monthly basis.

While the directors are confident in the consolidated entity's ability to continue as a going concern, in the event the cashflow forecasts are adversely impacted and the agreements and commercial opportunities described above do not eventuate as planned, there is a material uncertainty as to whether the consolidated entity will be able to generate sufficient net operating cash inflows or execute alternative funding arrangements to enable it to continue as a going concern, beyond the 12 months from the date the directors sign the financial report. Consequently, material uncertainty exists as to whether the consolidated entity will continue as a going concern and it may therefore be required to realise assets at amounts different to their carrying amounts in the statement of financial position, extinguish liabilities at amounts different to those recorded in the statement of financial position and settle liabilities other than in the ordinary course of business. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the consolidated entity be unable to continue as a going concern and meet its debts as and when they fall due.

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 of financial assets and liabilities at fair value through profit or loss and certain classes of property, plant and equipment.

Note 2. Significant accounting policies (continued)

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 31.

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 2016 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.

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.

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.

Note 2. Significant accounting policies (continued)

Research and development tax concessions

The entity is eligible under the Commonwealth Government's Research and Development Tax Incentive scheme to a 45% refundable tax offset for certain expenditures arising from eligible research and development activities. As the entity receives the tax offset in the form of cash, it accounts for the incentive as government grants in accordance with AASB 120: Accounting for Government Grants and Disclosure of Government Assistance.

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

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.

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.

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.

Note 2. Significant accounting policies (continued)

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.

Trade and other receivables

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

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss in accordance with AASB 13.

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

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

Impairment of financial assets

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

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

Financial liabilities

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

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.

Property, plant and equipment

Land and buildings are stated at cost less depreciation and any accumulated impairment loss.

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.

Note 2. Significant accounting policies (continued)

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.

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.

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.

Amortisation

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

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

Note 2. Significant accounting policies (continued)

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.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other 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.

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 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.

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.

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.

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 2. Significant accounting policies (continued)

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.

Share-based payments

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

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.

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.

Note 2. Significant accounting policies (continued)

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.

Third party share-based payments

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

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Contributed equity

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.

Earnings per share

Basic earnings per 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 per 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.

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.

Note 2. Significant accounting policies (continued)

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 2016. 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.

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 will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 January 2018 should be minimal, although there will be increased disclosures where fair value is used.

Note 2. Significant accounting policies (continued)

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 the impact of its adoption is yet to be assessed by the consolidated entity.

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 as 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 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

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.

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

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

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.

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.

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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, Australia

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

Operating segment information

	Segment 1	Segment 2	Total
	\$	\$	\$
Consolidated - 2016			
Revenue			
Segment revenue	1,176,425	-	1,176,425
Total segment revenue	<u>1,176,425</u>	<u>-</u>	<u>1,176,425</u>
<i>Unallocated revenue:</i>			
Interest income			28,382
Total revenue			<u>1,204,807</u>
Total operating result	<u>(49,369,667)</u>	<u>(179,291)</u>	<u>(49,548,958)</u>
Loss before income tax expense	<u>(49,369,667)</u>	<u>(179,291)</u>	<u>(49,548,958)</u>
Depreciation			(39,647)
Loss after income tax expense			<u>(49,588,605)</u>

	Segment 1	Segment 2	Total
	\$	\$	\$
Consolidated - 2015			
Revenue			
Segment revenue	21,250	275,833	297,083
Total segment revenue	<u>21,250</u>	<u>275,833</u>	<u>297,083</u>
<i>Unallocated revenue:</i>			
Interest revenue			30,197
Total revenue			<u>327,280</u>
Total segment result	<u>(2,683,406)</u>	<u>-</u>	<u>(2,683,406)</u>
Loss before income tax expense	<u>(2,683,406)</u>	<u>-</u>	<u>(2,683,406)</u>
Depreciation			(59,960)
Loss after income tax expense			<u>(2,743,366)</u>

All segment revenue is derived in Australia.

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

All assets and liabilities on the statement of financial position are based in Australia, with the exception of a Segment 1 Non-Current Asset, being Deferred Exploration, Evaluation and Developments Costs for Eagle Prospect, a permit in the USA. This asset is disclosed in Note 14.

Lakes Oil NL
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Note 4. Operating segments (continued)

	Consolidated	
	2016	2015
	\$	\$
Revenue		
Segment revenue from external source	1,176,425	297,083
Interest revenue	28,382	30,197
	<u>1,204,807</u>	<u>327,280</u>
Total revenue	<u><u>1,204,807</u></u>	<u><u>327,280</u></u>

Note 5. Revenue

	Consolidated	
	2016	2015
	\$	\$
Revenue from continuing operations		
Interest - Other persons/corporations	28,382	30,197
Other Income	141,032	21,250
Research and development tax concession	1,035,393	-
	<u>1,204,807</u>	<u>51,447</u>
Total	<u><u>1,204,807</u></u>	<u><u>51,447</u></u>

Included in other income is an amount of \$100,000 which relates to a non-refundable option payment made by Armour Energy to acquire an interest in a tenement currently held by the consolidated entity.

