

9 December 2016

The Directors
Lakes Oil NL
Level 14, 500 Collins Street
MELBOURNE VIC 3000

Dear Directors

Re: Independent Expert's Report

1. Introduction

The directors of Lakes Oil NL ("LKO" or "the Company") have requested DMR Corporate Pty Ltd ("DMR Corporate") to prepare an independent expert's report in respect of the proposed acquisition of Navgas Pty Ltd ("Navgas"). Section 611 of the Corporations Act 2001 ("the Act") permits the transaction, which is set out in section 2 below, provided shareholders approve it.

Navgas is a subsidiary of Dark Horse Resources Limited ("DHR"), which holds 92.78% of Navgas' issued shares. Two individuals hold a combined 3.22% interest in Navgas, with the Company holding the remaining 4%, which was acquired on 3 October 2016.

Navgas was established by DHR in 2012 as a separate oil and gas focused company, founded on several petroleum licence applications made over a prospective province within South Australia. In 2014, Navgas was the successful tenderer for highly prospective oil, gas and condensate targets on the Roma Shelf in Queensland.

2. The Proposed Transaction

LKO has entered into an Agreement for Sale of Shares ("the agreement") to purchase all of the remaining issued capital of Navgas totalling 78,360,000 shares from DHR (75,735,000 shares), Mr Douglas William Haynes (1,000,000 shares) and Mr Peter Bubendorfer (1,625,000 shares) (the "sellers"), subject among other things to LKO shareholders' approval.

The consideration payable by LKO to the sellers is to be satisfied by the issue of 9,600,000,000 fully paid LKO ordinary shares ("the Proposed Transaction").

LKO intends to seek shareholder approval of the Proposed Transaction at the Annual General Meeting ("AGM") to be held on or about 13 January 2017. The formal approval process for the Proposed Transaction is set out in the Notice of Annual General Meeting as follows:

Resolution 10: That for the purpose of Section 611 Item 7 of the Corporations Act, ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 9,600,000,000 shares to:

- (a) Dark Horse Resources Limited as to 9,278,407,344 shares;
- (b) Douglas Haynes as to 122,511,492 shares; and
- (c) Peter Bubendorfer (Peter A J Bubendorfer Family A/C) as to 199,081,164 shares,

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on the basis set out in the Explanatory Memorandum, and as a consequence of which Dark Horse Resources Limited will have a 43.11% shareholding interest in the Company (having regard to the current number of shares on issue and excluding any impact of converting notes).

The directors have requested DMR Corporate to prepare an independent expert's report in accordance with ASIC Regulatory Guide 111 – Content of expert reports. ASIC Regulatory Guide 111 requires the Independent Expert to advise shareholders whether the Proposed Transaction is fair and reasonable, when considered in the context of the interests of the Non-Associated Shareholders (all shareholders entitled to vote on the Proposed Transaction).

3. Summary opinions

In our opinion, the Proposed Transaction is **fair and reasonable**. Our principal reasons for reaching this opinion are:

Fairness

- a) in section 7.10 we valued the LKO shares before the Proposed Transaction in a range of \$0.0005 to \$0.0006 per share on a control basis;
- b) in section 11.1 we valued the LKO shares after the Proposed Transaction in the range of \$0.0005 to \$0.0006 per share on a minority basis; and
- c) as the minority value of a LKO share after the Proposed Transaction (\$0.0005 to \$0.0006) is equal to the control value of a LKO share before the Proposed Transaction (\$0.0005 to \$0.0006), we have concluded that the Proposed Transaction is **fair**.

Reasonableness

The key reasons for assessing the Proposed Transaction as reasonable are:

- We assessed the Proposed Transaction as being fair and therefore it is reasonable;
- The Proposed Transaction provides LKO an opportunity to acquire Queensland and South Australian acreage that has excellent potential for future production of gas, condensate and/or oil. It will also complement LKO's existing exploration acreage in Victoria and Queensland and will add promising acreage in South Australia;
- Given LKO's current financial position, if shareholders do not approve the Proposed Transaction, we believe that LKO will need to urgently seek an alternative proposal. Any alternative proposal may be on substantially less advantageous terms than the Proposed Transaction; and
- as a consequence of the Victorian Government's decision to ban onshore gas exploration, the new exploration acreage, subject to the Proposed Transaction, will be the principal focus of LKO's efforts.

4. Structure of this report

The remainder of this report is divided into the following sections:

<u>Section</u>		<u>Page</u>
5	Purpose of the report	3
6	LKO - key information	6
7	Valuation of LKO before the Proposed Transaction	12
8	Navgas – key information	23
9	Value of Navgas	25
10	Valuation of LKO after the Proposed Transaction	28
11	Assessment as to Fairness	28
12	Assessment as to Reasonableness	29
13	Assessment as to Fairness and Reasonableness	30
14	Financial Services Guide	30
 <u>Appendix</u>		
A	Sources of Information	32
B	Declarations, Qualifications and Consents	33
 <u>Attachment</u>		
1	SRK independent specialist report	

5. Purpose of the report

This report has been prepared to meet the following regulatory requirements:

- **Corporations Act 2001**

Section 606 of the Act contains a general prohibition on the acquisition of shares in a company if, as a result of the acquisition, any person increases his or her voting power in the company:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

Section 611 of the Act contains an exception to the Section 606 prohibition. For an acquisition of shares to fall within the exception, the acquisition must be approved in advance by a resolution passed at a general meeting of the company in which shares will be acquired.

LKO is seeking shareholder approval for the Proposed Transaction under Section 611 of the Act, as the voting power of DHR will increase beyond the 20% limit imposed by Section 606 of the Act.

In preparing an Independent Expert Report (“IER”) for the purposes of a Section 611 approval, we are required to comply with ASIC Regulatory Guides and in particular with Regulatory Guide RG 111 (“RG 111”), and the relevant paragraphs are set out below.

- **ASIC Regulatory Guides**

RG 111.24 An issue of shares by a company otherwise prohibited under s606 may be approved under item 7 of s611 and the effect on the company’s shareholding is comparable to a takeover bid. Examples of such issues approved under item 7 of s611 that are comparable to takeover bids under Ch 6 include:

- (a) a company issues securities to the vendor of another entity or to the vendor of a business and, as a consequence, the vendor acquires over 20% of the company incorporating the merged businesses. The vendor could have achieved the same or a similar outcome by launching a scrip takeover for the company.

RG111.27 There may be circumstances in which the allottee will acquire 20% or more of the voting power of the securities in the company following the allotment or increase an existing holding of 20% or more, but does not obtain a practical measure of control or increase its practical control over that company. If the expert believes that the allottee has not obtained or increased its control over the company as a practical matter, then the expert could take this outcome into account in assessing whether the issue price is 'reasonable' if it has assessed the issue price as being 'not fair' applying the test in RG 111.11.

RG111.10 It has long been accepted in Australian mergers and acquisitions practice that the words 'fair and reasonable' in s640 established two distinct criteria for an expert analysing a control transaction:

- (a) is the offer 'fair'; and
- (b) is it 'reasonable'?

That is, 'fair and reasonable' is not regarded as a compound phrase.

RG111.11 Under this convention, an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer¹. This comparison should be made:

- (a) assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and
- (b) assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or 'portfolio' parcel of shares.

RG111.12 An offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

ASIC Regulatory Guide 111 requires that the Proposed Transaction be assessed as if it was a takeover of LKO. In assessing a takeover bid, Regulatory Guide 111 states that the expert should consider whether the Proposed Transaction is both "fair" and "reasonable".

¹ In an ASIC Corporate Finance Liaison presentation in May 2013, ASIC has expressed the view that transactions pursuant to item 7 of Section 611 should be assessed by "comparing the fair market value of the company's shares pre-transaction on a control basis, with the fair market value of the company's shares post-transaction on a minority basis."

- **General**

The terms “fair” and “reasonable” are not defined in the Act, however guidance as to the meaning of these terms is provided by ASIC in Regulatory Guide 111. For the purpose of this report, we have defined them as follows:

- Fairness - the Proposed Transaction is “fair” if the value of the minority shares held by the Non-Associated Shareholders in LKO after the Proposed Transaction is equal to or greater than the control value of their shares in LKO before the Proposed Transaction.
- Reasonableness - the Proposed Transaction is “reasonable” if it is fair. It may also be “reasonable” if, despite not being “fair” but after considering other significant factors, shareholders should vote in favour of the Proposed Transaction in the absence of a superior proposal being received.

What is fair and reasonable for the Non-Associated Shareholders should be judged in all the circumstances of the proposal.

The methodology that we have used to form an opinion as to whether the Proposed Transaction is fair and reasonable, is summarised as follows:

- (i) In determining whether the Proposed Transaction is fair, we have:
 - assessed the value of LKO before the Proposed Transaction and determined the control value of one LKO share;
 - assessed the value of LKO after the Proposed Transaction and determined the minority value of one LKO share; and
 - compared the control value of one LKO share before the Proposed Transaction with the minority value of one LKO share after the Proposed Transaction.
- (ii) In determining whether the Proposed Transaction is reasonable, we have analysed other significant factors that Non-Associated Shareholders should review and consider prior to accepting or rejecting the Proposed Transaction.

6. LKO - key information

6.1 Background

LKO was formed in 1946 and is based in Melbourne, Victoria. LKO is the oldest Australian oil and gas explorer still operating in Australia.

Following geo-physical survey work in the Lakes Entrance area of Victoria and in the context of excitement around the 1953 discovery of oil in Western Australia, LKO listed on the ASX on 19 April 1955. After unsuccessful exploration and funds exhausted, LKO was taken over in 1959 by Woodside (Lakes Entrance) Oil NL and subsequently its shares were delisted.

On 5 December 1985, Mr Rob Annells acquired the corporate shell and LKO was relisted on the ASX.

In December 2011, LKO announced an agreement with Armour Energy Limited ("Armour") which saw Armour subscribing for 900 million shares in LKO at 0.25 cents per share, raising \$2.25 million. As at 10 October 2016, Armour held 2,125 million shares in LKO representing 17.82% of total shares on issue.

LKO currently controls highly prospective petroleum acreage in the onshore Victorian Gippsland and Otway Basins, however, following the Victorian Government's ban on onshore exploration announced on 30 August 2016, LKO is precluded from conducting exploration activities on these exploration permits. LKO's interests in onshore Victorian exploration permits is set out below.

Table 1

Victorian onshore acreage	
Exploration permits	LKO interest
Petroleum Retention Lease 2	100% interest (excl Trifon & Gangell blocks) 57.5% interest in Trifon & Gangell blocks with Jarden Corporate Australia Pty Ltd holding the remaining 42.5% interest Armour Energy Limited ("Armour") holds an option to acquire an interest in PRL2
Petroleum Retention Lease 3	100% interest
Petroleum Exploration Permit 166	75% interest with Armour holding the remaining 25%
Petroleum Exploration Permit 169	49% interest with Armour holding the remaining 51%
Petroleum Exploration Permit 163	100% interest
Petroleum Exploration Permit 167	100% interest
Petroleum Exploration Permit 175	100% interest

Source: LKO Annual Report – 30 June 2016

LKO also currently holds petroleum acreage other than which is onshore Victorian based. LKO's interest in these permits is set out below.

