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A group of pelicans is gathered on a sandy beach at sunset. The birds are mostly white with black wings and necks. In the background, there is a wooden pier with white posts extending into the water. The sky is a mix of orange and pink, and the water reflects the light. The overall scene is peaceful and scenic.

LAKES OIL N.L.
ANNUAL REPORT 2014

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*"We shall not cease from exploration, and the end
of all our exploring will be to arrive where we
started and know the place for the first time."*

T.S. Eliot

CORPORATE INFORMATION



Directors

Robert J. Annells CPA, F.Fin (Executive Chairman)

Barney I. Berold BCom, MBA

Hon. Alexander J. G. Downer AC (Resigned 17 April 2014)

Nicholas Mather BSc (Hons. Geology) MAusIMM

Ian R. Plimer BSc(Hons), PhD

William R. Stubbs LLB

Kyle Wightman BComm, MBA, FAICD, CFTP(Snr) (Appointed 4 August 2014)

Robbert De Weijer B.Eng (Mech) (Alternate Director, for Mr Mather and Mr Stubbs Appointed 5 June 2014)

Matthew R. Stubbs BComm, LLB, MBA (Alternate Director, Resigned 26 August 2014)

Chief Financial Officer/Company Secretary

Leslie Smith BBS, MBA, GradDip ACG, CPA, CA(INZ) ACSA, ACIS

Technical Staff and Consultants

Ingrid Campbell RMIT(Geol), MPESA, MGSA AAPG

Tim O'Brien BSc MSc MPESA MSPE

Xiaowen Sun BSc (Hons), MSc, PhD, MAAPG

(Resigned 31 August 2013)

Guy Holdgate BSc (Hons), PhD

Sarah Rooke

Robert Thompson

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Bankers

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Melbourne Victoria 3000

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Baker & McKenzie

Level 19 CBW

181 William Street

Melbourne Victoria 3000

Share Registry

Computershare Investor Services Pty. Ltd.

Yarra Falls 452 Johnston Street

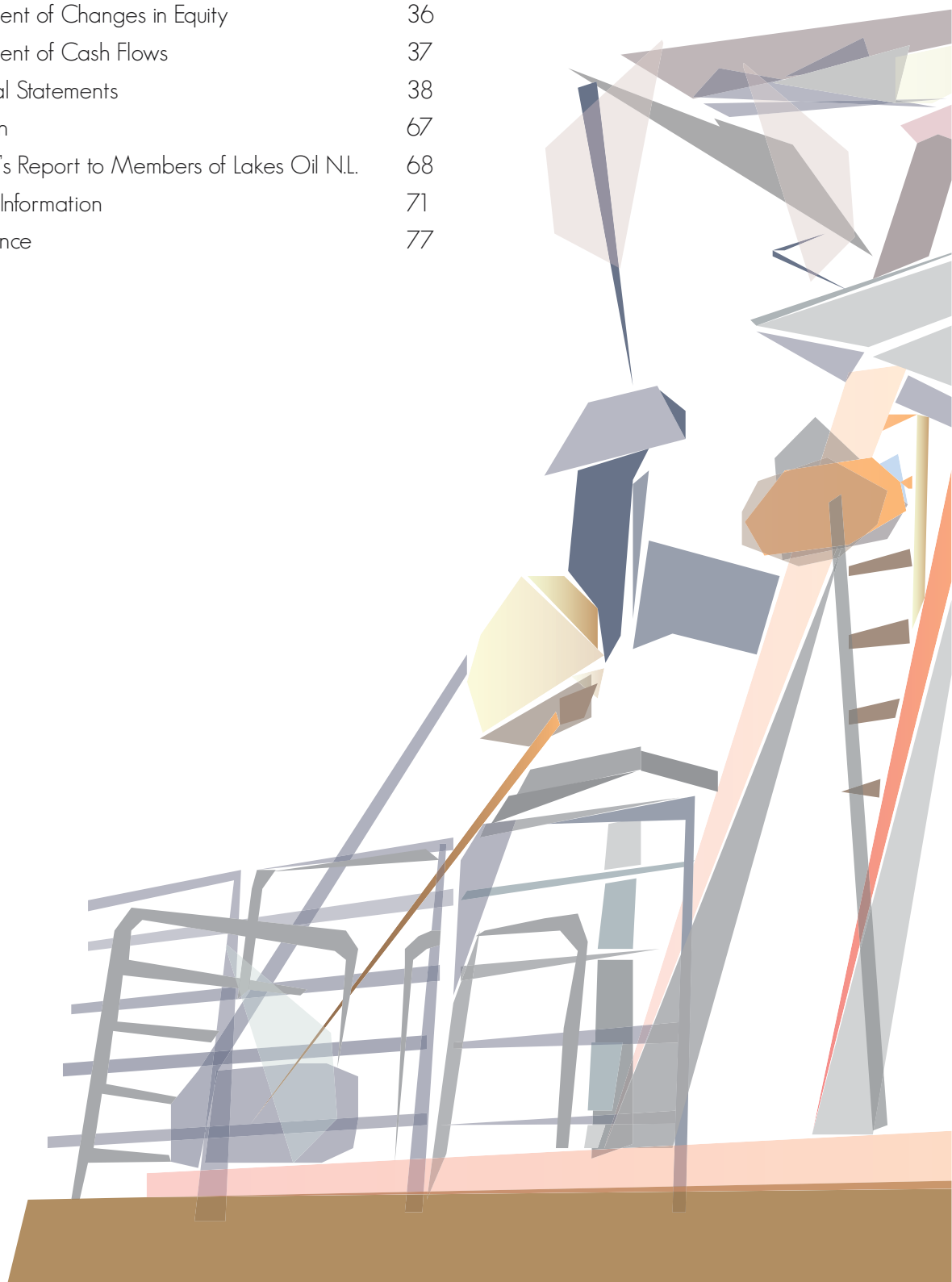
Abbotsford Victoria 3067

The company operates a web site which directors encourage you to access for the most recent information on Lakes Oil NL.