Note 6. Expenses

	Consolidated	
	2016	2015
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation Expense</i>		
Property, plant and equipment	39,647	59,960
<i>Administrative Expense</i>		
Travel and accommodation	63,125	84,647
Share registry costs and listing fees	193,235	282,208
Legal fees	122,465	147,233
Directors fees	310,110	245,430
Insurance premiums	121,206	148,737
Office expenses	208,467	318,321
Less portion attributed to exploration permits capitalised	(153,365)	(258,195)
	<u>865,243</u>	<u>968,381</u>
Total administrative	<u><u>865,243</u></u>	<u><u>968,381</u></u>

Specific items

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

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Note 7. Income tax expense

	Consolidated	
	2016	2015
	\$	\$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(49,588,605)	(2,743,366)
Tax at the statutory tax rate of 28.5% (2015: 30%)	(14,132,752)	(823,010)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses and timing differences	13,214	(655,736)
Impairment of exploration and evaluation assets	13,496,745	-
Non-assessable research and development rebate	(295,087)	-
	(917,880)	(1,478,746)
Benefit of tax losses not brought to account	917,880	1,478,746
Income tax expense	-	-
	Consolidated	2015
	2016	2015
	\$	\$
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	76,086,577	72,865,945
Potential tax benefit @ 28.5% (2015: 30%)	22,825,973	21,859,784

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.

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	2016	2015
	\$	\$
Cash at bank	611,318	2,535,032
Cash on deposit	150,500	150,500
	761,818	2,685,532

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Note 9. Current assets - trade and other receivables

	Consolidated	
	2016	2015
	\$	\$
Related party debtors	75,125	62,970
Other receivables	475	1,101
	<u>75,600</u>	<u>64,071</u>
GST receivable	<u>10,649</u>	<u>14,015</u>
	<u><u>86,249</u></u>	<u><u>78,086</u></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 30.

The related party debtor listed above relates to amounts receivable from Greenerth Energy Limited. Subsequent to year end Greenerth Energy Limited ceased to be a related party.

Impairment of receivables

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

	Consolidated	
	2016	2015
	\$	\$
Not past due	<u>86,249</u>	<u>78,086</u>

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

Note 10. Current assets - financial assets at fair value through profit or loss

	Consolidated	
	2016	2015
	\$	\$
Ordinary shares - Greenerth Energy Ltd (GER)	<u>924,044</u>	<u>1,103,335</u>
<i>Reconciliation</i>		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening fair value	1,103,335	828,752
Fair value gains/(losses) on financial assets through profit or loss	<u>(179,291)</u>	<u>274,583</u>
Closing fair value	<u><u>924,044</u></u>	<u><u>1,103,335</u></u>

The above shareholding comprises shares in Greenerth Energy Limited.

Investment in Greenerth Energy (GER) held by the consolidated entity at fair value are valued in accordance AASB 13, using Level 1 of the fair value hierarchy - quoted prices (unadjusted) in active markets for identical assets or liabilities. The fair values of the financial assets held have been determined by reference to the quoted price on the ASX at 30 June 2016 and 30 June 2015.

Subsequent to year end this financial asset was sold by the company (refer to note 33).

Lakes Oil NL
Notes to the financial statements
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Note 11. Current assets - Other financial assets

	Consolidated	
	2016	2015
	\$	\$
Security deposit	22,000	22,000
Cash held on trust	363,302	846,105
	<u>385,302</u>	<u>868,105</u>

Terms of conditions relating to financial assets

The security deposits comprise bonds and guarantees for property leases which are non-interest bearing and are refunded upon the termination of the lease contract.

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.

Note 12. Current assets - Other current assets

	Consolidated	
	2016	2015
	\$	\$
Prepayments	38,680	37,636

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

	Consolidated	
	2016	2015
	\$	\$
Land and buildings - at cost	2,321,438	2,321,438
Less: Accumulated depreciation	(84,899)	(76,971)
Less: Accumulated Impairments	(471,001)	(471,001)
	<u>1,765,538</u>	<u>1,773,466</u>
Leasehold improvements - at cost	295,054	295,054
Less: Accumulated depreciation	(279,114)	(271,200)
	<u>15,940</u>	<u>23,854</u>
Plant and equipment - at cost	592,098	592,098
Less: Accumulated depreciation	(509,241)	(485,436)
	<u>82,857</u>	<u>106,662</u>
	<u>1,864,335</u>	<u>1,903,982</u>

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

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 2014	1,782,000	35,697	146,244	1,963,941
Depreciation expense	<u>(8,534)</u>	<u>(11,843)</u>	<u>(39,582)</u>	<u>(59,959)</u>
Balance at 30 June 2015	1,773,466	23,854	106,662	1,903,982
Depreciation expense	<u>(7,928)</u>	<u>(7,914)</u>	<u>(23,805)</u>	<u>(39,647)</u>
Balance at 30 June 2016	<u><u>1,765,538</u></u>	<u><u>15,940</u></u>	<u><u>82,857</u></u>	<u><u>1,864,335</u></u>

Impairment Loss on Land and Buildings

The accumulated impairment losses relates to freehold land and buildings are based on the independent valuations obtained from Lee Property Valuers and Advisors on 4 September 2014. Such valuations were performed on an open market basis, being the amounts for which the assets could be exchanged between knowledgeable willing buyer and a knowledgeable willing seller in an arms' length valuation at valuation date. The whole amount of the impairment losses 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.