Table 2

Non-Victorian onshore acreage	
Exploration permits	LKO interest
Petroleum Exploration Permit VIC/P43(V)	100% interest
Petroleum Exploration Permit VIC/P44(V)	100% interest
Queensland Petroleum Exploration Permit ATP 642P	100% interest
Queensland Petroleum Exploration Permit ATP 662P	100% interest
Eagle Prospect, Onshore California, USA	17.97% interest

Source: LKO Annual Report – 30 June 2016

Although offshore exploration activity in Victorian is not prohibited, in the interest of cost management, LKO envisages carrying out seismic work only in 2017/18 in relation to its offshore Victorian based petroleum exploration permits. LKO's Queensland based petroleum exploration permit areas are relatively underexplored and the company is seeking a joint venture partner to pursue these opportunities.

The Eagle Prospect successfully produced oil until a mechanical problem led to a loss of production. Drilling of a further well has been proposed and LKO is reviewing its ongoing interest and involvement in the Eagle Prospect.

6.2 Directors

LKO's Board of Directors at the date of this report comprises:

Table 3

LKO Board of Directors	
Name	Position
Chris Tonkin	Non-Executive Chairman
Barney Berold	Non-Executive Director
Nicholas Mathew	Non-Executive Director
Ian Plimer	Non-Executive Director
William Stubbs	Non-Executive Director
Kyle Wightman	Non-Executive Director

Source: LKO Annual Report – 30 June 2016

6.3 Summary of outstanding debt and borrowings as at 30 June 2016

As at 30 June 2016, LKO's borrowings were:

Table 4

Summary of LKO borrowings	Amount AUD \$	Repayment date
Current liabilities		
Converting notes - interest payable	216,360	< 6 months
Mortgage ¹	1,000,000	04-Apr-15
Total borrowings	1,216,360	

Source: LKO Annual Report – 30 June 2016

Note 1: drawdown by a fully owned subsidiary of LKO secured by a mortgage over land and guaranteed by LKO

On 30 June 2016, LKO announced that it would undertake a non-renounceable rights issue of listed converting notes at an issue price of \$10 per note. The terms of these notes include a maturity date of 31 May 2018, with an ability to convert earlier at any of the prior interest payment dates of 30 November 2016, 31 May 2017 and 30 November 2017.

On 16 September 2016, LKO completed the non-renounceable rights issue issuing 53,666 converting notes at \$10 each. However, following redemptions of 9,367 notes and an issue of a further 58,000 notes on 3 October 2016, of which 40,000 notes were issued to DHR, the final number of notes issued was 102,299. This was substantially less than the maximum notes to be issued of 710,000. LKO have attributed the undersubscription of the notes to the Victorian Government's adverse decision regarding onshore gas exploration in Victoria.

6.4 Share capital and conversion of notes

6.4.1 Share capital

As at 10 October 2016, LKO had on issue 11,921,964,705 fully paid ordinary shares. The major shareholders of LKO on 10 October 2016 are presented in the following table. As at that date, the top 10 shareholders, as recorded on the share register, held 40.49% of the issued ordinary capital of LKO.

Table 5

Shareholder name - per share register	Number of shares held	Percentage interest
Timeview Enterprises Pty Ltd	2,380,000,000	19.96%
Armour Energy Ltd	2,125,000,000	17.82%
Mr Roland Kingsbury Sleeman	54,166,666	0.45%
Mr Albert Edwards Bennetts	50,000,000	0.42%
JBWere (NZ) Nominees Limited (43941 A/C)	37,735,901	0.32%
Mr David Corley	37,506,000	0.31%
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%
	4,826,798,585	40.49%

Source: LKO

6.4.2 Converting Notes

According to LKO's ASX announcement on 17 October 2016, LKO has listed unsecured converting notes of 343,977 listed on the ASX as LKOGA and 102,299 listed on the ASX as LKOGB.

The terms of the LKOGA converting notes include a maturity date of 31 March 2017, each converting into 5,000 LKO ordinary shares. However, if the 30 day average closing share price prior to the maturity date is less than 0.2 cents, each note will convert into a maximum of 6,667 LKO ordinary shares, only if the conversion occurs on the maturity date.

The terms of the LKOGB converting notes include a maturity date of 31 May 2018, each converting into 9,091 LKO ordinary shares. However, if the 30 day average closing share price prior to the maturity date is less than 0.11 cents, each note will convert into a maximum of 10,000 LKO ordinary shares, only if the conversion occurs on the maturity date.

On conversion, the converting notes will result in the issue of up to an additional 3,316,284,659 LKO ordinary shares. The dilution effect of these converting notes has not been taken into account in the balance of this report.

6.5 Statements of financial position

LKO's audited consolidated statements of financial position as at 30 June 2015 and 2016 are as follows:

Table 6

Lakes Oil NL Statement of financial position	Audited 30/06/2015 \$	Audited 30/06/2016 \$
Assets		
Current assets		
Cash and cash equivalents	2,685,532	761,818
Trade and other receivables	78,086	86,249
Financial assets at fair value through profit or loss	1,103,335	924,044
Other financial assets	868,105	385,302
Other current assets	37,636	38,680
Total current assets	4,772,694	2,196,093
Non-current assets		
Property plant and equipment	1,903,982	1,864,335
Exploration and evaluation	52,118,429	5,172,635
Total non-current assets	54,022,411	7,036,970
Total assets	58,795,105	9,233,063
Liabilities		
Current liabilities		
Trade and other payables	548,079	683,601
Converting notes	374,432	216,360
Borrowings	1,000,000	1,000,000
Provisions	224,061	202,535
Total current liabilities	2,146,572	2,102,496
Non-current liabilities		
Borrowings	312,028	-
Provisions	326,239	308,461
Total non-current liabilities	638,267	308,461
Total liabilities	2,784,839	2,410,957
Net assets	56,010,266	6,822,106
Equity		
Share capital - ordinary shares and converting notes	110,672,272	111,015,298
Reserves	-	57,420
Accumulated losses	(54,662,006)	(104,250,612)
Total equity	56,010,266	6,822,106

Source: LKO Annual Report – 30 June 2016

6.6 Operating performance

LKO's audited consolidated statements of comprehensive income for the financial years ended 30 June 2015 and 2016 are as follows:

Table 7

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

Source: LKO Annual Report – 30 June 2016

6.7 Cash flow statements

LKO's audited consolidated statement of cash flows for the financial years ended 30 June 2015 and 2016 are as follows:

Table 8

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

Source: LKO Annual Report – 30 June 2016

7. Valuation of LKO before the Proposed Transaction

7.1 Value definition

DMR Corporate's valuation of LKO has been made on the basis of 'fair market value', defined as:

'the price that could be realized in an open market over a reasonable period of time given the current market conditions and currently available information, assuming that potential buyers have full information, in a transaction between a willing but not anxious seller and a willing but not anxious buyer acting at arm's length'.

7.2 Valuation methodologies

In selecting appropriate valuation methodologies, we considered the applicability of a range of generally accepted valuation methodologies. These included:

- share price history;
- capitalisation of future maintainable earnings;
- net present value of future cash flows;
- asset based methods;
- comparable market transactions; and
- alternate acquirer.

7.3 Share price history

7.3.1 *The share price history valuation methodology values a company based on the past trading in its shares. We normally analyse the share prices up to a date immediately prior to the date when a takeover, merger or other significant transaction is announced to remove any price speculation or price escalations that may have occurred subsequent to the announcement of the Proposed Transaction.*

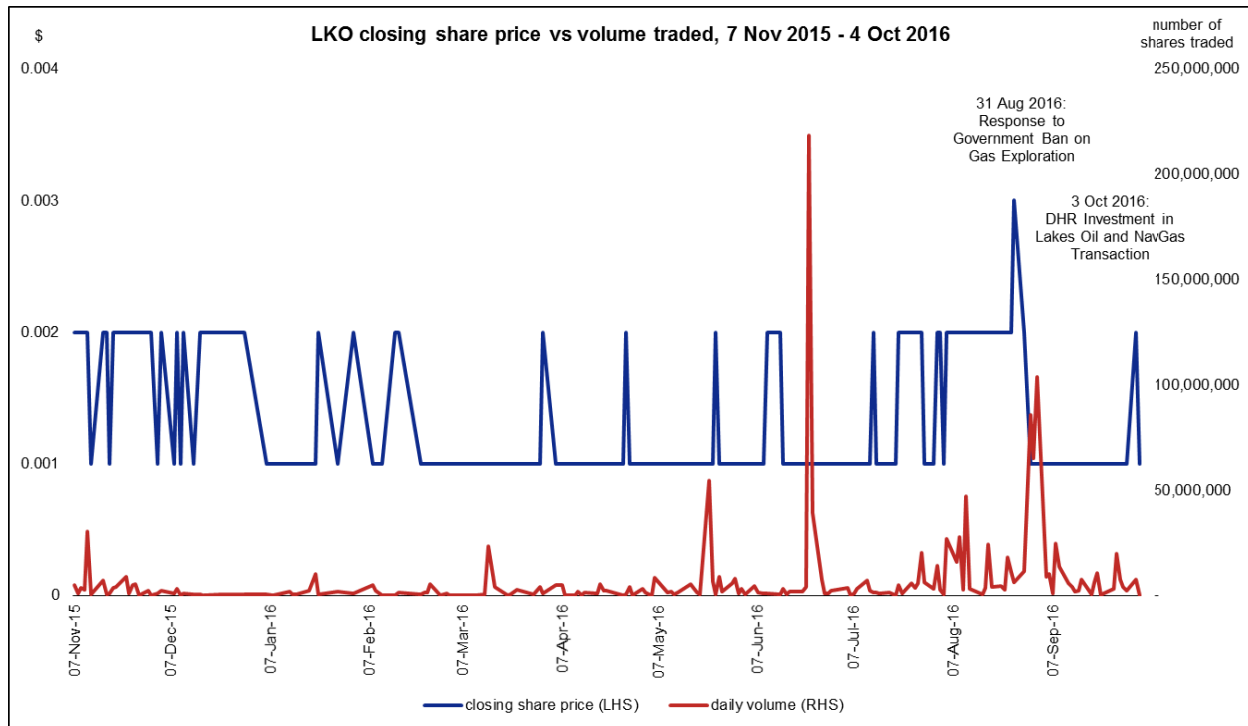
7.3.2 The share price history of LKO from 7 November 2015 to 4 October 2016 (the day immediately prior to the announcement of the trading halt that was the subject of the Proposed Transaction) is presented in the table and graph below:

Table 9

Month	LKO share price			LKO shares traded	
	Low \$	High \$	Average \$	Volume	Value \$
2015					
November 7 - 30	0.001	0.002	0.002	82,081,304	162,852
December	0.001	0.002	0.002	10,813,051	19,069
2016					
January	0.001	0.002	0.001	18,586,118	19,086
February	0.001	0.002	0.001	18,938,945	21,439
March	0.001	0.002	0.001	37,136,210	37,136
April	0.001	0.002	0.001	30,849,239	32,240
May	0.001	0.002	0.001	115,698,820	116,049
June	0.001	0.002	0.001	294,372,202	296,115
July	0.001	0.002	0.002	69,853,926	112,432
August	0.001	0.003	0.002	317,255,179	551,227
September	0.001	0.001	0.001	305,163,074	305,163
October 1 - 4	0.001	0.002	0.002	8,010,025	15,760
				1,308,758,093	1,688,569

Source: ASX and DMR analysis

Table 10



Source: ASX and DMR analysis

7.3.3 We comment on the above table and graph below:

Share volumes

Shares held by the strategic shareholders, directors and employees total 5,034,968,054 shares or 42.23% of the issued capital². The balance of the issued capital is 6,886,996,651 shares or 57.77% of the issued capital and this represents the 'free float' that is readily tradeable on market.