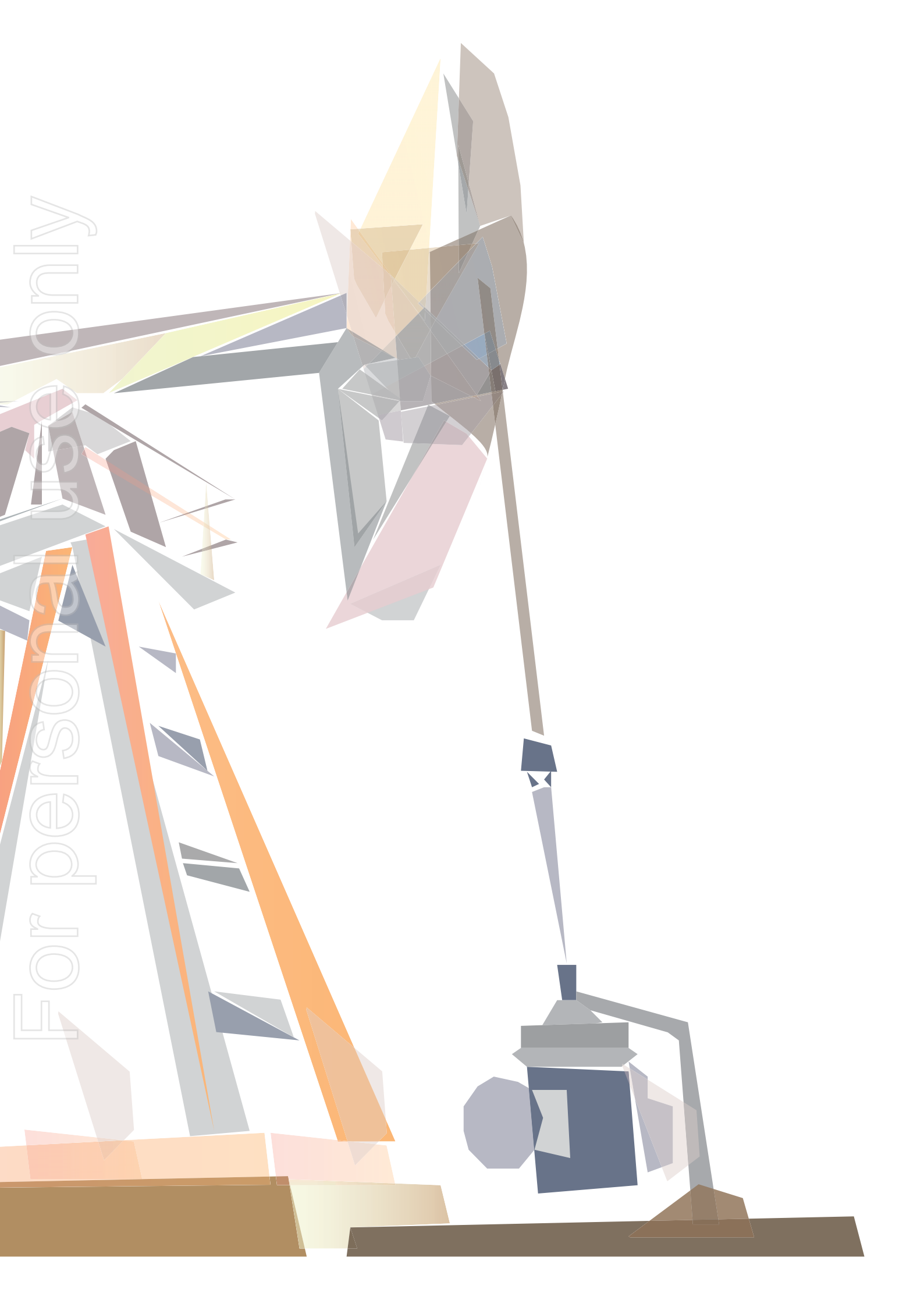
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DEAR SHAREHOLDER

The last financial year has been one of frustration and disappointment for Lakes Oil.

Unfortunately we have been caught up in a time when there is considerable concern surrounding "coal bed methane extraction" and its effects on the environment. Because both the Government and the public are badly informed on the science of gas extraction this mistrust has spilled over into all forms of gas extraction in Victoria, resulting in the Victorian Government placing a moratorium on all onshore oil and gas drilling in Victoria.

This has had a serious effect on your Company, Lakes Oil.

At the time the total ban was invoked we were getting ready, and had in fact applied for permission to drill; a conventional well with a lateral to tap the gas at the top of a weathered zone in the Strzelecki Formation. We have an identified reservoir, which we believe will flow commercial rates of gas without the need for hydraulic stimulation.

Sadly the government put a hold on this conventional well together with a second conventional well, which was planned for PEP169 in the west of the State.

I would like to state that neither I nor the Company have any objections to either of these measures. However, it is essential that these studies are conducted quickly.

The domestic price of gas is on the rise with substantial increases forecast over the next couple of years as gas is "sucked" up into Queensland for export at world parity prices from Gladstone.

We have been approached by a number of companies looking for long term conditional gas contracts to help Victorian Industry through the coming economic pressures, which will be caused by lack of gas supply and higher gas prices.

Two conditional contracts were signed during the year, one was with DOW Chemicals and the other with Simplot Food Group. Both are conditional on Lakes Oil actually being approved to go forward and to develop its Wombat Field. Both companies are concerned about gas supply and price in the future.

On the brighter side, during the year we purchased two new permits in Western Victoria, in the Otway Basin. Over the years there has been a significant amount of work done in both permits, 8 wells have been drilled and many kilometres of seismic has been acquired. We are currently having all this data reprocessed in the USA. Early results of this reprocessing are extremely positive and we are delighted with these new assets. I am sure they will form a very important move into broadening our portfolio of Victorian assets once the drilling ban is removed.

In an effort to become less dependent on Victoria we purchased two permits in Queensland. These permits are both located in the North Eastern portion of the Cooper Basin, with successful exploration by others moving in that direction. We are delighted to have them.

We are in an excellent position to take advantage, in Victoria, if and when drilling recommences, of the forecast gas shortages and increase in price.

During the year the Hon. Alexander Downer AC resigned from the board to take up a position as High Commissioner to the United Kingdom. We would like to thank him for his contribution during his tenure and also welcome his replacement Kyle Wightman.

Finally I would like to thank the staff through a difficult year.