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 14. Non-current assets - exploration and evaluation

	Consolidated	
	2016	2015
	\$	\$
Exploration and evaluation	52,529,882	52,118,429
Less: Provision for impairment	<u>(47,357,247)</u>	-
	<u><u>5,172,635</u></u>	<u><u>52,118,429</u></u>

Lakes Oil NL
Notes to the financial statements
30 June 2016

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

Reconciliations

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

Consolidated	Total \$
Balance at 1 July 2014	50,148,903
Purchase of additional permits	1,486,386
Expenditure during the year	493,614
Exploration expenditure written off	<u>(10,474)</u>
Balance at 30 June 2015	52,118,429
Expenditure during the year	411,453
Provision for impairment	<u>(47,357,247)</u>
Balance at 30 June 2016	<u><u>5,172,635</u></u>

Significant judgment is required in determining whether it is likely that future economic benefits will be derived from the capitalised exploration and evaluation expenditure. In the judgement of the Directors, at 30 June 2016 exploration activities in each area of interest have not yet reached a stage which permits a reasonable assessment of the existence or other of economically recoverable reserves.

Notwithstanding the Directors' judgement that the Company's onshore Victorian exploration acreage is likely to contain economically recoverable reserves of gas, in view of the Victorian Government's 30 August 2016 announcement that all onshore gas exploration is to be banned the Company has been left with no alternative but to impair the value of its Victorian exploration permits by the amount of \$47m.

A reconciliation of total exploration and evaluation costs carried forward by Permit location is detailed below:

Permit name	Location/ (basin name)	2016	2015
PEP 163	Otway	-	1,265,377
PEP167	Otway	-	281,881
PEP 169^	Otway	-	96,561
PEP175	Otway	-	303,616
PRL 2 – Overall Permit^	Gippsland	-	35,276,962
PRL 2 – Trifon Field^	Gippsland	-	-
PRL 3	Gippsland	-	2,105,304
PEP 166^	Gippsland	-	7,165,761
VIC/P43(V)	Gippsland	-	12,014
VIC/P44(V)	Gippsland	-	12,014
ATP642P	Eromanga/Cooper	658,563	639,820
ATP662P	Eromanga/Cooper	652,924	638,741
Eagle Prospect	California USA	3,861,148	3,860,686
EL5333	Gippsland	-	110,587
EL5334	Gippsland	-	24,553
EL5394	Gippsland	-	24,552
Provision for Restoration Costs		-	300,000
		<u>5,172,635</u>	<u>52,118,429</u>

^ These areas are subject to agreements, farminee rights and option agreements as described in the shareholder information on the last page of this report

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

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.

Note 15. Current liabilities - trade and other payables

	Consolidated	
	2016	2015
	\$	\$
Trade and other payables	661,549	402,910
Deferred revenue	-	100,000
Other payables	22,052	45,169
	<u>683,601</u>	<u>548,079</u>

Refer to note 24 for further information on financial instruments.

Terms and conditions relating to the above financial instruments:

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

Note 16. Current liabilities - Converting notes

	Consolidated	
	2016	2015
	\$	\$
Interest payable on converting notes	<u>216,360</u>	<u>374,432</u>

Refer to note 24 for further information on financial instruments.

The listed unsecured converting notes issued by Lakes Oil NL in 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.

Note 17. Current liabilities - Borrowings

	Consolidated	
	2016	2015
	\$	\$
Mortgage	<u>1,000,000</u>	<u>1,000,000</u>

In January 2015 Lakes Oil NL fully owned subsidiary drew down a \$1,000,000 loan secured by a mortgage over land that it owns. Interest was fixed and the principal was repaid in July 2015. Lakes Oil NL was guarantor for this loan.

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 is repayable 12 months from commencement date and Lakes Oil NL is guarantor for the loan.

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Note 18. Current liabilities - provisions

	Consolidated	
	2016	2015
	\$	\$
Annual leave	108,770	133,447
Long service leave	93,765	90,614
	<u>202,535</u>	<u>224,061</u>

Note 19. Non-current liabilities - Borrowings

	Consolidated	
	2016	2015
	\$	\$
Interest payable on converting notes	-	312,028
	<u>-</u>	<u>312,028</u>

Refer to note 24 for further information on financial instruments.

All converting notes are considered current liabilities as at 30 June 2016.