The turnover in the period 7 November 2015 to 4 October 2016 was 1,308,758,093 shares or 19% of the free float. We consider that the market in LKO shares is relatively illiquid.

Share prices

The share price during the period depicted has ranged from a low of \$0.001 to a high of \$0.003 during late August 2016. Except for the spike in the share price to \$0.003, shortly before the announcement by the Victorian Government that onshore oil exploration was to be banned until 30 June 2020, the LKO share price has traded in a tight range of \$0.001 to \$0.002.

² sourced from S&P Capital IQ on 27 October 2016

7.3.4 ASX market sensitive announcements and non-market sensitive announcements in 2016 up to the announcement of the trading halt which was the subject of the Proposed Transaction, which we consider may have had an impact on the daily share prices were:

Table 11

Date	LKO headline announcement
29-Jan-16	Quarterly Activities and Cashflow Report December 2015
10-Mar-16	Financial Report for the Half-Year Ended 31 December 2015
06-Apr-16	Appendix 3B - Issue of shares on conversion of notes
12-Apr-16	Change in substantial holding
29-Apr-16	Quarterly Activities and Cashflow Report March 2016
23-May-16	Resignation of Executive Chairman - Appointment of Chairman
03-Jun-16	Director Resignation - Mr Andrew Davis
29-Jun-16	Market Update
30-Jun-16	Prospectus - Listed Unsecured Converting Notes
30-Jun-16	Letter to shareholders - Listed Unsecured Converting Notes
30-Jun-16	Listed Unsecured Converting Notes Non-Renounceable Issue
14-Jul-16	Change of Director's Interest Notices x2
20-Jul-16	Letter to Shareholders - Moratorium Update
21-Jul-16	Quarterly Activities and Cashflow Report June 2016
26-Jul-16	Quarterly Activities and Cashflow Report June 2016 - Amended
23-Aug-16	Second Supplementary Prospectus
23-Aug-16	Supplementary Prospectus
30-Aug-16	Trading Halt
31-Aug-16	Response to Government Ban on Gas Exploration
01-Sep-16	Third Supplementary Prospectus
08-Sep-16	Market Update
09-Sep-16	Suspension of Notes LKOGB from 12/9/16
14-Sep-16	Results of Converting Note Issue and Shortfall Notification
28-Sep-16	Alternate Director Resignation and Appendix 3Z
03-Oct-16	Reinstatement of Notes LKOGB on 4/10/16
03-Oct-16	Converting Notes Issue and Investment in Navgas
03-Oct-16	DHR: Investment in Lakes Oil and NavGas Transaction
03-Oct-16	2016 Annual Report to Shareholders

Source: ASX

7.3.5 The volume weighted average price ("VWAP"), based on closing prices, for the periods referred to below are:

Table 12

Period	LKO shares traded		VWAP	LKO share price	
	Volume	Value		Low	High
		\$	\$	\$	\$
120 days to 04/10/2016	985,564,406	1,271,606	0.001	0.001	0.003
90 days to 04/10/2016	696,577,204	980,877	0.001	0.001	0.003
60 days to 04/10/2016	583,058,680	781,059	0.001	0.001	0.003
30 days to 04/10/2016	144,367,543	152,118	0.001	0.001	0.002

Source: ASX & DMR analysis

7.3.6 Summary – share price history

Based on the above information we have formed the opinion that the LKO shares have a market value in a range of \$0.001 to \$0.002 per share as at 4 October 2016. However, given the low share price and the fact that parcels of shares cannot trade between this range, we have adopted a market value of the mid-point of this range of \$0.0015 per share.

Control premium

The ASX share prices upon which the above values are based represent the prices at which minority parcels of shares are traded on a daily basis, so when we use ASX share prices as a valuation methodology we normally consider adjusting the valuation to include a control premium.

A control premium represents the difference between the price that would have to be paid for a share to which a controlling interest attaches and the price at which a share which does not carry with it control of the company could be acquired. Control premiums are normally in a range of 30% to 35%³ above the value of a minority share.

The RSM Bird Cameron Control Premium Study is summarised below:

Table 13

Analysis by	Criteria	Control premium	
		20 days pre-announcement Average	Median
All transactions		35.30%	29.00%
Energy		35.50%	38.10%
Consideration type	Scrip	29.90%	20.60%
Size	< \$25m	49.00%	42.90%

Source: RSM Bird Cameron Control Premium Study – 2013

The actual control premium paid is transaction specific and depends on a range of factors, such as the level of synergies available to the purchaser, the level of competition for the assets and strategic importance of the assets.

We consider that the current low share price of LKO reflects negative investor sentiment towards the Victorian Government ban on onshore gas exploration restricting the exploration activity of LKO's interest in highly prospective petroleum acreage as well as the relative inactivity in exploration of LKO's interests in other projects.

We consider that a control premium in a range of 30% to 35% should be applied to a valuation of LKO on a share price history basis. We have set out our calculation below:

Table 14

Control premium	Low	High
Value per share price history - minority values	\$0.0015	\$0.0015
Control premium	30.00%	35.00%
LKO's share value on a control basis	\$0.0020	\$0.0020

Source: DMR analysis

³ RSM Bird Cameron Control Premium Study – 2013

Based on the share price valuation methodology as at 4 October 2016, we consider that the control value of a LKO share is \$0.002 per share.

7.4 Capitalisation of future maintainable earnings

7.4.1 *Capitalisation of earnings is a method commonly used for valuing manufacturing and service companies and, in our experience, is the method most widely used by purchasers of such businesses. This method involves capitalising the earnings of a business at a multiple which reflects the risks of the business and its ability to earn future profits. There are different definitions of earnings to which a multiple can be applied. The traditional method is to use net profit after tax. Another common method is to use Earnings Before Interest and Tax, or EBIT. One advantage of using EBIT is that it enables a valuation to be determined which is independent of the financing and tax structure of the business. Different owners of the same business may have different funding strategies and these strategies should not alter the fundamental value of the business.*

7.4.2 As LKO does not have a history of profitable trading, we consider that the capitalisation of maintainable earnings is not an appropriate methodology to use to value LKO shares.

7.5 Net present value of future cash flows

7.5.1 *An analysis of the net present value of the projected cash flows of a business (or discounted cash flow technique) is based on the premise that the value of the business is the net present value of its future cash flows. This methodology requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value of the business remaining at the end of the forecast period.*

7.5.2 LKO has not been generating positive cash flows and as a result of the Victorian Government's ban on all onshore petroleum exploration activities, LKO has not been able to undertake its core business of exploring for oil and gas in Victoria.

7.5.3 On 30 August 2016, the Victorian 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. As such, it is anticipated that LKO will not be able to undertake any exploration activity within onshore Victoria until 2020.

7.5.4 LKO also has interests in projects that are not onshore Victorian Projects. These projects include two exploration permits located offshore in Victorian waters and two exploration permits located in Queensland, however, no exploration activity has been undertaken. LKO also holds an interest in a California, USA project, however, LKO is reviewing its ongoing interest and involvement in this project.

7.5.5 In the judgment of LKO's Directors, "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". Accordingly, these projects cannot be valued using the net present value of the future cash flows methodology.

7.6 Asset based methods

7.6.1 This methodology is based on the realisable value of a company's identifiable net assets. Asset based valuation methodologies include:

(a) Net assets

The net asset valuation methodology involves deriving the value of a company or business by reference to the value of its assets. This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding companies and investment businesses that periodically revalue their assets to market. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realization costs.

This valuation methodology is based on the book value of a company's assets. LKO's 2 major assets are capitalised exploration and evaluation assets (\$5.172 million) and land and buildings (net \$1.765 million - classified as part of property, plant and equipment). In the 2016 financial year, the Company was left with no alternative but to impair the value of the capitalised exploration and evaluation assets by approximately \$47.357 million as a result of the Victorian Government's 30 August 2016 announcement that all onshore gas exploration is to be banned.

The recoverability of the remaining unimpaired costs is dependant on the successful development and commercial exploitation or sale of the permit areas to which these costs relate. As such, the book value of the Company's net assets may not reflect the market value of these assets.

The net assets of LKO as at 30 June 2016 as per the audited financial statements were \$6,822,106 (refer to section 6.5 above). Accordingly, we have concluded that the net asset backing of LKO was \$6,822,106 as at 30 June 2016, however, this is not considered to be a valid valuation of the LKO shares as it does not reflect the market value of LKO's exploration assets and the subsequent events to 30 June 2016.

(b) Orderly realisation of assets

The orderly realisation of assets method estimates the fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

Given LKO's low level of debts (refer to section 6.3 above) and support from its major investors, we do not consider that an orderly realisation of its assets is an appropriate valuation methodology to use in assessing the value of LKO at this point in time.

(c) Liquidation of Assets

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a short time frame.

We consider that this methodology is an inappropriate valuation methodology to use as LKO has existing cash resources and support from its major investors.

7.7 Comparable market transactions

Industry specific methods estimate market values using rules of thumb for a particular industry. Generally, rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

In considering the application of this methodology, we have considered LKO's interest held in projects and acreage in different geographic regions, the restriction on exploration of Victorian based onshore acreage and the different stages of prospectivity of non-Victorian onshore projects.

For these reasons, we do not consider that it is appropriate to apply this valuation methodology to a valuation of LKO, however, this methodology was used by SRK Consulting (Australasia) Pty Ltd ("SRK") to value LKO's interests in individual exploration assets.

7.8 Alternate acquirer

7.8.1 *The value that an alternative offeror may be prepared to pay to acquire LKO is a relevant valuation methodology to be considered.*

7.8.2 We are not aware of any offers for the LKO shares and we can see no reason as to why an offer would be initiated at this time without the consent and support of the major shareholders.

7.9 Sum of the parts valuation

In section 7.6.1 (a), we noted that the value of LKO based on the book values of its net assets at 30 June 2016 was \$6,822,106.

Due to the range of the company's projects, permits and acreages, we considered that this methodology was not an appropriate methodology to use to value LKO. Accordingly, in table 15 below we have specifically eliminated the book value of "Exploration and evaluation" assets and inserted our assessment of the values of these assets based on the assumptions stated in the notes below. Since 30 June 2016, the Company has made further transactions that we have reflected in the table and explained in the notes below.

Our sum of the parts valuation based on the 30 June 2016 financial statements is as follows:

Table 15

Lakes Oil NL	Audited 30/06/16	DMR value adopted	Cash movement	Converting notes issue	Navgas investment	Sum of the parts valuation before Proposed Transaction Low	Sum of the parts valuation before Proposed Transaction High
	\$	\$	\$	\$	\$	\$	\$
notes	1	2	3	4	5		
Assets							
Current assets							
Cash and cash equivalents	761,818		340,000	580,000	(400,000)	1,281,818	1,281,818
Trade and other receivables	86,249					86,249	86,249
Financial assets	924,044		(924,044)			-	-
Other financial assets	385,302					385,302	385,302
Other current assets	38,680					38,680	38,680
Total current assets	<u>2,196,093</u>					<u>1,792,049</u>	<u>1,792,049</u>
Non-current assets							
Property plant and equipment	1,864,335					1,864,335	1,864,335
Financial assets - Navgas					400,000	400,000	400,000
Exploration and evaluation	5,172,635	4,865,514				4,865,514	5,315,514
Total non-current assets	<u>7,036,970</u>					<u>7,129,849</u>	<u>7,579,849</u>
Total assets	<u>9,233,063</u>					<u>8,921,898</u>	<u>9,371,898</u>
Liabilities							
Current liabilities							
Trade and other payables	683,601					683,601	683,601
Converting notes	216,360					216,360	216,360
Borrowings	1,000,000					1,000,000	1,000,000
Provisions	202,535					202,535	202,535
Total current liabilities	<u>2,102,496</u>					<u>2,102,496</u>	<u>2,102,496</u>
Non-current liabilities							
Provisions	308,461					308,461	308,461
Total non-current liabilities	<u>308,461</u>					<u>308,461</u>	<u>308,461</u>
Total liabilities	<u>2,410,957</u>					<u>2,410,957</u>	<u>2,410,957</u>
Net assets	<u>6,822,106</u>					<u>6,510,941</u>	<u>6,960,941</u>
					say	\$6,500,000	\$7,000,000
				LKO shares on issue		11,921,964,705	11,921,964,705
				LKO value per share		\$0.0005	\$0.0006

Source: LKO Annual Report – 30 June 2016, SRK & DMR analysis

We appointed SRK to assist us in the valuation of LKO's interest in all permits, leases and/or acreages in both Australia and California, USA. A full copy of SRK's report is set out as Attachment 1 to this report.