Robert J. Annells
Chairman

DIRECTORS' REPORT

The Directors present their report together with the financial report of the consolidated entity consisting of Lakes Oil NL and the entities it controlled, for the financial year ended 30 June 2014 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

Directors

The Hon. Alexander Downer AC resigned during the year upon his taking up the position of High Commissioner to the United Kingdom. Mr Kyle Wightman was nominated by Hancock Prospecting PL as Mr Downer's replacement and was appointed to the Board on 4 August 2014. Mr Robbert de Weijer, CEO of Armour Energy Ltd, was appointed as an Alternate Director for Mr Mather on 5 June 2014 and for Mr W. Stubbs on 26 August 2014. Mr M. Stubbs resigned as Alternate Director for Mr. W. Stubbs on 26 August 2014. With these exceptions the directors have been in office for the entire period.

The names, qualifications, experience and special responsibilities of directors in office at any time during or since the end of the year are:



Robert J. Annells CPA, F.Fin (Executive Chairman)

Mr. Annells is a former member of the Australian Stock Exchange with over forty years' experience in the securities industry, and is also a qualified accountant. His experience includes provision of corporate and investment advice to the business and resources industries. Mr Annells has served on the Lakes Oil NL board since 1984 and is currently the Chairman of Lakes Oil NL and Greenearth Energy Limited (ASX:GER) (appointed in July 2010). He is a non-executive director of Rum Jungle Resources Limited (ASX:RUM) (appointed in 2006 and serving as Chairman from 2012 to June 2014). He was also Chairman of Central Australian Phosphate Limited (ASX:CEN) from July 2013 until its delisting in January 2014 following compulsory acquisition by RUM. During the past three years Mr Annells had not held any other listed company directorships.



Barney I. Berold BCom, MBA (Non Executive Director)

Mr. Berold is an investment banker previously with a major European-based banking group. Appointed to the board in 2007, he has had considerable experience in corporate finance advising on strategy, mergers and acquisitions, and funding. He is a former Stockbroker, and served on the boards of The Stock Exchange of Melbourne as well as the Australian Stock Exchange. Mr. Berold was appointed to the Audit Committee in 2007 and appointed Chair of that Committee in March 2013. He is also Chair of the Remuneration Committee, which was established on 11 July 2013. During the past three years Mr. Berold has not held any other listed company directorships.



Hon. Alexander JG Downer AC (Non Executive Director) (Resigned 17 April 2014)

Mr Downer retired from politics in 2008 after a distinguished career spanning 23 years. He was Australia's longest serving foreign minister during the Howard Government from March 1996 to December 2007. He was Leader of the Opposition and Leader of the parliamentary Liberal party from May 1994 to January 1995.

Prior to entering parliament Mr. Downer held a number of senior positions in government and the private sector.

Currently Mr. Downer is Australia's High Commissioner to the United Kingdom, is a partner in his firm, Bespoke Approach, a strategic advisory business as well as the Secretary General of the United Nation's Special Advisor on Cyprus at the level of Under Secretary General. He is also a Visiting Professor of Politics and International trade at the University of Adelaide and sits on a number of boards. On 26 January 2013 Mr Downer was appointed a Companion of the Order of Australia (AC) for distinguished service as Foreign Minister to the Parliament of Australia through the advancement of international relations and foreign policy.

Mr. Downer served on the Board of Sun Resources N.L. (ASX:SUR) from 2013 to 2014 and was an alternate director of Roy Hill Holdings PL during that period. He also served on the Board of AO Energy Limited (ASX:AOM) during 2012 and 2013.

Mr. Downer was appointed to the Remuneration Committee in 2013. Mr Downer resigned from the Board in April 2014 upon his taking up the position of High Commissioner to the United Kingdom.



Nicholas Mather BSc (Hons. Geology) MAusIMM (Non Executive Director)

Mr. Nicholas (Nick) Mather has served on the Board since February 2012 and in addition is currently Managing Director and founder of DGR Global Limited (ASX) and Director (and co-founder) of SolGold Plc (LSE AIM). Mr. Mather has been involved in the junior resource sector at all levels for more than 26 years and was co-founder and a Non-Executive Director of Bow Energy Ltd until it was acquired by Arrow NL for \$530 million in December 2011. Mr. Mather was also co-founder and served as an Executive Director of Arrow NL until 2004 when Arrow Energy was acquired by Royal Dutch Shell Plc and the PetroChina Group, for a value of approximately \$3.5 billion.

Mr. Mather is Chairman of Armour Energy Ltd and was also Chairman of Waratah Coal Inc. before its \$150 million takeover by Clive Palmer's Mineralogy Ltd in 2009.

During the past three years Mr. Mather has also served as a Director of the following ASX listed companies:

- DGR Global Ltd * (October 2001 - current)
- Armour Energy Ltd * - Executive Chairman (March 2012 - current)
- AusNiCo Limited * (December 2006 - current)
- Navaho Gold Limited - Chairman * (January 2003 - current)
- Orbis Gold Limited (formerly Mt Isa Metals Limited) * (June 2006 - current)
- Bow Energy Ltd (September 2004 - December 2011)

During the past three years Mr. Mather has also served as a Director of the following Alternative Investment Market (AIM) listed company: SolGold Plc * (May 2005 - current)

* denotes current directorship

Mr. Mather was appointed to the Remuneration Committee when it was established on 11 July 2013.



Ian R. Plimer BSc (Hons), PhD. (Non Executive Director)

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

Professor Plimer's main geological interests are in resources. He serves on the Boards of the following listed companies:

- Silver City Minerals Ltd (February 2011 - current)
- Niuminco Group Ltd (May 2011 - current)
- Kefi Minerals Ltd (AIM:KEFI) (December 2006 - current)
- Sun Resources N.L. (September 2013 - current) - Appointed Chairman in November 2013;

and unlisted Hancock Prospecting Pty Ltd companies, Roy Hill Holdings PL, Hope Downs Iron Ore PL, Queensland Coal Investments PL and TNT Mines Ltd. He was a director of Inova Resources Limited (formerly Ivanhoe Australia Ltd) (ASX:IVA, TSX:IVA) from 2007 to 2013.

Professor Plimer was appointed to the Audit Committee in 2013.