Note 20. Non-current liabilities - provisions

	Consolidated	
	2016	2015
	\$	\$
Long service leave	8,461	26,239
Restoration costs	300,000	300,000
	<u>308,461</u>	<u>326,239</u>

Note 21. Equity - Share capital - ordinary shares and converting notes

	2016	Consolidated		2015
	Number	2015	2016	2015
		Number	\$	\$
Ordinary shares - fully paid	11,865,239,705	11,430,638,039	108,090,033	107,168,142
Converting notes - fully paid	349,322	422,209	2,925,265	3,504,130
	<u>11,865,589,027</u>	<u>11,431,060,248</u>	<u>111,015,298</u>	<u>110,672,272</u>

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Note 21. Equity - Share capital - ordinary shares and converting notes (continued)

The converting notes issued during the year ended 30 June 2015 were issued under a “limited disclosure” section 713 prospectus under the Corporations Act 2001 (Cth) dated 10 March 2015. Interest is payable half yearly at the rate of 50 cents per note, with the last payment due on 31 March 2017 equating to 10% per annum interest rate.

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

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

There is no additional payment required upon conversion.

During the year 72,877 (2015: 219,010) notes were converted into 364,435,000 fully paid ordinary shares (2015: 1,095,050,000).

During the year interest of \$399,428 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 (2015: \$110,000).

At the end of the year there were 349,322 converting notes on issue (2015: 422,209). These will convert into 1,746,610,000 fully paid ordinary shares at 5,000 shares per note, unless the maximum uplift factor of 6,667 applies in which case the notes will convert into 2,328,929,774 fully paid ordinary shares.

Future interest payable on the 349,322 notes on issue at the end of year is \$216,360 (2015: \$686,460) which is held on trust by Equity Trustees Limited for the holders of notes and for their benefit for the payment of all future interest payments.

Movements in ordinary share capital

Details	Date	Shares	\$
Balance	1 July 2014	10,144,088,039	105,192,000
Conversion of converting notes		1,095,050,000	1,834,000
Auction of forfeited partly paid shares		9,500,000	28,500
Forfeited partly paid shares held on trusts		182,000,000	192,000
Note issue costs adjustments on conversion		-	(78,358)
Balance	30 June 2015	11,430,638,039	107,168,142
Early conversion of convertible notes	9 October 2015	227,815,000	381,550
Present value of interest returned on early conversion of converting notes		-	68,435
Early conversion of convertible notes	6 April 2016	136,620,000	228,815
Auction of forfeited partly paid shares		-	182,000
Present value of interest returned on early conversion of converting notes		-	27,324
Share based payments	29 June 2016	70,166,666	70,167
Note issue costs adjustments on conversion		-	(36,400)
Balance	30 June 2016	<u>11,865,239,705</u>	<u>108,090,033</u>

Note 21. Equity - Share capital - ordinary shares and converting notes (continued)

Movements in converting notes on issue

Details	Date	Converting notes	\$
Balance	1 July 2014	219,010	1,755,772
Public converting note issue	24 April 2015	411,719	3,448,000
Public converting note issue shortfall	22 May 2015	9,390	79,000
Public converting note issue shortfall	23 June 2015	1,100	9,000
Conversion of converting notes	9 December 2014	(219,010)	(1,834,000)
Note issue costs		-	(32,000)
Note issue costs adjustment on conversion		-	78,358
Balance	30 June 2015	422,209	3,504,130
Conversion of converting notes	9 October 2015	(45,563)	(381,550)
Conversion of converting notes	6 April 2016	(27,324)	(228,815)
Note issue costs adjustment on conversion		-	31,500
Balance	30 June 2016	<u>349,322</u>	<u>2,925,265</u>

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.

Partly paid shares

During the prior financial year a total of 191,500,000 unquoted partly paid shares, held by officers and employees of the consolidated entity who had ceased their employment, were called. No calls were received in respect of these partly paid shares by the required date and these shares were offered for sale by public auction in November 2014. 9,500,000 shares were sold at auction. The balance of 182,000,000 shares were not cancelled but were classified as issued fully paid ordinary shares held by the directors on trust for the Company for the purposes of future resale.

During the current financial year the remaining 182,000,000 shares were sold at auction of which the consolidated received a total of \$182,000 (before costs). No partly paid shares remained outstanding at 30 June 2016.

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 adjust the amount of dividends paid to shareholders, return capital to shareholders, 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 not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

Note 21. Equity - Share capital - ordinary shares and converting notes (continued)

The consolidated entity is subject to certain financing arrangements covenants 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 2015 Annual Report.

Note 22. Equity - reserves

	Consolidated	
	2016	2015
	\$	\$
Share-based payments reserve	<u>57,420</u>	<u>-</u>

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 \$	Total \$
Balance at 1 July 2014	-	-
Balance at 30 June 2015	-	-
Share based payments	<u>57,420</u>	<u>57,420</u>
Balance at 30 June 2016	<u>57,420</u>	<u>57,420</u>

Note 23. Equity - dividends

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

Note 24. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, 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 21.

Note 24. Financial instruments (continued)

Market risk

Foreign currency risk

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

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

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 or currency risk).