Note 1: All assets and liabilities disclosed on LKO's audited balance sheet (table 6 above) have been included in the 'Sum of the Parts' valuation, except for the book values of the "exploration and evaluation" assets and those items subject to the notes below. We have used the SRK report to assist us in the valuation of these assets and further explanations are included in the notes below.

It should be noted that the major component of property plant and equipment are land and buildings (carrying value of \$1,765,538), which were independently valued on 4 September 2014 and hence we have adopted the book value of property plant and equipment as being reflective of its realisable value (whilst the independent property valuation reflects values of two years ago, as these are rural properties we consider the risk that current values differ materially from the level assessed in September 2014 is low).

Note 2: We have reviewed the SRK valuation report and provide in the table below the SRK valuations of LKO's interest in all permits, leases and/or acreages. The SRK valuation report does not consider the moratorium placed on onshore exploration by the Victorian Government and states that "political risk associated with the Victorian onshore drilling and fracture simulation ban is simply unknown". We have dealt with the impact of this issue separately.

Table 16

Lakes Oil NL Exploration and evaluation		SRK value preferred	Book value	DMR value adopted Low	DMR value adopted High
		\$	\$	\$	\$
	notes				
Tenement					
PEP 163	a	1,513,257	-	1,000,000	200,000
PEP 167	a	3,683,144	-		200,000
PEP 169	a, c	3,302,170	-		100,000
PEP 175	a	3,275,593	-		200,000
PRL 2 - Overall Permit	a, b	50,050,908	-		200,000
PRL 2 - Trifon Field	a, b	-	-		200,000
PRL 3	a	2,105,000	-		200,000
PEP 166	a, c	6,271,218	-		150,000
VIC/P43(V)		219,922	-	219,922	219,922
VIC/P44(V)		561,622	-	561,622	561,622
ATP642P		1,550,000	658,563	1,550,000	1,550,000
ATP662P		1,380,000	652,924	1,380,000	1,380,000
Eagle Prospect		153,970	3,861,148	153,970	153,970
EL5333	d	-	-	-	-
EL5334	d	-	-	-	-
EL5394	d	-	-	-	-
Total		74,066,804	5,172,635	4,865,514	5,315,514

Source: LKO Annual Report – 30 June 2016, SRK & DMR analysis

Note a: These tenements are located onshore in Victoria.

Note b: SRK have valued PRL 2 as a single asset and we have adopted this value as being reflective of LKO's respective interest in this tenement including the Trifon Field.

Note c: LKO has a 49% interest in PEP 169 and a 75% interest in PEP 166.

Note d: LKO held an interest in three Victorian coal exploration leases, however, no exploration activities were undertaken and subsequent to the end of the 2016 financial year it relinquished these leases.

SRK have provided a low value (\$23,113,908) and high value (\$414,000,964) range for LKO's assets. Given the size of this range, we have adopted the SRK preferred value in table 16 above for LKO's exploration assets. The SRK report concluded the fair value estimate of LKO's assets to have a preferred value of \$74,066,804 compared to the book/impaired value of LKO's assets of \$5,172,635 as disclosed in the 2016 audited financial statements.

Victorian onshore assets

We have considered the following factors relating to the exploration moratorium, in determining the market value of the onshore Victorian assets.

- i. We have assessed the market capitalisation of LKO prior to and after the Victorian Government announcement on 30 August 2016. We have observed that on 29 August 2016, prior to the Victorian Government announcement, LKO's market capitalisation totalled approximately \$23.730 million compared to a market capitalisation of \$11.865 million on 31 August 2016. This represents a discount of 50% to the value of LKO as placed by the market and is impacted by the share price move from \$0.002 per share on 29 August 2016 to \$0.001 per share on 31 August 2016.
- ii. We have undertaken market research to identify gas exploration companies listed on the ASX, which hold Victorian onshore exploration licenses that are also impacted by the Victorian Government moratorium. We have set out below those companies as well as the market capitalisation before and after the Victorian Government announcement on 30 August 2016.

Table 17

Victorian Government ban Company	Market capitalisation		Market discount
	29-Aug-16	31-Aug-16	
LKO	\$23,730,479	\$11,865,240	50.00%
Armour Energy Limited	\$24,537,214	\$23,245,782	5.26%

Source: ASX & DMR analysis

- iii. It can be observed that the market discount calculation in table 17 above for Armour is much lower than the market discount calculated for LKO. We consider that this may be a result of the range of portfolio of assets held by Armour compared to LKO as well as the underlying share price.
- iv. LKO's annual report as at 30 June 2016 recorded an impairment of 100% to the book value of its Victorian exploration permits (\$47 million). We have been provided with management's comments on future exploration activities for the Victorian projects and the impairment to the value of these tenements is due to the Victorian Government's ban on all onshore gas exploration.
- v. Our research has revealed that all listed companies that we were able to identify, with Victorian onshore oil and gas exploration licences, have impaired the value of those licences following the 30 August 2016 Victorian Government announcement.
- vi. We have not identified any sales or joint venture arrangements relating to Victorian onshore oil and gas assets entered into since 30 August 2016 that provide any evidence of the market value of these assets.
- vii. On 27 October 2016, LKO announced that it has filed an application in the Supreme Court of Victoria seeking a Judicial Review of the Victorian Minister for Resources' decision to ban onshore oil and gas exploration. At present, there is no reasonable basis for assuming that LKO's application will be successful.
- viii. On 22 November 2016, the Victorian Government announced that it was introducing legislation to permanently ban fracking in Victoria. The government also announced that holders of tenements who voluntarily relinquish their licences will receive cash compensation. The size of the compensation was not announced, however the government indicated that it would be in line with compensation offered by the NSW government, which we understand is capped at \$200,000 per tenement. There can be at present no certainty that payment of compensation will in fact be enacted nor the conditions under which it will be payable, which may mean that no or less than the maximum amount of compensation will be payable in respect of one or more of LKO's tenements.

Given the level of uncertainty described above, we have assumed in the Low value scenario that in total across all the tenements LKO will receive compensation of \$1,000,000 and in the High value scenario we assumed that LKO will receive its proportional share of the total compensation of \$200,000 per tenement.

Victorian offshore assets

Although offshore exploration activity is not prohibited in Victoria, LKO's Victorian offshore assets, VIC/P43(V) and VIC/944(V), have been impaired as LKO does not envisage carrying out seismic work until possibly 2017/2018. Both permits are considered to have potential for production of oil and gas and for this reason we have adopted the SRK value.

Queensland onshore assets

LKO's Queensland onshore assets, ATP 642P and ATP662P, have not been impaired and for this reason we have adopted the SRK value based on the current proposed total expenditure which is higher than the book value.

California, USA onshore assets

LKO's Californian onshore assets, Eagle Prospect, successfully produced oil until mechanical problems led to a loss of production. Drilling of a further well is proposed but not yet confirmed and for this reason we have adopted the SRK value based on the current proposed total expenditure which is lower than the book value recorded in LKO's 2016 audited financial statements.

Note 3: We have reviewed LKO's Quarterly Activities and Cashflow Report for the quarter ending September 2016 announced on 26 October 2016. The cash movement from 30 June 2016 to 30 September 2016 totals approximately \$340,000. We have adjusted the financial position of LKO by adjusting cash accordingly.

Financial assets relate to LKO's investment in Greenerth Energy limited ("GER"). Subsequent to the end of the 2016 financial year, LKO sold its investment in GER for \$751,199. This is was \$172,845 less than the book value of LKO's investment in GER as at 30 June 2016. We have adjusted the financial position of LKO to reflect this transaction by reducing financial assets by \$924,044.

On 14 September 2016, LKO raised \$542,000 from a converting note issue, however, this resulted in a shortfall of approximately \$6.6 million following the closure of the offer. On 16 September, LKO announced that it had issued 53,666 converting notes ("LKOGB") as part of the raise, however, 9,367 notes were redeemed. Accordingly, these funds are reflected in the cash movement of \$340,000.

Note 4: On 3 October 2016, LKO announced a placement of 58,000 LKOGB converting notes for total cash consideration of \$580,000. DHR subscribed for 40,000 LKOGB converting notes for consideration of \$400,000.

Note 5: On 3 October 2016, LKO also announced the acquisition of a 4% stake in Navgas for \$400,000. This acquisition was funded by 40,000 convertible notes at \$10 (\$400,000) issued to DHR which form part of the 58,000 converting notes issued (refer to note 4 above). We have adjusted the financial position of LKO to reflect this transaction by increasing financial assets by \$400,000 as a proxy for the market value of LKO's 4% interest in Navgas as well as the reduction in cash of \$400,000.

Based on the sum of the parts valuation methodology in table 15 above, LKO is valued in a range of \$6,500,000 to \$7,000,000, or in a range of \$0.0005 to \$0.0006 per share. As this value range reflects the value of the net assets of LKO and this value can only be extracted by a controlling shareholder, it is by definition a control value (as opposed to a minority value).

7.10 Conclusion

The applicable valuation methodologies that we have considered are summarised as:

Table 18

LKO			
Valuation methodology	section	Low \$	High \$
Share price history - control value	7.3	\$0.002	\$0.002
Sum of the parts	7.9	\$0.0005	\$0.0006

Source: DMR analysis

As can be seen from table 18 above, there is a significant disconnect between the valuation of LKO shares derived from the share price history methodology and the sum of the parts methodology.

Whilst the share price methodology is based on actual trades in LKO shares through to 4 October 2016, these trades only reflect the publicly available information in the market up to that date. We do not consider that there is sufficient liquidity in the market for LKO shares for us to apply the share price valuation methodology as at 4 October 2016.

The sum of the parts methodology reflects the events that have occurred between 30 June 2016 and the date of this report. Since 30 June 2016, LKO's share price has been impacted by the following:

- Victorian Government's announcement on 30 August 2016;
- Investment in Navgas;
- Issue of converting notes (LKOGB);
- Conversion of listed convertible notes (LKOGA); and
- Announcement of the Proposed Transaction.

The sum of the parts valuation is based on a detailed analysis of all the major assets owned by LKO as well as any relevant impact of the above events, since 30 June 2016.

For these reasons, we have elected to use the sum of the parts valuation methodology on this occasion and we have adopted the control value of \$0.0005 to \$0.0006 per share for LKO, which equate to a control value in a range of \$6,500,000 to \$7,000,000 (refer to table 15 above) before the Proposed Transaction.

8. Navgas - key information

8.1 General

8.1.1 Following the Victorian Government's ban on onshore exploration activity and failing the softening of the Victorian Government's position, the new exploration acreage to be acquired as part of the Proposed Transaction will be LKO's principal exploration focus.