William R. Stubbs LLB (Non Executive Director)

William (Bill) Stubbs was appointed to the Board in 2012. He is a lawyer of 36 years' experience, having practiced in the area of commercial law including stock exchange listings and all areas of mining law. Mr Stubbs has been a Director of various public companies over the past 26 years in the mineral exploration and biotech fields. He is the former Chairman of Alchemia Limited, Stradbroke Ferries Limited and Bemax Resources Limited which discovered and developed extensive mineral sands resources in the Murray Basin. He was the founding Chairman of Arrow Energy NL. Mr. Stubbs currently acts as the Non-Executive Chairman of DGR Global Limited (appointed in 2009) and Chairman of the Advisory Board of Tetra Q - the commercial arm of the centre for integrated pre-clinical drug development of the University of Queensland. He also serves as a Non-Executive Director of Armour Energy Ltd (appointed in 2009).

Mr. Stubbs was appointed to the Audit Committee in 2012.



Kyle Wightman BComm, MBA, FAICD, CFTP (Snr) (Non Executive Director) (Appointed 4 August 2014)

Mr Wightman joined the Board on 4 August 2014. Mr Wightman is the Chief Executive Officer of Tait Capital PL where he advises clients on business strategy, major investments and finance. He is an economist, financier and business consultant with over 40 years' experience particularly relating to the feasibility, development and financing of major projects and investments, including Argyle Diamonds, Tarong Coal, Loy Yang Power and Melbourne City Link. He has previously held senior executive roles at PricewaterhouseCoopers, ANZ Bank, Chase Manhattan Bank (now JP Morgan Chase) and CRA Limited (now Rio Tinto).

Mr Wightman is currently a Non-Executive Director and Chair of the Audit Committee of Indophil Resources NL (ASX:IRN) where he has served since 2006 and also held similar positions on the Board of Inova Resources Ltd (formerly Ivanhoe Australia Ltd) (ASX:IVA, TSX:IVA) from 2008 to 2013.

Mr Wightman was appointed to the Remuneration Committee in August 2014.



Robbert de Weijer B.Eng (Mech) (Alternate Director) (Appointed 5 June 2014)

Mr de Weijer was appointed as an Alternate Director for Mr. Mather on 5 June 2014 and for Mr W. R. Stubbs on 26 August 2014. Mr de Weijer joined Armour Energy Ltd as Chief Executive Officer in July 2013 to drive the Company's project and corporate development initiatives. Mr de Weijer's most recent role was as Chief Executive Officer (Australia) for Dart Energy Ltd, an unconventional gas exploration and production company operational in 8 countries. Prior to joining Dart Energy Ltd Mr De Weijer, under secondment from Shell, held the position of Chief Operating Officer for Arrow Energy Ltd, one of Australia's leading coal bed methane companies. His career with Shell spanned 23 years during which he gained extensive experience within the oil and gas industry and held a variety of senior management roles in multiple countries spanning Europe, the Middle East and Australia.



Matthew R. Stubbs BComm, LLB, MBA (Alternate Director) (Resigned 26 August 2014)

Mr Stubbs was appointed as an Alternate Director for Mr. W. Stubbs in 2012. Mr. Stubbs is the founder and managing director of Allier Capital, an independent financial advisory firm focussed on middle-market clients. He has over 16 years' investment banking experience. During his career he has worked on a broad range of mergers and acquisitions, capital raisings, restructurings and strategic reviews. Apart from serving as an alternate director on the boards of Armour Energy Ltd and DGR Global Ltd from 2012 to 2014 he has held no other positions on listed company boards in the past three years. Mr Stubbs resigned his position on 26 August 2014.

Company Secretary



Leslie F. B. Smith BBS, MBA, GradDip ACG, CPA, CA (NZ), ACSA, ACIS

Mr. Smith, Lakes Oil NL's Chief Financial Officer, has previously held senior financial and company secretarial roles in various industries.

Directors' meetings

The number of meetings of the board of directors and of each board committee held during the financial year and the number of meetings attended by each director were:

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Robert J. Annells	8	8	-	-	-	-
Barney I. Berold	8	8	2	2	2	2
Alexander J.G. Downer	4	6	-	-	2	2
Nicholas Mather	5	8	-	-	2	2
Ian R. Plimer	8	8	2	2	-	-
William R. Stubbs	7	8	2	2	-	-
Kyle Wightman	-	-	-	-	-	-
Robbert de Weijer (Alternate)	2	2	-	-	-	-
Matthew Stubbs (Alternate)	-	-	-	-	-	-

Directors' interests in shares or options or converting notes

Directors' relevant interests in shares of Lakes Oil NL or options over shares in the company, or converting notes or a related body corporate) are detailed below.

		Ordinary shares	Partly Paid Shares*	Converting Notes^
		2014	2014	2014
R.J. Annells	D	5,237,259	-	-
	I	102,000,000	75,000,000	-
B.I. Berold	D	5,799,167	-	-
	I	24,373,611	25,000,000	4,797
N. Mather#	D	-	-	-
	I	-	-	-
I.R. Plimer	D	-	-	-
	I	-	-	-
W.R. Stubbs#	D	-	-	-
	I	6,000,000	-	-
K Wightman	D	-	-	-
	I	-	-	-

Note: D = direct ownership. I = indirect ownership.

*These partly paid shares are 1.5 cent shares paid to 0.1 cents which were issued under terms and conditions approved at the 2009 Annual General Meeting. Refer Note 17.

^Each listed unsecured converting note will convert to a minimum of 5,000 fully paid ordinary shares. Refer Note 17 for more detail.

#Mr. Mather and Mr. Stubbs are Directors of Armour Energy Ltd which held an 18.6% fully diluted interest in the consolidated entity at balance date and at the date of signing the accounts.

Directors' interest in contracts

Directors' interest in contracts is disclosed in Note 23 to the financial statements.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the audit of the financial year is provided with this report.