Sensitivity analysis

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

Consolidated - 2016	% change	Average price increase		Average price decrease		
		Effect on profit after tax	Effect on equity	Effect on profit after tax	Effect on equity	
Listed securities	10%	<u>92,404</u>	<u>92,404</u>	10%	<u>(92,404)</u>	<u>(92,404)</u>

Consolidated - 2015	% change	Average price increase		Average price decrease		
		Effect on profit after tax	Effect on equity	Effect on profit after tax	Effect on equity	
Listed securities	10%	<u>110,334</u>	<u>110,334</u>	(10%)	<u>(110,334)</u>	<u>(110,334)</u>

Interest rate risk

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

The consolidated entity had \$1 million of fixed interest bearing debt as at 30 June 2016 (2015: \$1 million) and 349,322 \$10 converting notes on issue paying 10% per annum (2015: 422,209 \$10 notes).

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.

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.

Note 24. Financial instruments (continued)

Liquidity risk

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

Vigilant 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 – Going Concern which outlines the consolidated entities current plans in relation to going concern.

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.

Consolidated - 2016	Weighted average interest rate %	Less than 6 months \$	Between 6 and 12 months \$	Between 1 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	683,601	-	-	-	683,601
<i>Interest-bearing - fixed rate</i>						
Borrowings	12.00%	-	1,000,000	-	-	1,000,000
Convertible notes payable	10.00%	216,360	-	-	-	216,360
Total non-derivatives		899,961	1,000,000	-	-	1,899,961

Consolidated - 2015	Weighted average interest rate %	Less than 6 months \$	Between 6 and 12 months \$	Between 1 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	548,079	-	-	-	548,079
<i>Interest-bearing - fixed rate</i>						
Borrowings	12.00%	1,000,000	-	-	-	1,000,000
Convertible notes payable	10.00%	211,526	211,526	423,053	-	846,105
Total non-derivatives		1,759,605	211,526	423,503	-	2,394,184

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

Fair value of financial instruments

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

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

Lakes Oil NL
Notes to the financial statements
30 June 2016

Note 24. Financial instruments (continued)

All Investments held by the consolidated entity at fair value are valued in accordance AASB 13 at fair value through profit and loss and are classified as level 1 being instruments with quoted prices in active markets using the fair value hierarchy. The net fair value of financial assets and financial liabilities approximate their carrying amounts as disclosed in the consolidated statement of financial position and notes to the financial statements.

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	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
<i>Assets</i>				
Cash and cash equivalents	761,818	761,818	2,685,532	2,685,532
Other receivables	86,249	86,249	78,086	78,086
Financial assets at fair value through profit and loss classified as held for trading	924,044	924,044	1,103,335	1,103,335
Other financial assets (excluding security deposits)	363,302	363,302	846,105	846,105
	<u>2,135,413</u>	<u>2,135,413</u>	<u>4,713,058</u>	<u>4,713,058</u>
<i>Liabilities</i>				
Trade and other payables	683,601	683,601	548,079	548,079
Borrowings	1,000,000	1,000,000	1,000,000	1,000,000
Converting notes	216,360	216,360	686,460	686,460
	<u>1,899,961</u>	<u>1,899,961</u>	<u>2,234,539</u>	<u>2,234,539</u>

Note 25. 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	
	2016	2015
	\$	\$
Short-term employee benefits	1,155,079	1,126,637
Post-employment benefits	165,163	162,131
Long-term benefits	7,705	-
Termination benefits	350,000	-
Share-based payments	103,667	-
	<u>1,781,614</u>	<u>1,288,768</u>

Director transactions

Lakes Oil NL
Notes to the financial statements
30 June 2016

Note 25. Key management personnel disclosures (continued)

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

Two of the Directors of Lakes Oil NL Nicholas Mather and William Stubbs, are Directors of Armour Energy Ltd. Mr Robbert de Weijer, an Alternate Director of Lakes Oil NL, is the CEO of Armour Energy Ltd. Armour Energy Ltd is party to an agreement with Lakes Oil NL as described in the tenement table detailed in the shareholder information section.

Mr Robbert de Weijer resigned as alternate director subsequent to year end.

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 26. 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	
	2016	2015
	\$	\$
<i>Audit services - Pitcher Partners</i>		
Audit or review of the financial statements	65,750	66,130
<i>Other services - Pitcher Partners</i>		
Taxation services	9,400	19,714
	<u>75,150</u>	<u>85,844</u>

Note 27. Contingent assets

There were no contingent assets at 30 June 2016 and 30 June 2015.

Note 28. Contingent liabilities

There were no contingent liabilities at 30 June 2016 and 30 June 2015.

Note 29. Commitments

	Consolidated	
	2016	2015
	\$	\$
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	173,483	193,356
One to five years	240,089	469,454
	<u>413,572</u>	<u>662,810</u>
<i>Bank guarantees in relation to rental premises and exploration permits</i>		
Maximum amount bank may call	<u>151,000</u>	<u>151,000</u>

Lakes Oil NL
Notes to the financial statements
30 June 2016

Note 29. 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 five years. The work programs have minimum expenditure requirements and carry no formal commitments or legal obligations but are an indication of the tasks required to be completed to retain the permit.

The current commitment on the work programs across all tenements within the next 24 months as at 30 June 2016 is \$2.8m (30 June 2015: \$0.3m). These commitments relate largely to the two Queensland licences in which applications for suspensions for year two work programs are currently pending. 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 30. Related party transactions

Ultimate parent

Lakes Oil NL is the ultimate Australian parent entity.