The Proposed Transaction will result in the issue of 9,600,000,000 LKO shares to acquire the remaining 96% of the shares in Navgas.

8.1.2 Navgas was established by DHR in 2012 as a separate oil and gas focused company, founded on several petroleum license applications made over a prospective province within South Australia.

Today, Navgas holds prospective petroleum exploration acreage in South Australia and Queensland, which we have set out below.

Table 19

Exploration permits	Location	Navgas interest
PELA 577 - Blinman	South Australia	100% interest
PELA 578 - Brachina	South Australia	100% interest
PELA 579 - Willouran	South Australia	100% interest
PELA 601 - Pernatty	South Australia	100% interest
PELA 602 - Winnie Pinnie	South Australia	100% interest
PELA 631 - Wilkatana	South Australia	100% interest
ATP 1183	Queensland	100% interest

Source: DHR announcement 6 October 2016

Navgas' Pirie Torrens Basin oil and gas project incorporates the six South Australian based exploration licenses in the above table. The project was originally generated by DHR on the basis of its potential prospectivity for unconventional shale gas. This project is favourably located adjacent to gas pipeline infrastructure, and is positioned to take advantage of the expected current forecast increases in local demand for gas in eastern and southern states of Australia over the next five years, in particular given the Victorian Government's gas exploration ban.

In 2014, Navgas was the successful tenderer for ATP 1183 on the Roma Shelf in Queensland, which is considered highly prospective for oil, gas and condensate targets. In 2015, Navgas successfully increased the tenure period of the Roma Shelf project from four years to six years. The Roma Shelf project is situated in an area with established production facilities and infrastructure, and is well serviced by existing gas pipelines. The granted tenement is adjacent to Armour's Kincora Project, one of LKO's major shareholders.

DHR holds a 92.78% interest in Navgas along with two individuals who hold a combined 3.22% interest, with LKO holding the remaining 4% interest. Following the completion of the Proposed Transaction, LKO will hold a 100% interest in Navgas.

8.2 Statements of financial position

Navgas' net assets as at 30 June 2015 and 2016 are as follows:

Table 20

Navgas Pty Ltd	30/06/2015	30/06/2016
Net assets	\$	\$
Assets		
Security deposits - DNRM	12,000	12,000
SA exploration expenditure		
PELA 577 - Blinman	26,644	26,644
PELA 578 - Brachina	26,644	26,644
PELA 579 - Willouran	26,644	26,644
PELA 601 - Pernatty	26,644	26,644
PELA 602 - Winnie Pinnie	26,644	26,722
PELA 631 - Wilkatana	36,297	36,297
SA exploration expense general	-	12,000
QLD exploration expenditure		
ATP 1183 Roma Shelf	8,402	10,146
NT exploration expenditure		
NT general expenditure	1,000	1,000
QLD general exploration	78	78
Total assets	190,997	204,819
Liabilities		
Trade creditors	15,443	15,443
GST liabilities	(60)	1
Loans - Navaho Gold Limited	186,392	201,185
Total liabilities	201,775	216,628
Net assets	(10,778)	(11,809)

Source: Navgas financial statements

8.3 Operating performance

Navgas' profit and loss statement for the financial years ended 30 June 2015 and 2016 are as follows:

Table 21

Navgas Pty Ltd	2015	2016
Profit & loss statement	\$	\$
Income	-	-
Expenses		
Accounting fees	(1,100)	(785)
Filing fees	(625)	(246)
Consulting fee	(8,025)	-
Foreign exchange adjustment	(60)	-
	(9,810)	(1,031)
Net profit/(loss)	(9,810)	(1,031)

Source: Navgas financial statements

9. Value of Navgas

9.1 Valuation methodologies

9.1.1 In selecting appropriate valuation methodologies, we considered the applicability of the generally accepted valuation methodologies as set out in section 7.2 above.

9.2 Share price history

9.2.1 Navgas is an unlisted proprietary company and there is no market in its shares. On 3 October 2016, LKO acquired 4% of the issued share capital of Navgas from DHR for a consideration of \$400,000. These funds were reinvested into LKO by DHR in exchange for 40,000 converting notes at \$10 each. We consider that this was a strategic transaction as part of LKO's further involvement in Navgas, in particular the Proposed Transaction. Accordingly, we do not consider that this market transaction can be relied upon to determine the share price of Navgas at this time.

9.2.2 We are not aware of any other market transactions in Navgas' shares that can be relied upon and we therefore consider that the share price history is not an appropriate methodology to use to value Navgas.

9.3 Earnings based valuation

9.3.1 As Navgas does not have a history of profitable trading, we consider that the capitalisation of maintainable earnings is not an appropriate methodology to use to value Navgas.

9.4 Net present value of future cash flows

9.4.1 Navgas has not been generating positive cash flows and its projects are currently at an exploration stage. Accordingly, these projects cannot be valued using the net present value of the future cash flows methodology.

9.5 Asset based methods

9.5.1 This methodology is based on the realisable value of a company's identifiable net assets and we have considered the following asset based valuation methodologies:

(a) Net assets

Navgas' major assets are capitalised exploration assets relating to South Australia and Queensland permits. The recoverability of these costs is dependant on the successful development and commercial exploitation or sale of the permit areas to which these costs relate. As such the book value of the company's net assets may not reflect the market value of these assets.

As per the unaudited financial statements as at 30 June 2016, Navgas reported a deficiency in net assets of \$11,809 (refer to section 8.2 above). Accordingly, this does not return a commercial value of Navgas and we therefore do not consider this to be a valid valuation of Navgas as it does not reflect the market value of Navgas' exploration assets.

(b) Orderly realisation of assets

Navgas has borrowings from Navaho Gold Limited, the former name of DHR, its parent company. Given Navgas' low level of debts (refer to section 8.2 above) and support from DHR, we do not consider that an orderly realisation of its assets is an appropriate valuation methodology to use in assessing the value of Navgas at this point in time.

(c) Liquidation of Assets

We consider that this methodology is an inappropriate valuation methodology to use as Navgas has the support of its major shareholder.

9.6 Comparable market transactions

In considering the application of this methodology, we have considered Navgas' interest held in projects and acreage in different geographic regions. For these reasons, we do not consider that it is appropriate to apply this valuation methodology to a valuation of Navgas, however, this methodology was used by SRK to value Navgas' interests in individual exploration assets.

9.7 Alternate acquirer

9.7.1 We are not aware of any other offers for Navgas and we can see no reason as to why an offer would be initiated at this time pending the Proposed Transaction.

9.8 Sum of the parts valuation

In section 9.5.1 (a), we noted that the value of Navgas based on the book values of its net assets as at 30 June 2016 did not return a commercial value of Navgas. In table 22 below we have specifically eliminated the book value of "exploration" assets and inserted our assessment of the values of these assets based on the assumptions stated in the notes below.

Our sum of the parts aggregation based on the 30 June 2016 financial statements is as follows:

Table 22

Navgas Pty Ltd		30/06/2016	DMR value adopted	Sum of the parts valuation
		\$	\$	\$
	notes	1	2	
Assets				
Security deposits - DNRM		12,000		12,000
SA exploration expenditure				
PELA 577 - Blinman		26,644	26,644	26,644
PELA 578 - Brachina		26,644	26,644	26,644
PELA 579 - Willouran		26,644	26,644	26,644
PELA 601 - Pernatty		26,644	26,644	26,644
PELA 602 - Winnie Pinnie		26,722	26,722	26,722
PELA 631 - Wilkatana		36,297	37,420	37,420
SG exploration expense general	3	12,000		
QLD exploration expenditure				
ATP 1183 Roma Shelf		10,146	9,820,836	9,820,836
NT exploration expenditure				
NT general expenditure	3	1,000		
QLD general exploration	3	78		
Total assets		<u>204,819</u>		<u>10,003,554</u>
Liabilities				
Trade creditors	4	15,443		
GST liabilities	4	1		
Loans - Navaho Gold Limited	4	201,185		
Total liabilities		<u>216,628</u>		<u>-</u>
Net assets		<u>(11,809)</u>		<u>10,003,554</u>
			say	\$10,000,000

Source: Navgas financial statements – 30 June 2016, SRK & DMR analysis

We appointed SRK to assist us in the valuation of Navgas' interest in all permits, leases and/or acreages in South Australia and Queensland.

The above adjustments to book values have been made based on the following assumptions:

- Note 1: All tangible assets and liabilities disclosed on Navgas' balance sheet (table 20 above) have been included in the 'Sum of the Parts' valuation, except for the book values of the "exploration" assets and those other items subject to notes 3 and 4 below. We have reviewed the Navgas trial balance as at 30 September 2016 and we do not consider any material transactions which have impacted the balance sheet as at 30 June 2016. We have used the SRK specialist report to assist us in the valuation of these assets and further explanations are included in the notes below.
- Note 2: We have reviewed the SRK valuation report and provide in the table below the SRK valuations of Navgas' interest in all permits, leases and/or acreages. We have adopted the SRK values of Navgas' assets.

Table 23

Navgas Pty Ltd	SRK value \$	Book value \$	DMR value adopted \$
Permit name			
PELA 577 - Blinman	26,644	26,644	26,644
PELA 578 - Brachina	26,644	26,644	26,644
PELA 579 - Willouran	26,644	26,644	26,644
PELA 601 - Pernatty	26,644	26,644	26,644
PELA 602 - Winnie Pinnie	26,722	26,722	26,722
PELA 631 - Wilkatana	37,420	36,297	37,420
ATP 1183 Roma Shelf	9,820,836	10,146	9,820,836
Total	9,991,554	179,742	9,991,554

Source: Navgas financial statements – 30 June 2016, SRK & DMR analysis

- Note 3: We do not consider that the general exploration expenditure capitalised by Navgas has a material book value that is recoverable and for this reason, we have attributed no value to these assets.
- Note 4: We are advised by Mr Pry Jayasuriya, Group CFO of DGR Global Limited ("DGR"), that as part of the Proposed Transaction the loan from DHR (formerly Navaho Gold Limited) will be forgiven and the trade creditors assumed by DHR. Accordingly, we have attributed no amount to the liabilities of Navgas as reported in the balance sheet as at 30 June 2016.

Based on the sum of the parts valuation methodology in table 23 above, Navgas is valued at \$10,000,000 on a control basis.

9.9 Conclusion

The sum of the parts valuation is based on a detailed analysis of all the exploration assets owned by Navgas. We have assessed the value of Navgas, on a control basis, to be \$10,000,000.

In our opinion the provision of a single value does not appropriately reflect the uncertainty inherent in any valuation. To allow for this uncertainty, we have used a range of plus and minus 10% around the above value to develop a fair value range. Hence we have estimated the value of Navgas in a range of \$9,000,000 to \$11,000,000.

10. Valuation of LKO after the Proposed Transaction

10.1 The value of LKO after the Proposed Transaction will comprise of its value before the Proposed Transaction together with the value of Navgas. In section 7 we assessed the value of LKO before the Proposed Transaction to be in a range of \$6,500,000 to \$7,000,000, however this value already includes a 4% interest in Navgas valued at \$400,000. In section 9, we assessed the current value of Navgas to be in a range of \$9,000,000 to \$11,000,000. Using this information the value of LKO after the Proposed Transaction can be expressed as follows:

Table 24

LKO		Low \$	High \$
	section		
Value of LKO before the Proposed Transaction	7.10	6,500,000	7,000,000
Elimination of LKO's current interest in Navgas		(400,000)	(400,000)
Value of Navgas	9.9	9,000,000	11,000,000
Value of LKO after the Proposed Transaction		<u>15,100,000</u>	<u>17,600,000</u>

Source: DMR analysis

10.2 In our opinion, after completion of the Proposed Transaction the value of LKO on a control basis will be in a range of \$15,100,000 to \$17,600,000.