Non – audit services

Non-audit services are approved by resolution of the audit committee and approval is provided in writing to the board of directors. The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

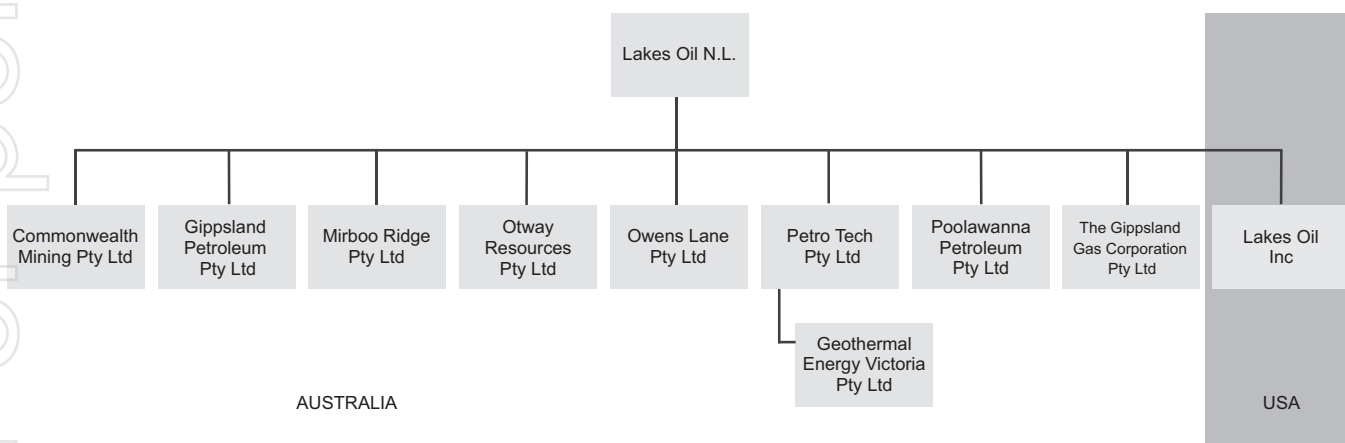
The following fees for non-audit services were paid or payable to the external auditors during the year ended 30 June 2014:

	2014	2013
	\$'000	\$'000
Taxation services	17	34
	17	34

Corporate information

Corporate structure

Lakes Oil NL is a no-liability company incorporated and domiciled in Australia. The ultimate parent entity is Lakes Oil NL and as such has prepared a consolidated financial report incorporating the entities it controlled during the financial year, which are outlined in the following illustration of the consolidated entity's corporate structure. Lakes Oil NL has a 100% interest in each of these controlled entities. Unless otherwise stated, references to "Lakes Oil" or "the company" refer to Lakes Oil NL and its controlled entities as a whole. The text does not distinguish between the operations of the parent company and those of its controlled entities.



Principal activities

The principal activities of the consolidated entity during the financial year were hydrocarbon exploration and investment. There has been no significant change in the nature of these activities during the financial year.

Results and dividends

The consolidated operating loss attributable to the members of Lakes Oil NL for the year ended 30 June 2014 was:

	2014	2013
	\$'000	\$'000
Operating loss before income tax	3,168	2,953
Income tax attributable to operating loss	-	-
Operating loss after income tax	<u>3,168</u>	<u>2,953</u>

During the year ended 30 June 2014, no dividends were paid or declared by the consolidated entity and the directors do not recommend payment of a dividend.

Indemnification and insurance of directors, officers and auditors

The consolidated entity has during and since the end of the financial year, in respect of any person who has, is or has been an officer of the consolidated entity or a related body corporate, paid a premium in respect of Directors' and Officers' liability insurance which indemnifies Directors, Officers and the consolidated entity for any claims made against the Directors, Officers of the consolidated entity and the consolidated entity, subject to conditions contained in the insurance policy. Further disclosure required under section 300(9) of the *Corporations Act 2001* is prohibited under the terms of the contract.

No indemnities have been given or insurance premiums paid during or since the end of the financial year for auditors of the consolidated entity.

Proceedings on behalf of the consolidated entity

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity.

Share options

Unissued shares

As at the date of this report, there were no unissued ordinary shares under options (Nil at 30 June 2013). Refer to Note 17 of the financial statements for further details.

Shares issued as a result of the exercise of options

There were no shares issued during this financial year as a result of the exercising of options.

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Lakes Oil NL support, and have adhered to, the ASX Corporate Governance Principles. A full statement regarding the consolidated entity's corporate governance policies is included at the end of these Financial Statements.

Rounding of amounts

The amounts contained in the report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to Lakes Oil NL under the Class Order 98/0100. Lakes Oil NL is an entity to which the Class Order applies.

Corporate developments

Victorian moratorium on on-shore natural gas exploration

The Victorian State Government imposed a moratorium on hydraulic fracture stimulation in August 2012. In November 2013 this moratorium was extended until at least July 2015 while the Government conducts various consultation processes. In May 2014 the moratorium was extended to include all facets of onshore natural gas exploration until more information becomes available to the Government including community views, industry impacts and the completion of a study of the underground water systems across the State. Consequently all proposed exploration activities have been indefinitely delayed and the consolidated entity's ability to conduct any operational activities has been severely impacted.

Changes in permit interests – PRL2

In August 2013 Beach Energy Limited and Somerton (now Cooper Energy) Limited formally withdrew from their farm-in agreement over PRL2 and their interests were reassigned to the consolidated entity. Armour Energy Ltd, under the terms of an agreement with the consolidated entity, then had a period of 6 months to match any other farm-in proposal in respect of PRL2 from a third party or in any event to match the terminated agreement with Beach Energy Limited and Somerton (now Cooper Energy) Limited. In December 2013 the consolidated entity received notice from Armour Energy Ltd purporting to exercise these matching rights. These matching rights relate, amongst other things to the Phase 1 fracture stimulation of 2 wells incurring up to \$10 million of expenditure which unfortunately will be prohibited during the currently imposed moratorium on on-shore natural gas exploration. The parties have reserved their rights in this matter which is yet to be determined.

Sinopec subsidiary signs memorandum of understanding

The consolidated entity announced in November 2013 that it and Chian Shengli Oilfield Longxi Petroleum Engineering Company Ltd (CSOLPE) of China, a subsidiary of Sinopec, had agreed to take the first steps to investigate a possible joint development of the consolidated entity's permits in Gippsland, Victoria to supply gas for the production of urea and other chemical products in the region.

The consolidated entity and CSOLPE signed a Memorandum of Understanding (MOU) following a visit to Beijing by the consolidated entity's Executive Chairman, Rob Annells. Under the MOU, representatives of CSOLPE travelled to Melbourne in December 2013 visiting the consolidated entity's Gippsland permits; thereby beginning a due diligence assessment, including discussions with State and local governments.