Interests in subsidiaries are set out in note 32.

Director-related entity

Disclosures relating to key management personnel are set out in note 25 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. Mr Robbert de Weijer, an Alternate Director of Lakes Oil NL, is the CEO of Armour Energy Ltd. Armour Energy Ltd is party to an agreement with Lakes Oil NL as described in the tenement table detailed in the shareholder information section.

Mr Robbert de Weijer resigned as alternate director subsequent to year end.

Receivable from and payable to related parties

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

	Consolidated	
	2016	2015
	\$	\$
Current receivables:		
Trade receivables from director related entity	75,125	62,970

During the financial year, and in previous financial years, Lakes Oil NL settled accounts with consultants and contractors on behalf of Greenerth Energy Limited. As at 30 June 2016 an amount of \$75,125 (2015: \$62,970) was receivable from Greenerth Energy Limited. Subsequent to year end in Greenerth Energy Limited were no longer classed as a related party.

Loans to/from related parties

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

Lakes Oil NL
Notes to the financial statements
30 June 2016

Note 31. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2016	2015
	\$	\$
Loss after income tax	(49,636,770)	(2,707,935)
Total comprehensive income	<u>(49,636,770)</u>	<u>(2,707,935)</u>

Statement of financial position

	Parent	
	2016	2015
	\$	\$
Total current assets	<u>1,110,885</u>	<u>4,608,168</u>
Total assets	<u>2,165,944</u>	<u>51,772,520</u>
Total current liabilities	<u>1,005,900</u>	<u>1,041,254</u>
Total liabilities	<u>1,099,665</u>	<u>1,469,917</u>
Equity		
Share capital - ordinary shares and converting notes	111,015,298	110,672,272
Share-based payments reserve	57,420	-
Accumulated losses	(110,006,439)	(60,369,669)
Total equity	<u><u>1,066,279</u></u>	<u><u>50,032,603</u></u>

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 2015 and 30 June 2016.

In January 2015 a Lakes Oil NL fully owned subsidiary drew down a \$1,000,000 loan secured by a mortgage over land that it owns. Interest was fixed and the principal was repaid in July 2015. Lakes Oil NL was guarantor for this loan.

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

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2015 and 30 June 2016.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2015 and 30 June 2016.

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.

Lakes Oil NL
Notes to the financial statements
30 June 2016

Note 32. 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	
		2016 %	2015 %
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%

Note 33. Events after the reporting period

Subsequent to the end of the year the consolidated entity sold its investment in Greenerth Energy Limited (ASX:GER) for a total of \$751,199.

On 30 August 2016, the Victorian government announced a decision to ban unconventional gas exploration in Victoria, and to extend the ban on conventional gas exploration in Victoria until 30 June 2020.

On 16 September 2016, the consolidated entity completed a non-renounceable Rights Issue issuing 53,666 converting notes at \$10 each raising \$536,660 before costs. This was substantially less than had been expected as a consequence of concerns about the Victorian Government's adverse decisions regarding onshore gas exploration in Victoria.

On 30 September 2016 the consolidated entity was in advanced discussions to issue a further 58,000 converting notes representing funding of \$580,000 and to acquire an interest in exploration acreage outside of Victoria.

No other matter or circumstance has arisen since 30 June 2016 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.

Lakes Oil NL
Notes to the financial statements
30 June 2016

Note 34. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2016	2015
	\$	\$
Loss after income tax expense for the year	(49,588,605)	(2,743,366)
Adjustments for:		
Depreciation and amortisation	39,647	59,960
Write off of non-current assets	47,357,247	10,474
Net fair value loss/(gain) on investment properties	179,291	(275,833)
Share-based payments	127,587	-
Non-cash interest	12,703	30,146
Capital raising fee included in cash flows from financing	7,067	115,893
Change in operating assets and liabilities:		
Increase in exploration and evaluation costs carried forward	(423,331)	(1,970,078)
Decrease/(increase) in receivables	(8,163)	91,856
Decrease/(increase) in other current assets	(1,044)	11,120
Adjust for purchases of new permits included in cash flows from investing	-	1,486,386
Increase/(decrease) in trade and other payables	135,522	(14,985)
Decrease in employee benefits	(39,304)	(29,265)
Net cash used in operating activities	<u>(2,201,383)</u>	<u>(3,227,692)</u>

Note 35. Loss per share

	Consolidated	
	2016	2015
	\$	\$
Loss after income tax attributable to the owners of Lakes Oil NL	<u>(49,588,605)</u>	<u>(2,743,366)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>11,865,239,705</u>	<u>10,947,615,984</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>11,865,239,705</u>	<u>10,947,615,984</u>
	Cents	Cents
Basic loss per share	(0.42)	(0.03)
Diluted loss per share	(0.42)	(0.03)

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

Lakes Oil NL
Notes to the financial statements
30 June 2016

Note 36. Share-based payments

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

2016							
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	\$0.005	-	58,000,000	-	-	58,000,000
			-	58,000,000	-	-	58,000,000
Weighted average exercise price			\$0.000	\$0.005	\$0.000	\$0.000	\$0.005

The 58,000,000 options issued during the financial year 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	2016 Number	2015 Number
08/01/2016	08/01/2021	58,000,000	-
		58,000,000	-

The weighted average share price during the financial year was \$0.002 (2015: \$0.003).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 4.5 years (2015: nil).