11. Assessment as to Fairness

11.1 In section 10.2 above, we assessed the value of LKO on a control basis after the Proposed Transaction to be in the range of \$15,100,000 to \$17,600,000, however as DHR will control 43.11% of LKO's voting power, the existing LKO shareholders will technically become minority shareholders. For this reason in table 25 below, we have estimated the minority value of an LKO share after the Proposed Transaction by eliminating the premium for control. In section 7.3.6, we selected a control premium in a range of 30% to 35% and the equivalent minority discount is in a range of 23% and 26%.

Table 25

LKO	Low	High
LKO value - control basis	\$15,100,000	\$17,600,000
Control premium elimination to obtain minority value	26.00%	23.00%
LKO value - minority basis	\$11,174,000	\$13,552,000
LKO shares on issue - after the Proposed Transaction	21,521,964,705	21,521,964,705
LKO share value - minority basis	\$0.0005	\$0.0006

Source: DMR analysis

11.2 In section 7.10, we concluded that the value of the LKO shares on a control basis before the Proposed Transaction is in a range of \$0.0005 to \$0.0006 per share and in section 11.1 above we assessed the minority value of a LKO share after the Proposed Transaction to also be in the range of \$0.0005 to \$0.0006 per share.

11.3 As the minority value of a LKO share after the Proposed Transaction (\$0.0005 to \$0.0006) is equal to the control value of a LKO share before the Proposed Transaction (\$0.0005 to \$0.0006), we have concluded that the Proposed Transaction is **fair**.

12. Assessment as to Reasonableness

12.1 Prior to deciding whether to approve or reject the Proposed Transaction, the LKO shareholders should also consider the following significant factors:

- In section 11 above, we assessed the Proposed Transaction as being fair and therefore it is reasonable.
- If shareholders approve the Proposed Transaction DHR will control 43.11% of LKO's voting power and DHR will have effective control over LKO.
- The Proposed Transaction provides LKO an opportunity to acquire Queensland and South Australian acreage that has excellent potential for future production of gas, condensate and/or oil. It will also complement LKO's existing exploration acreage in Victoria and Queensland and will add promising acreage in South Australia.
- LKO's major assets are Victorian based exploration permits which have been impacted by the Victorian Government's ban on onshore gas exploration to at least mid-2020. In view of this ban, the new exploration acreage, subject to the Proposed Transaction, will be the principal focus of LKO's exploration efforts over coming years, failing a softening of the Victorian Government's position on onshore gas exploration.
- The Proposed Transaction will see the emergence of DHR as a significant investor on the company's share register and along with Armour as an existing major investor may support the future exploration activities of LKO both operationally and financially.
- Should the Proposed Transaction proceed, DGR has committed to provide a \$1.5 million underwriting for a future rights issue of shares. DGR's business is involved with the creation of resource exploration development and mining companies. This may provide a level of market confidence and may also support the future exploration activities of LKO both operationally and financially.
- As a consequence of the Victorian Government's decision to ban onshore gas exploration, LKO's \$7.1 million \$10 converting notes (LKOGB) issue, which was launched on 30 June 2016, was adversely affected. A consequence of the ban was that \$1 million conditional underwriting of the issue ceased to be available and that subscribers for LKOGB were afforded a 30 day period, until 3 October 2016, during which they could redeem their subscriptions. Following redemptions of 9,367 notes, a further 58,000 notes were issued on 3 October 2016 to DHR and DGR. Accordingly, it is unlikely that any future converting notes issue would be well supported in the absence of the Proposed Transaction.
- LKO currently holds a 4% minority interest in Navgas. If the Proposed Transaction is not approved, LKO will continue to hold a minority interest in Navgas without any control over the exploration activities of its assets and may not be able to readily dispose of this asset.
- In section 7.9, we assessed the cash assets of LKO before the Proposed Transaction to be \$1.282 million. If the Proposed Transaction is not approved, LKO may find it difficult to raise additional funds to support its future operations. This could result in LKO becoming insolvent.
- Given LKO's current financial position, if shareholders do not approve the Proposed Transaction, we believe that LKO will need to urgently seek an alternative proposal. Any alternative proposal may be on substantially less advantageous terms than the Proposed Transaction.

- Since the announcement of the Proposed Transaction, the share price has traded in a tight range from \$0.001 to \$0.002 on low volumes. If the Proposed Transaction is not approved, we do not believe that the share price will recover.
- As disclosed in Section 7.9, SRK valued LKO's existing onshore Victorian exploration assets at approximately \$70 million on the assumption that the Victorian Government has not banned onshore oil and gas exploration. For reasons set out in Section 7.9, in our assessment of fairness we have placed a nil value on these exploration assets. Should the current exploration ban be reversed in the short term, value will be restored to these exploration assets. Should shareholders approve the Proposed Transaction, approximately 43.11% of the restored value will accrue to DHR.
- On 6 December 2016 LKO announced that it filed a Writ in the Supreme Court of Victoria seeking damages for the losses suffered by LKO as a result of allegedly unjust and unlawful actions of the Victorian Government. LKO announced that the Writ seeks damages of \$92 million in respect of past expenditure and over \$2.6 billion on account of lost future earnings. We are not in a position to offer any comments as to the prospects for success of this litigation and the potential impact of the litigation on LKO has not been taken into account in the preparation of this report.

12.2 Based on the above, we consider that the advantages of the Proposed Transaction outweigh the disadvantages of the Proposed Transaction, and for this reason, we consider that the Proposed Transaction is reasonable.

13. Assessment as to Fairness and Reasonableness

After considering the above matters, we have concluded that the Proposed Transaction is fair and reasonable.

14. Financial Services Guide

14.1 Financial Services Guide

This Financial Services Guide provides information to assist retail and wholesale investors in making a decision as to their use of the general financial product advice included in the above report.

14.2 DMR Corporate

DMR Corporate holds Australian Financial Services Licence No. 222050, authorizing it to provide general financial product advice in respect of securities to retail and wholesale investors.

14.3 Financial Services Offered by DMR Corporate

DMR Corporate prepares reports commissioned by a company or other entity ("Entity"). The reports prepared by DMR Corporate are provided by the Entity to its members.

All reports prepared by DMR Corporate include a description of the circumstances of the engagement and of DMR Corporate's independence of the Entity commissioning the report and other parties to the transactions.

DMR Corporate does not accept instructions from retail investors. DMR Corporate provides no financial services directly to retail investors and receives no remuneration from retail investors for financial services. DMR Corporate does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice to retail investors.

14.4 General Financial Product Advice

In the report, DMR Corporate provides general financial product advice. This advice does not take into account the personal objectives, financial situation or needs of individual retail investors.

Investors should consider the appropriateness of a report having regard to their own objectives, financial situation and needs before acting on the advice in a report. Where the advice relates to the acquisition or possible acquisition of a financial product, an investor should also obtain a product disclosure statement relating to the financial product and consider that statement before making any decision about whether to acquire the financial product.

14.5 Independence

At the date of this report, none of DMR Corporate, Mr Paul Lom nor Mr Stefan Galbo has any interest in the outcome of the Proposed Transaction, nor any relationship with LKO, Navgas, DHR or any of their directors.

Drafts of this report were provided to and discussed with the management of LKO and its advisers. Certain changes were made to factual statements in this report as a result of the reviews of the draft reports. There were no alterations to the methodology, valuations or conclusions that have been formed by DMR Corporate.

DMR Corporate and its related entities do not have any shareholding in or other relationship with LKO that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

DMR Corporate had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report.

DMR Corporate considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC on 30 March 2011.

14.6 Remuneration

DMR Corporate is entitled to receive a fee of approximately \$30,000 for the preparation of this report. With the exception of the above, DMR Corporate will not receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

14.7 Complaints Process

As the holder of an Australian Financial Services Licence, DMR Corporate is required to have suitable compensation arrangements in place. In order to satisfy this requirement DMR Corporate holds a professional indemnity insurance policy that is compliant with the requirements of Section 912B of the Act.

DMR Corporate is also required to have a system for handling complaints from persons to whom DMR Corporate provides financial services. All complaints must be in writing and sent to DMR Corporate at the above address.

DMR Corporate will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited – GPO Box 3, Melbourne Vic 3000.

Yours faithfully

DMR Corporate Pty Ltd



Paul Lom
Director



Stefan Galbo
CA BV Specialist

Appendix A

Lakes Oil NL

Sources of Information

The key documents we have relied upon in preparing this report are:

- Heads of Agreement between LKO, DHR and DGR dated 5 October 2016;
- Draft Agreement for Sale of Shares between LKO, DHR, Douglas Haynes and Peter Bubendorfer;
- LKO's 2016 Annual Report;
- LKO's announcements to the ASX for the 2016 calendar year;
- LKO Impairment of Exploration and Evaluation Assets internal paper;
- LKO draft resolution relating to the Proposed Transaction for the purpose of the Notice of meeting and Explanatory Statement;
- LKO 's share register as at 10 October 2016;
- LKO 's ASX share price and trade volumes for the period from 7 November 2015 to 20 October 2016 supplied by ASX;
- Navgas' 2015 and 2016 financial statements;
- Navgas' trial balance as at 30 September 2016;
- DHR's announcements to the ASX on 3 October 2016 and 6 October 2016;
- Research data from Capital IQ and other publically accessible web sites;
- SRK Consulting (Australasia) Pty Ltd report dated December 2016; and
- Discussions with the management of LKO and Group CFO of DGR.

Lakes Oil NL**Declarations, Qualifications and Consents****1. Declarations**

This report has been prepared at the request of the Directors of LKO pursuant to Section 611 of the Act to accompany the notice of meeting of shareholders to approve the Proposed Transaction. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Transaction is fair and reasonable.

This report has also been prepared in accordance with the Accounting Professional and Ethical Standards Board professional standard APES 225 – Valuation Services.

The procedures that we performed and the enquiries that we made in the course of the preparation of this report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards.

2. Qualifications

Mr Paul Lom, director of DMR Corporate, and Mr Stefan Galbo, prepared this report. They have been responsible for the preparation of many expert reports and are involved in the provision of advice in respect of valuations, takeovers, capital reconstructions and reporting on all aspects thereof.

Mr Lom is a Fellow of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist) with more than 35 years experience in the accounting profession. He was a partner of KPMG and Touche Ross between 1989 and 1996, specialising in audit. He has extensive experience in business acquisitions, business valuations and privatisations in Australia and Europe.

Mr Galbo is a Member of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist). He has been responsible for the preparation of valuation reports relating to shares, businesses, options and performance rights and intellectual property for the purpose of acquisitions, divestments, litigation, taxation and capital reconstruction.

3. Consent

DMR Corporate consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.

SRK Independent Specialist Report

Independent Specialist Report on the petroleum assets of NavGas Pty Ltd and Lakes Oil NL

Report Prepared for

DMR Corporate



Report Prepared by



SRK Consulting (Australasia) Pty Ltd

Project Number: DMR003

December 2016

Independent Specialist Report on the petroleum assets of NavGas Pty Ltd and Lakes Oil NL

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Executive Summary

Introduction

Mr Paul Lom of DMR Corporate requested SRK Consulting Australasia Pty Ltd (SRK) to prepare an Independent Specialist Report incorporating a technical assessment and valuation of the petroleum interests of NavGas Pty Ltd (NavGas) and Lakes Oil NL (Lakes). We understand that this report may be included as an appendix to DMR's Independent Expert's Report relating to a potential transaction involving NavGas' petroleum assets located in Queensland and South Australia.