If the proposed joint venture proves to be satisfactory CSOLPE would then look to enter a binding agreement for joint venture permit development and chemical production. The due diligence process is continuing.

Conversion of converting notes

During the year, 587,044 listed unsecured converting notes were converted into fully paid ordinary shares according to the terms of the prospectus under which the notes were issued. These notes were converted into 2,935,220,000 fully paid ordinary shares which were issued on 10 December 2013 (2,891,110,000 shares) and 10 June 2014 (44,110,000 shares).

Repayment of borrowings

In August 2013 the mortgage of \$1 million entered into by Owens Lane Pty Ltd over land that it holds, and for which Lakes Oil NL was guarantor, was repaid.

Partly paid shares – call and subsequent forfeiture

During the year, 60,000,000 unquoted partly paid shares, held by officers and employees of the consolidated entity who had ceased their employment, were called. No calls were received in respect of these partly paid shares by the required date and these shares were offered for sale by public auction in January 2014. None of these shares were sold at auction. These shares were not cancelled and the consolidated entity will now proceed to dispose of them in such a manner as permitted by the Corporation Act and its Constitution.

Capital raising

No capital raising was undertaken during the year.

After balance day events**Conditional letters of intent to supply gas**

In July 2014 the consolidated entity announced that it had signed letters of intent to supply Victorian gas from its Gippsland, Wombat Field to Simplot Australia PL and to Dow Chemical (Australia) Limited. Both letters of intent were for a period of 10 years' supply of gas. The supply is subject to the execution of formal supply agreements, final commercialisation of the Wombat Field together with the lifting of the Victorian State Government's moratorium on onshore natural gas exploration.

Acquisition of PEP167 and PEP175 – Otway Basin, Victoria

In July 2014 the consolidated entity announced that it had entered into an agreement with Bass Strait Oil Company Limited to acquire 100% equity in PEP167 and PEP175. These permits are in the Otway Basin, Victoria and the acquisition was subject only to the approval of the regulatory authorities. Acquisition of these permits was completed in September 2014 for consideration of \$300,000 ex GST.

Acquisition of permits in the Cooper/Eromanga Basin

In July 2014 the consolidated entity announced that it is in the process of acquiring two permits in Queensland, ATP642P and ATP662P in the Cooper/Eromanga Basin. Acquisition of these permits was completed in August 2014 by the purchase of 100% of the entities holding interests in the permits. The consideration was \$1,000,000 plus \$128,000 of costs incurred by the vendor to secure the permits to the date of the sale agreement. The acquisition price identified represents the consolidated entity's assessment of the underlying value of the exploration permits.

Operating lease agreement

In August 2014 the consolidated entity completed a heads of agreement to lease its existing premises for a period of 4 years.

Partly paid shares - call

In September 2014 the company, under the terms of issue, called 131,500,000 partly paid shares held by officers and employees. These are 1.5 cent shares, paid to 0.1 cents and payment of the outstanding 1.4 cents per share is required before 30 September 2014 to avoid forfeiture. There is no obligation by the holders for these shares to be paid. At the date of the call company shares were trading at 0.4 cents per share.

Exploration and Operational Summary

Lakes Oil's exploration objectives in this year have been stalled by the Victorian State ban on both conventional onshore drilling and hydraulic fracturing. It is not known when these bans will be lifted, however the company has now acquired additional acreage both in Victoria and in Queensland in order to diversify its portfolio.

In the Gippsland Basin, Lakes Oil has concentrated on activities in PRL 2 that do not involve fracture stimulation. In the Otway Basin, planning and preparation for the drilling of a conventional well in PEP 169 has again been delayed due to the drilling ban.

Therefore, all exploration activities in Victoria are at a standstill due to current State Government bans on onshore drilling and hydraulic fracturing until further notice and all of the company's permits have been extended due to the exploration moratorium in the State.

- All proposed drilling and workover activities planned for this year in PEP 169 and PRL2 have been stalled due to continuing delays in receiving final written Ministerial approval despite all environmental and technical issues being satisfied.
- It is not known when the bans will be lifted or when these written approvals will be given, but the company believes it will not be before mid-2015.
- This has severely impacted on Lakes Oil's ability to conduct operational activities across the State and sends a very negative message to all industry in Victoria.

New Acreage Acquisition

Lakes Oil has expanded its exploration portfolio to include new onshore acreage areas in Queensland and western Victoria (refer to maps on next page).