For the options granted during the current financial year, the consolidated entity used a Black-Scholes valuation model, with the following inputs used to determine the fair value at grant date:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
08/01/2016	08/01/2021	\$0.001	\$0.005	245.00%	-	2.20%	\$0.001

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 six months 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.

Lakes Oil NL
Directors' declaration
30 June 2016

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 2016 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



Chris Tonkin
Chairman

30 September 2016

**LAKES OIL NL
ACN 004 247 214
AND CONTROLLED ENTITIES**

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

Report on the Financial Report

We were engaged to audit the financial report of Lakes Oil NL (the Company) and controlled entities (“the Consolidated entity”), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors’ declaration of the Consolidated entity comprising the Company and the entities it controlled at the year’s end or from time to time during the financial year.

Directors’ Responsibility for the Financial Report

The Directors’ of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibilities for the Audit of the Financial Report

Our responsibility is to conduct an audit of the financial report in accordance with Australian Auditing Standards and to issue an auditor’s report. However, because of the matter 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.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Basis for Disclaimer of Opinion

The Consolidated entity’s cash flow forecast for the twelve months from the date of this report is reliant on its ability to raise sufficient funding to continue as a going concern. The Company and its Directors have been unable to provide sufficient evidence of commitment from existing or new investors to support the Consolidated entity’s future plans as described in Note 2 Going Concern and its ability to raise sufficient 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 funding as of the date of this auditor’s report.

LAKES OIL NL
ACN 004 247 214
AND CONTROLLED ENTITIES



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

Disclaimer of Opinion

Because of the significance of the matter 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 this financial report. Accordingly, we do not express an opinion on the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 19 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Lakes Oil NL and controlled entities for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to read 'B Powers'.

B POWERS
Partner

30 September 2016

A handwritten signature in black ink, appearing to read 'Pitcher Partners'.

PITCHER PARTNERS
Melbourne

Lakes Oil NL
Shareholder information
30 June 2016

The shareholder information set out below was applicable as at 19 September 2016.

Distribution of equitable securities

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

	Number of holders of ordinary shares	Number of holders of listed converting notes (LKOGB)	Number of holders of listed converting notes (LKOGA)	Number of holders of options over ordinary shares
1 to 1,000	356	552	680	-
1,001 to 5,000	234	4	31	-
5,001 to 10,000	417	-	1	-
10,001 to 100,000	4,007	-	1	-
100,001 and over	6,429	-	1	5
	<u>11,443</u>	<u>556</u>	<u>714</u>	<u>5</u>
Holding less than a marketable parcel	<u>8,409</u>	<u>-</u>	<u>441</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:

	Number held	Ordinary shares % of total shares issued
Timeview Enterprises Pty Ltd	2,380,000,000	20.06
Armour Energy Ltd	2,125,000,000	17.91
Mr Roland Kingsbury Sleeman	54,166,666	0.46
Mr Albert Edward Bennetts	50,000,000	0.42
Jbwere (NZ) Nominees Limited (43941 A/C)	37,735,901	0.32
Mr David Corley	37,506,000	0.32
PBL Investments Pty Ltd (Peter Begg Lawrence S/F A/C)	37,158,103	0.31
Mr Peter John Bellgrove (Peter Bellgrove Fam S/F A/C)	35,778,859	0.30
Mr Stephen Kasa	35,000,000	0.29
Dunluce Superfund Pty Limited (Dunluce Private S/F A/C)	34,453,056	0.29
T Penny Superannuation Fund Pty Ltd (T Penny Super Fund A/C)	32,753,924	0.28
Marew Enterprises Pty Ltd (Parr Family A/C)	31,000,000	0.26
Mr Ian Robert Veitch	30,000,008	0.25
Dymax Consultants Pty Ltd (Dyman Directors S/Fund A/C)	27,009,666	0.23
Micallef Plumbing Industries Pty Ltd	26,959,316	0.23
Mr Bertram Thompson	26,955,000	0.23
Mr Gary Flanigan + Mrs Helen Flanigan (GR & HM Flanigan S/F A/C)	25,000,000	0.21
Mr Alfred Otto Kuehne	25,000,000	0.21
Sutton Nominees Pty Ltd (W M Gatacre Family Fund A/C)	25,000,000	0.21
MS June Yee	23,550,000	0.20
	<u>5,100,026,499</u>	<u>42.99</u>