NavGas is a subsidiary company of Australian Securities Exchange (ASX) listed company, Dark Horse Resources Limited (OHR) (92.78%) and two individuals (3.22% total). NavGas currently holds a 100% interest in a single granted Authority to Prospect (ATP1183) for petroleum in Queensland and six Exploration Licence applications (PELA) known as the Pirie Torrens Project in South Australia.

The Pirie Torrens Oil and Gas Project covers an area of approximately 53,000 km² as shown in **Figure ES-1**.

NavGas' ATP1183 resides on the Roma Shelf in Queensland and is considered prospective for oil, gas and condensate targets as it contains discovered hydrocarbons previously considered to be sub-commercial (**Figure ES-2**).

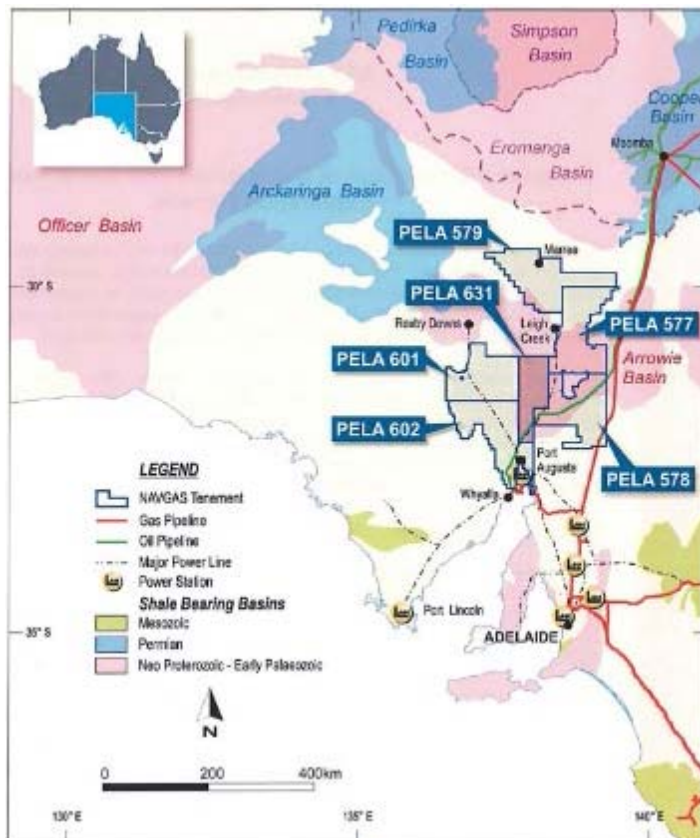


Figure ES-1: Six Petroleum Exploration Licence Applications (PELAs) located in South Australia

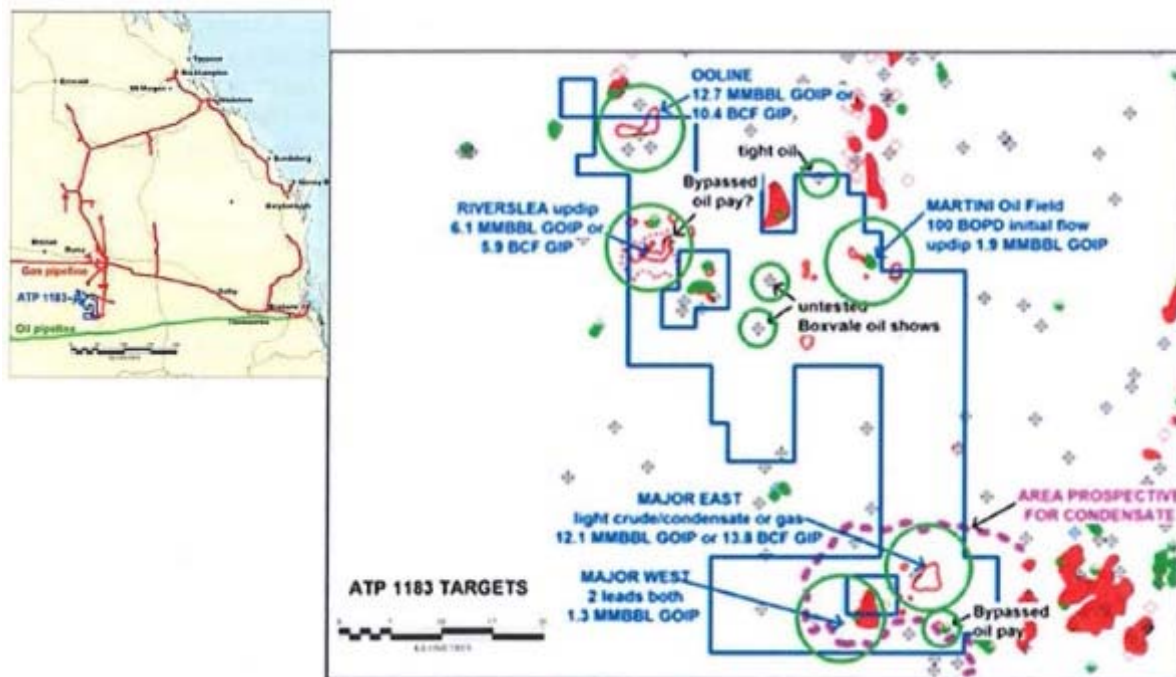


Figure ES-2: ATP1183 on the Roma Shelf in Queensland

SRK has considered the value of NavGas’ petroleum tenure and provides the following estimations (Table ES-1). The high side valuation for ATP1183 was derived from the proposed expenditure submitted to the Queensland Department of Natural Resources and Mines. It is the estimated work program value to win the block in a competitive tender at the time of release. SRK’s preferred value is the current proposed value to undertake the work commitments. SRKs preferred value for the PELA’s is the cost of the applications.

Table ES-1: Summary of the tenure values of NavGas Pty Ltd blocks

Permit application	Applicant/Tenement holder	Interest %	Area km ²	Low Value	SRK Preferred value	High Value	Notes
South Australia							
PELA 577	NAV GAS Pty Ltd	100	9672	\$0	\$26,644	\$2,180,000	Application value only
PELA 578	NAV GAS Pty Ltd	100	9344	\$0	\$26,644	\$2,180,000	Application value only
PELA 579	NAV GAS Pty Ltd	100	9902	\$0	\$26,644	\$2,180,000	Application value only
PELA 601	NAV GAS Pty Ltd	100	8280	\$0	\$26,644	\$2,180,000	Application value only
PELA 602	NAV GAS Pty Ltd	100	9593	\$0	\$26,722	\$2,180,000	Application value only
PELA 631	NAV GAS Pty Ltd	100	5272	\$0	\$37,420	\$2,180,000	Application value only
Queensland							
ATP 1183	NAV GAS PTY LTD	100	992	\$104,901	\$9,820,836	\$13,260,000	<i>Transaction value preferred, Total proposed expenditure \$13,260,00, subject to block commitments remaining in good standing, high expenditure bid required to secure high prospectivity block.</i>
Total				\$104,901	\$9,991,554	\$26,340,000	

As the proposed transaction involves the issue of Lakes Oil NL shares, the value of Lakes Oil’s petroleum interests were also assessed and SRK provides the following estimations (Table ES-2). SRK note that only Wombat Field was assessed for PRL2 as the data for the other potential field developments requires detailed evaluation of large data sets to be meaningful. It is important to note that if any successful field development is achieved at Wombat then the incremental value of nearby additional Resources (Trifon and Gangell) will be significant.

Table ES-2: Summary of the tenure values of Lakes Oil blocks

Tenement Number	Tenement holder	Lakes Oil NLinterest %	Area km ²	Low Value	SRK Preferred value	High Value	Notes
Victoria							
PEP163	Mirboo Ridge Pty Ltd	100	542	\$498,852	\$1,513,257	\$2,330,000	Average preferred
PEP166	Petro Tech Pty Ltd	75	1754	\$4,560,000	\$6,271,218	\$6,405,928	Average preferred
PEP167	Mirboo Ridge Pty Ltd	100	408	\$1,903,911	\$3,683,144	\$5,462,378	Average preferred
PEP169	Mirboo Ridge Pty Ltd	49	1135	\$2,595,523	\$3,302,170	\$4,008,816	Average preferred
PEP175	Mirboo Ridge Pty Ltd	100	1326	\$366,859	\$3,275,593	\$6,184,327	Average preferred
VIC P43(V)	Petro Tech Pty Ltd	100	91	\$17,168	\$219,922	\$422,677	Average preferred
VIC P44(V)	Petro Tech Pty Ltd	100	237	\$16,168	\$561,622	\$1,107,077	Average preferred
PRL2	Petro Tech Pty Ltd	100	746	\$11,265,441	\$50,050,908	\$318,000,000	Expenditure preferred
PRL3	Petro Tech Pty Ltd	100	124	\$578,498	\$2,105,000	insufficient data	Expenditure preferred
Queensland							
ATP 642	Eoil Pty Ltd	100	7808	\$653,001	\$1,550,000	\$50,225,518	Lower prospectivity acreage, acquisition cost of AU\$1,128,000
ATP 662	Eoil Pty Ltd	100	2486	\$658,486	\$1,380,000	\$15,993,097	
California							
Eagle	Strata-X Inc	17.964	na	\$0	\$153,970	\$3,861,148	Unlikely commercial
Total				\$23,113,908	\$74,066,804	\$414,000,964	

Disclaimer and Disclosures

The opinions expressed in this Report have been based on the information provided by Lakes Oil NL (Lakes Oil) and NavGas Pty Ltd (NavGas). The opinions in this Report are provided in response to a specific request from DMR Corporate to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from this review are entirely reliant on the accuracy and completeness of the supplied data.

The statements made in this report are the informed judgements of the authors but also subject to the uncertainties associated with the interpretation of geological, geophysical and other subsurface data. The authors have taken all reasonable care to conduct an assessment within the scope of the work. The results and interpretations will be subject to variation as new information becomes available. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

Neither SRK nor any of the authors of this Report has any beneficial interest in the outcome of the technical assessment presented. SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the Report.