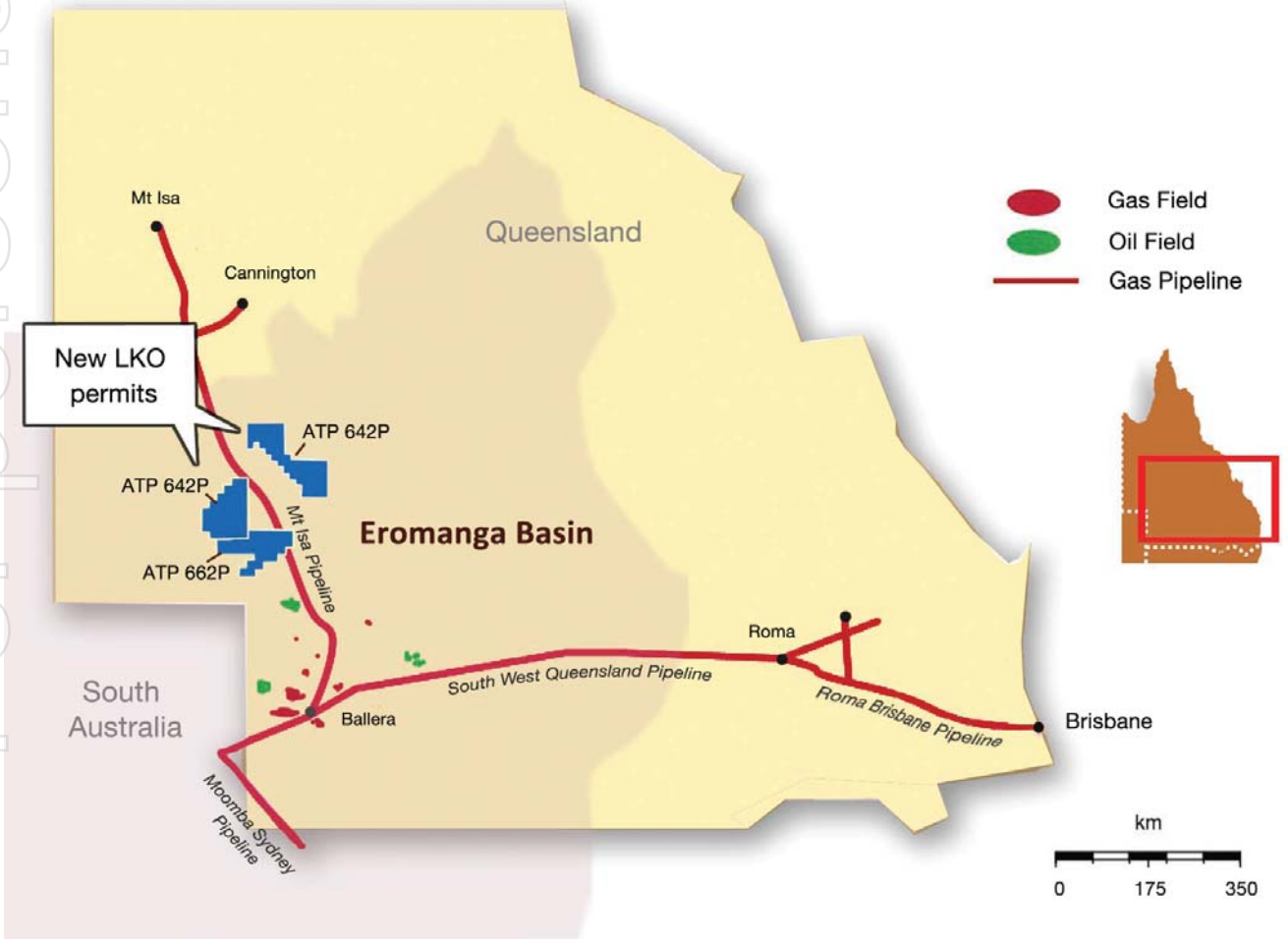
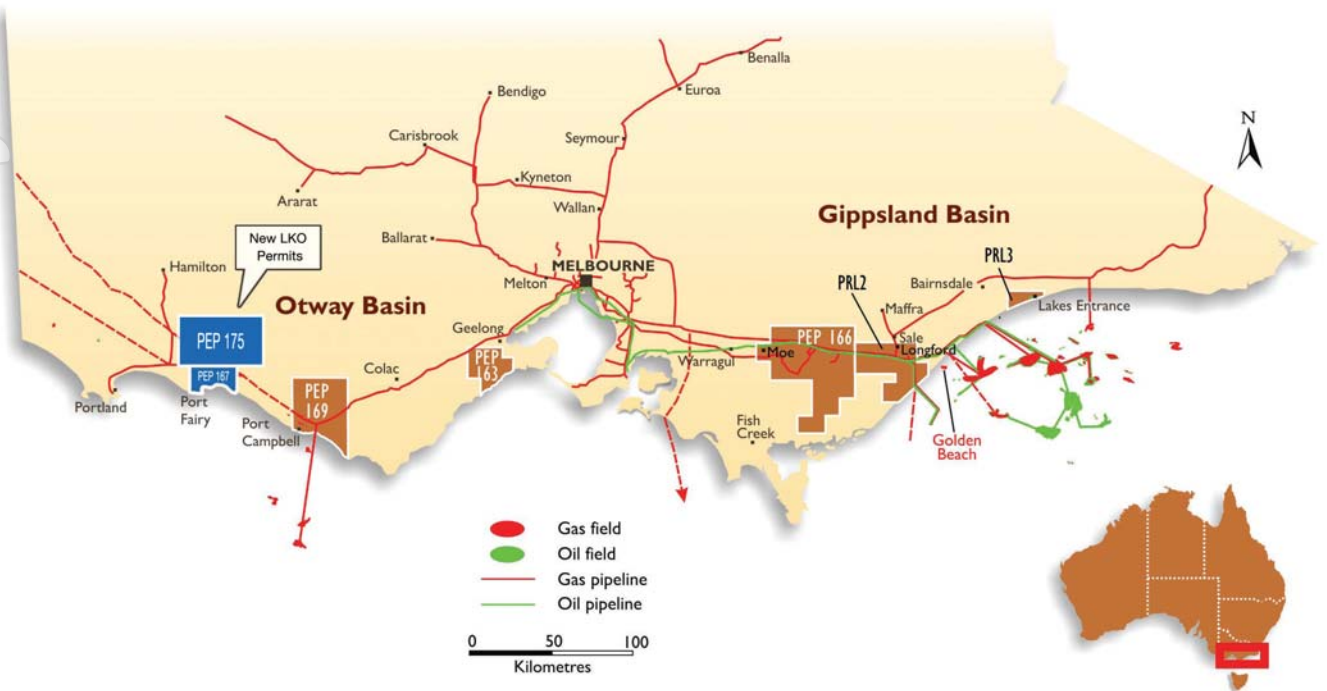
The Otway acreage (PEP's 167 and 175) was acquired from an existing portfolio previously held by Bass Strait Oil Company Ltd. Initial activities will include a full technical review of the existing technical data. However, no operational activities are permitted until further notice in onshore Victoria due to State Government bans. Therefore the company will focus on non-operational activities until the bans are lifted.

The Queensland acreage (ATP's 642P and 662P) are new additions to the company's portfolio and are located in the Eromanga Basin and northern flank of the Cooper Basin. These permits are new areas recently granted by the Queensland government. Lakes Oil intends to examine potential conventional and unconventional plays and actively explore the acreage over the next six years.

Recent activities in the area indicate oil plays with long range oil/condensate migrating from Permian source rocks from central Cooper Basin and mixing with younger Mesozoic source rocks at the basin margins. Lakes Oil is hopeful that this trend continues towards our new acreage.

Exploration and Operational Summary (cont.)

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Victorian and Queensland acreage

Exploration and Operational Summary (cont.)

Lakes Oil has signed Letters of Intent (LOI) with two major end-users of Wombat gas.

LOIs between Lakes Oil and two end-users, Simplot Australia and Dow Chemical (Australia) Ltd, have been signed for the sale of gas from the Wombat Field conditional on final commercialisation of the Field together with the lifting of the State's moratorium on drilling.