Lakes Oil NL
Shareholder information
30 June 2016

	Convertible Notes (LKOGB)	(LKOGB) % of total notes issued
	Number held	
Alan Davis Pty Ltd	2,500	4.66
Mr Basil Catsipordas	1,650	3.07
Mr Andrew William Arbon + Mrs Suzanne Ruth Arbon	1,600	2.98
Mr Donald George Roberts (D. Roberts Superfund A/C)	1,430	2.66
Mr Peter Robert Demaine	1,000	1.86
Environmental Strategist Pty Ltd (Kawecki Discretionary 3 A/C)	1,000	1.86
Family Office Strategist Pty Ltd (Kawecki Discretionary 1 A/C)	1,000	1.86
Forex Arbitrage Pty Ltd (Kawecki 2 A/C)	1,000	1.86
Funding Strategist Pty Ltd (Kawecki Discretionary 4 A/C)	1,000	1.86
Metcon Australia Pty Ltd (Metcon Australia S/F A/C)	1,000	1.86
Mr William John Pace	1,000	1.86
Sel Stock Pty Limited (Superannuation Fund A/C)	1,000	1.86
Superannuation Strategist Pty Ltd (Kawecki Discretionary 5 A/C)	1,000	1.86
T. Penny Superannuation Fund Pty Ltd (T. Penny Super Fund A/C)	1,000	1.86
Mr Nick Drivas + Mrs Val Drivas	700	1.30
Mr Trent Michael Stenton	576	1.07
Mr Robin John Lawrie + Mrs Suzanne Gaynor Lawrie	542	1.01
Mr Ian Douglas Johnston	530	0.99
Mr Alfred Otto Kuehne	520	0.97
BCP Superannuation Fund Pty Ltd (BCP Superannuation Fund A/C)	500	0.93
	20,548	38.24

	Convertible Notes (LKOGA)	Convertible Notes (LKOGA) % of total notes issued
	Number held	
Timeview Enterprises Pty Ltd	161,500	46.23
Marew Enterprises Pty Ltd (Parr Family A/C)	14,000	4.01
Mr Gabriel Berger	6,000	1.72
Mr Albert Edward Bennetts	4,000	1.15
Mr Craig Gibbs + Mrs Oliverta Gibbs	3,900	1.12
Dyman Consultants Pty Ltd (Dymax Directors S/F A/C)	2,701	0.77
Mr Gary Flanigan + Mrs Helen Flanigan (GR & HM Flanigan S/F A/C)	2,500	0.72
Mr Ian Douglas Johnston	2,500	0.72
Sel Stock Pty Limited (Superannuation Fund A/C)	2,300	0.66
Mr Edwin Francis Duurland	2,262	0.65
Mr Zdenek Havlicek	2,235	0.64
Marrah Capital Investment Pty Ltd (Gardiner Brookes Super A/C)	2,100	0.60
Mrs Fang He	2,010	0.58
Mr Andrew Willian Arbon + Mrs Suzanne Ruth Arbon	2,000	0.57
Cello Investment Pty Ltd	2,000	0.57
Dunluce Super Fund Pty Limited	2,000	0.57
Dr Bob Charles Chuan Thoy Leow	2,000	0.57
T. Penny Superannuation Fund Pty Ltd (T. Penny Super Fund A/C)	2,000	0.57
Mr Donald Georger Moyes (EST Phyllis Joyce Moyes A/C)	1,760	0.50
Mr John Joseph Van Waterschoot	1,665	0.48
	221,433	63.40

Lakes Oil NL
Shareholder information
30 June 2016

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	58,000,000	5

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Timeview Enterprises Pty Ltd	2,380,000,000	20.06
Armour Energy Ltd	2,125,000,000	17.91

	Convertible Notes (LKOGA)	Convertible Notes (LKOGA) % of total notes issued
	Number held	
Timeview Enterprises Pty Ltd	161,500	46.23

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.

Lakes Oil NL
Shareholder information
30 June 2016

Tenements

Location (basin name)	Joint operation or Permit name	Registered holder	Interest owned %
Otway	PEP 163	Mirboo Ridge Pty Ltd	100.00
Otway	PEP167	Mirboo Ridge Pty Ltd	100.00
Otway	PEP 169	Mirboo Ridge Pty Ltd	49.00
Otway	PEP175	Mirboo Ridge Pty Ltd	100.00
Gippsland	PRL 2–Overall Permit	Petro Tech Pty. Ltd.	100.00
Gippsland	PRL 2–Trifon Field	Petro Tech Pty. Ltd.	57.50
Gippsland	PRL 3	Petro Tech Pty. Ltd.	100.00
Gippsland	PEP 166	Petro Tech Pty. Ltd.	75.00
Gippsland	VIC/P43(V)	Petro Tech Pty. Ltd.	100.00
Gippsland	VIC/P44(V)	Petro Tech Pty. Ltd.	100.00
Eromanga/Cooper E	ATP642P	EOIL Pty Ltd	100.00
Eromanga/Cooper E	ATP662P	EOIL Pty Ltd	100.00
California USA	Eagle Prospect	Lakes Oil, Inc.	17.96
Gippsland	EL5333	Commonwealth Mining Pty Ltd	100.00
Gippsland	EL5334	Commonwealth Mining Pty Ltd	100.00
Gippsland	EL5394	Commonwealth Mining Pty Ltd	100.00

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

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