Table of Contents

Executive Summary	ii
Disclaimer and Disclosures	v
List of Abbreviations	x
Statement of Competency.....	xi
1 Introduction	1
1.1 Statement of SRK Independence	2
1.3 Reporting standard.....	3
1.4 Work program	3
1.5 Legal matters	4
1.6 Key sources of data	4
1.7 Effective date	4
1.8 Project team	4
1.9 Limitations	4
1.10 Indemnities	5
1.11 Consent.....	5
1.12 Consulting Fees	5
2 Methodology and Issues	6
2.1 Project planning	6
2.2 Geotechnical Assessment Criteria.....	6
2.3 Valuation methods	6
2.4 Victoria – Fracking and Drilling Moratoria and Exploration activity approvals on-hold (Lakes Oil NL onshore Victoria blocks).....	9
3 Geotechnical Assessment	10
3.1 NavGas’ Petroleum Exploration Permits.....	10
3.1.1 Petroleum Exploration Permit Applications (PELAs), South Australia.....	10
3.1.2 Authority to Prospect (ATP1183), Queensland	15
3.2 Lakes Oil NL.....	19
3.2.1 Lakes Oil NL Tenure	19
3.2.2 Petroleum Exploration Permits (PEPs) and Retention Licences (PRLs), Victoria	19
3.2.3 Wombat Field Economic Model	27
3.2.4 PEP175	28
3.2.5 PEP169	28

3.2.6	Authorities to Permit (ATPs), Queensland	29
3.2.7	Eagle Prospect (17.96% interest), California	33
4	Valuation Background and Assumptions.....	35
4.1	The Oil Price Environment	35
4.2	Comparative Transactions	35
4.2.1	Armour Energy Ltd acquisition of the Roma Shelf from Origin Energy.....	36
4.2.2	Armour Energy Ltd farm-in of Petro Tech Pty Ltd acreage.....	38
4.2.3	Lakes Oil N.L. Farm-in of Bass Strait Oil Company Ltd.....	38
4.2.4	Summary of Comparative Transactions.....	38
4.3	Reported Expenditure (Book Value)	39
4.4	Summary of Ranges Issues.....	40
5	Valuations	43
5.1	Geotechnical Valuation	43
5.2	Financial Modelling	43
5.3	Valuations	44
6	Conclusions.....	47
7	References	48
	Lakes Oil NL Petroleum Exploration Permits.....	14

List of Tables

Table 2-1:	Suggested asset valuation approaches for different types of mineral properties (CIMVAL).....	8
Table 3-1:	Summary details of NavGas' PELAs in South Australia	10
Table 3-2:	Summary of ATP, Surat Basin, Queensland.....	15
Table 3-3:	Summary of PEPs and PRLs in Victoria	19
Table 3-4:	Summary of Gas Initially In-Place and Contingent Gas Resources Wombat accumulations, Vic/RL2, onshore Australia (Gaffney, Cline and Associates, 2010 In Lakes Oil, 2011)	24
Table 3-5:	Summary of Gas Initially In-Place and Contingent Gas Resources Trifon, Gangell and North Seaspray accumulations, Vic/RL2, onshore Australia (Gaffney, Cline and Associates, 2009).....	25
Table 3-6:	Summary of Gas Initially In-Place and Prospective Gas Resources, Baragwanath Anticline, PRL2, onshore Australia (Gaffney, Cline and Associates, 2011)	25
Table 3-7:	Summary of Results from Wombat Gas Field Vertical Well testing (Well Completion Reports, GeoVic database)	27
Table 3-8:	OGIIP and Recoverable Resources in the PEP 175 focus area (Eumeralla tight gas and Laira, Pretty Hill and Casterton Formation tight Gas with liquids)	29
Table 3-9:	Summary of ATPs, Eromanga Basin, Queensland.....	29
Table 3-10:	Summary of Eagle prospect, San Jauquin Basin, California	33

Table 4-1:	Blocks and percentages of Armour Energies acquisition of the Roma Shelf from Origin Energy	36
Table 4-2:	2C Resource value for the Armour farm-in	38
Table 4-3:	Comparative transactions – Gippsland and Otway Basin acreage	39
Table 4-4:	Summary of reported expenditure by Lakes Oil	39
Table 4-5:	Summary of reported expenditure by NavGas	40
Table 5-1:	Estimated Value for NavGas Pty Ltd Assets as at 15 October 2016.....	44
Table 5-2:	Estimated Value for Lakes Oil NL Assets as at October 15, 2016	45

List of Figures

Figure 1-1:	Location of NavGas permits in South Australia and Queensland.....	1
Figure 1-2:	Location of Lakes Oil's Victorian and Queensland permits	2
Figure 3-1:	Petroleum exploration permit applications (PELAs), South Australia.....	10
Figure 3-2:	Regional lithostratigraphy of the area (Le Heron and Craig (2013) in Bubendorfer, 2013).....	11
Figure 3-3:	Tindelpina Shale Resource area (Bubendorfer, 2013)	13
Figure 3-4:	a) Wilkatana N-S cross section, b) Wilkatana E-W cross section (NavGas, 2016b).....	15
Figure 3-5:	ATP1183, Surat Basin, Queensland	16
Figure 3-6:	General stratigraphy of the Surat Basin.....	16
Figure 3-7:	Migration pathways on to Roma Shelf (NavGas, 2015).....	17
Figure 3-8:	Mapped leads within ATP1183 (NavGas, 2016a).....	18
Figure 3-9:	Oil and gas exploration licences (PEPs, PRLs and VicPs) located within the onshore Otway and Gippsland Basins, Victoria	20
Figure 3-10:	Otway Basin stratigraphy (Guzel, 2015 In Goldie Divko, 2015a).....	22
Figure 3-11:	Gippsland Basin stratigraphy. Left to right in each column = west to east. (Compiled from Bernecker & Partridge, 2001; Chiupka, 1996; Gallagher & Holdgate, 1996; Holdgate & Gallagher, 2003; Partridge, 2006a; Partridge, 2006b & Tosolini et al., 1999). Source: Goldie Divko, 2015b	23
Figure 3-12:	Wombat Field example gas and oil flows obtained during testing; Map of PRL2 with existing pipeline locations in relation to fields	26
Figure 3-13:	Modelling cumulative production (m3) for the Wombat gas field – PRL2, Gippsland Basin	27
Figure 3-14:	Production forecast for the proposed Lakes Oil Wombat 5 (Stimulation Petrophysics Consulting, 2013)	28
Figure 3-15:	ATPs 642 and 662, Eromanga Basin, Queensland	30
Figure 3-16:	Stratigraphic units and presence of source, reservoir and seal rocks in the Cooper-Eromanga Basins (from Deighton et al., 2003 in Radke, 2009)	32

Figure 3-17: Cooper-Eromanga Basins Petroleum System (1. Early structural trap development, 2. Compaction and drapes over early structures, 3. Episodic uplift and deformation, 4. Secondary migration possible (Draper, 2002).....	32
Figure 3-18: Eagle prospect – onshore San Joaquin Basin, California, USA	34
Figure 4-1: SRK current Oil Price Forecast November 2016 (WTI, US\$/Bbl).....	35
Figure 4-2: Location map of acquired permits in Surat Basin	37
Figure 4-3: Victorian gas market average daily weighted prices by quarter (Australian Energy Regulator (Australia Government).....	41
Figure 4-4: Total annual gas consumption (NATIONAL GAS FORECASTING REPORT FOR EASTERN AND SOUTH-EASTERN AUSTRALIA Published: December 2015 AMEO (Australian Energy Market Operator).....	41

Appendices

Appendix A: Category Definitions of 1P, 2P and 3P

Appendix B: Glossary of Terms

Appendix C: Details of Licences

List of Abbreviations

Abbreviation	Meaning
AU\$	Australian dollars
AAPG	American Association of Petroleum Geologists
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
BCF	Billions of cubic feet
CBM	Coal bed methane
CSG	Coal seam gas
DCF	Discounted cash flow
DEDJTR	Department of Economic Development, Jobs, Transport and Resources
E&P	Exploration and Production
EUR	Estimated Ultimate Recovery
FDP	Field Development Plan
Fm	Formation
Km	Kilometres
km ²	Square kilometres
m	Metres
MCFD	Thousands of cubic feet per day
mD	Millidarcies
MIN	Mining exploration licence and lease
MM	Million
MMBO	Millions barrels oil
MMBOE	Millions barrels oil equivalent
MMCF	Millions of cubic feet
MMCFD	Millions of cubic feet per day
OGIP	Original gas-in-place
PEP	Petroleum exploration permit
PELA	Petroleum exploration licence application
PPL	Petroleum production licence
PRL	Petroleum retention licence
SPE	Society of Petroleum Engineers
SPEE	Society of Petroleum Evaluation Engineers
SRK	SRK Consulting (Australasia) Pty Ltd
TCF	Trillion cubic feet (10 ⁹)
TD	Total depth
WPC	World Petroleum Council
USGS	United States Geological Survey
US\$	US dollar
VALMIN Code	Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports

Statement of Competency

Dr Bruce Alan McConachie

Dr Bruce Alan McConachie is a geologist with extensive experience in economic resource evaluation and exploration. His career spans over 30 years and includes production, development and exploration experience in petroleum, coal, bauxite and various industrial minerals.

Work history includes:

- **Comalco: 15 years (Rio Tinto-Alcan)** - Chemist, Mine Geologist, Planning Engineer, Senior Geologist and Team Leader (Petroleum Group)
- **Australian Geological Survey Organisation / Bureau of Mineral Resources:** 2½ years (Geoscience Australia) - Senior Research Scientist (Petroleum Systems Petrel Sub-basin Project)
- **Santos:** 7 years - Senior Geologist, Team Leader and Chief Geologist – Indonesia
- **BHP Billiton:** 2½ years - Global Bauxite Commodity Specialist and Manager Bulk Commodities
- **SRK Consulting:** 8 years – Principal Consultant (Manager Petroleum Group)

Experience:

Extensive relevant experience covering petroleum exploration programs, joint venture management, farmin and farmout deals, onshore and offshore operations, field evaluation and development, oil and gas production and economic assessment, and relevant experience assessing petroleum resources under the PRMS code and mineral commodities under the JORC code.

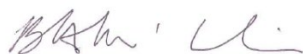
Industry Group Memberships:

- The Australasian Institute of Mining and Metallurgy (AusIMM) – 30 Years
- American Association of Petroleum Geologists (AAPG) – 11 Years
- Petroleum Exploration Society Australia (PESA) and
- Society of Petroleum Engineers (SPE).

Qualifications:

- Graduate degrees in geology and analytical chemistry
- Master of Applied Science by research and thesis on the coal geology of the Bowen Basin, Queensland
- Doctor of Philosophy by dissertation on foreland and fold belt basin analysis to characterise petroleum and mineral systems and deposits

I am a full-time employee of SRK Consulting and am an experienced petroleum reserves and resources estimator with over 15 years' relevant experience. I have adhered to the ASX Listing Rules Guidance Note 32. My qualifications and experience meet the requirements to act as a Competent Person to report petroleum reserves under PRMS (2007) and value assets under the VALMIN Code (2015).



Dr Bruce Alan McConachie

Prospective Resources - Those quantities of petroleum that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

Rat hole - Extra hole drilled at the end of the well (beyond the last zone of interest) to ensure that the zone of interest can be fully evaluated or a sump to enable dewatering.

Recovery Factor - A numeric expression of that portion of in place quantities of petroleum estimated to be recoverable by specific processes or projects, most often represented as a percentage.

Reserves - Those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: They must be discovered, recoverable, commercial, and remaining (as of a given date) based on the development project(s) applied.

Risk - The probability of loss or failure.

Risk Factor - The chance of success.

Special assumption – an assumption that either assumes facts that differ from the actual facts existing at the valuation date or that would not be made by a typical market participant in a transaction on the valuation date

Structure - A geological feature produced by deformation of the Earth's crust, such as a fold or a fault; a feature within a rock, such as a fracture or bedding surface; or, more generally, the spatial arrangement of rocks.

Valuation date – the date on which the opinion of value applies. The valuation date shall also include the time at which it applies if the value of the type of asset can change materially in the course of a single day.

Valuation Review – the act or process of considering and reporting on a valuation undertaken by another party, which may or may not require the reviewer to provide their own valuation opinion.

Vertical Well - A well drilled vertically into the subsurface.

Volumetric Estimate - An estimate of the volume of gas-in place or resources/reserves using generally accepted petroleum-engineering equations.

Uncertainty - The range of possible outcomes in a series of estimates. For recoverable resources assessments, the range of uncertainty reflects a reasonable range of estimated potentially recoverable quantities for an individual accumulation or a project.