Both these companies are USA owned and are currently enjoying the benefits of low gas prices in the USA due to the "boom" taking place in that country in unconventional gas. The huge success of this new technology in gas recovery has had the effect of unlocking massive new reserves of gas and driving the price of gas down in USA. It has also resulted in the USA greatly reducing its CO₂ emissions as compared to other western countries. By contrast, the Wombat Field gas contains less than 1% CO₂, compared to other Australian fields that can contain more than 25% CO₂.

Lakes Oil and its new prospective customers are hopeful that eventually the Victorian Government will complete its review of the "Science" and community consultations and will allow controlled development of what the company believes are potentially large undeveloped onshore gas resources across the State in the Otway and Gippsland Basins.

Lakes Oil is of the view that :

"Victorian gas is for Victorian Industry and for Victorian Jobs"

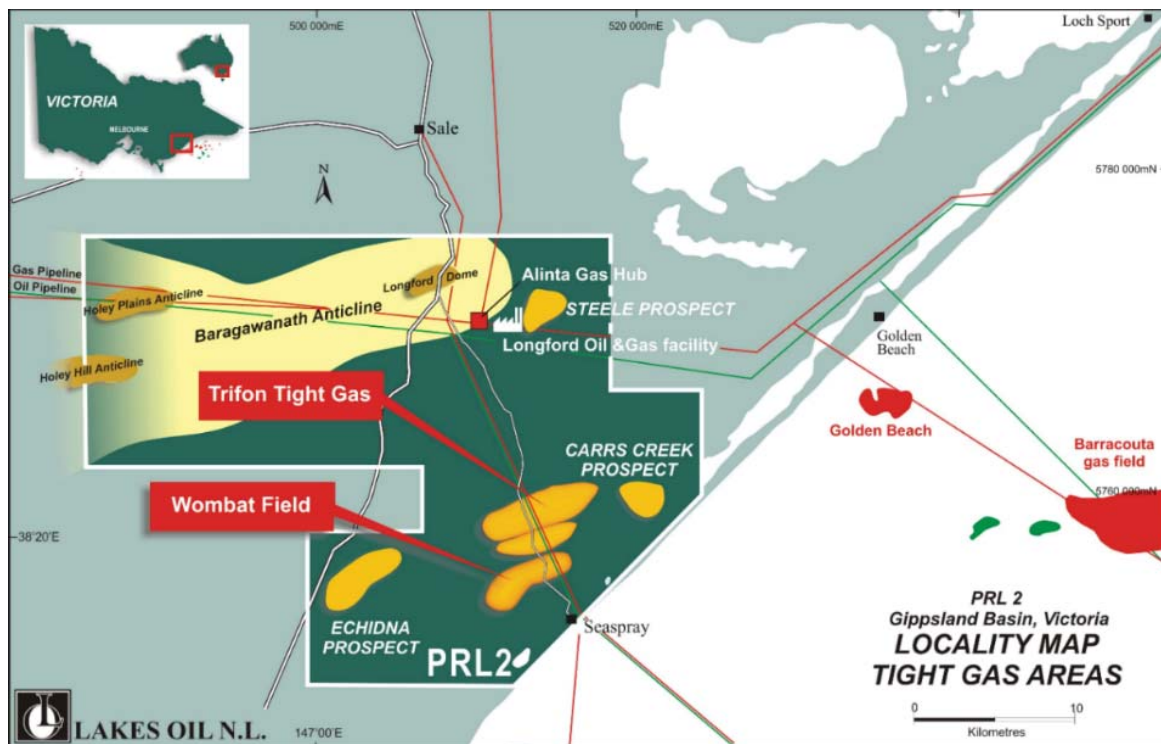
Permit Summaries

PRL2 - Onshore Gippsland Basin

(Lakes Oil, Operator, 100% interest in the overall permit, except for the Trifon and Gangell blocks where Lakes Oil has a 57.5% interest and Jarden Corporation Australia Pty Ltd has a 42.5% interest). A successful exercise of the matching rights option by Armour Energy Ltd - see below - would produce the following relevant interests (Lakes Oil, 85% interest in the overall permit, except for the Trifon and Gangell blocks where Lakes Oil would have a 42.5% interest and Jarden Corporation Australia Pty Ltd would have a 42.5% interest. Armour Energy Ltd would have a 15% interest in the Permit subject to completing certain exploration expenditure)

As announced on 12 August 2013, Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited withdrew from their farm-in agreement over PRL2 by which they could have earned a 50% interest in the permit by conducting certain expenditure up to the value of \$50 million, and Armour Energy Ltd had a period of 6 months to match the terminated farm-in agreement. Lakes Oil has received a letter from Armour Energy Ltd purporting to exercise this matching right in relation to the farm-in agreement for PRL2. The matching right relates, amongst other things, to the Phase 1 fracture stimulation of 2 wells incurring up to \$10 million of expenditure, which unfortunately will be prohibited during the fracking moratorium currently imposed by the Victorian Government. The parties have reserved their rights in this matter which is yet to be determined.

Additionally Armour Energy Ltd has a 3 year option to acquire 50% of Lakes Oil's interests in the Trifon and Gangell blocks and a direct 25% interest in the remainder of PRL2, for a total payment of \$30 million. Option fees payable have a maximum lifetime value of \$0.6 million. The life of this option has been extended while the moratorium is in place.



Proposed Field Operations

All operational activities in PRL2 have been stalled awaiting Ministerial approvals and lifting of the onshore drilling ban. The following programs will be conducted as soon as approvals are given:

Wombat-3 Re-entry - Oil Test

Lakes Oil had planned to re-enter Wombat-3 well in the first quarter of 2014 in order to flow test the oil that was previously identified (2103-2105m) and never fully tested. It is proposed to seal off the gas/producing zone at the top of the Strzelecki Group and run a pumping completion into the hole to test the productivity of the lower oil/gas zone. It is planned to carry out this program once all necessary approvals have been granted.

From work done by the company all over the Gippsland Basin, it is believed that there is a real possibility that commercial oil can be produced from the Strzelecki Group onshore. The testing of the Wombat - 3 oil zone is most important and will help Lakes Oil in its quest to produce oil commercially onshore. Any success would provide a tremendous result for the community and the State.

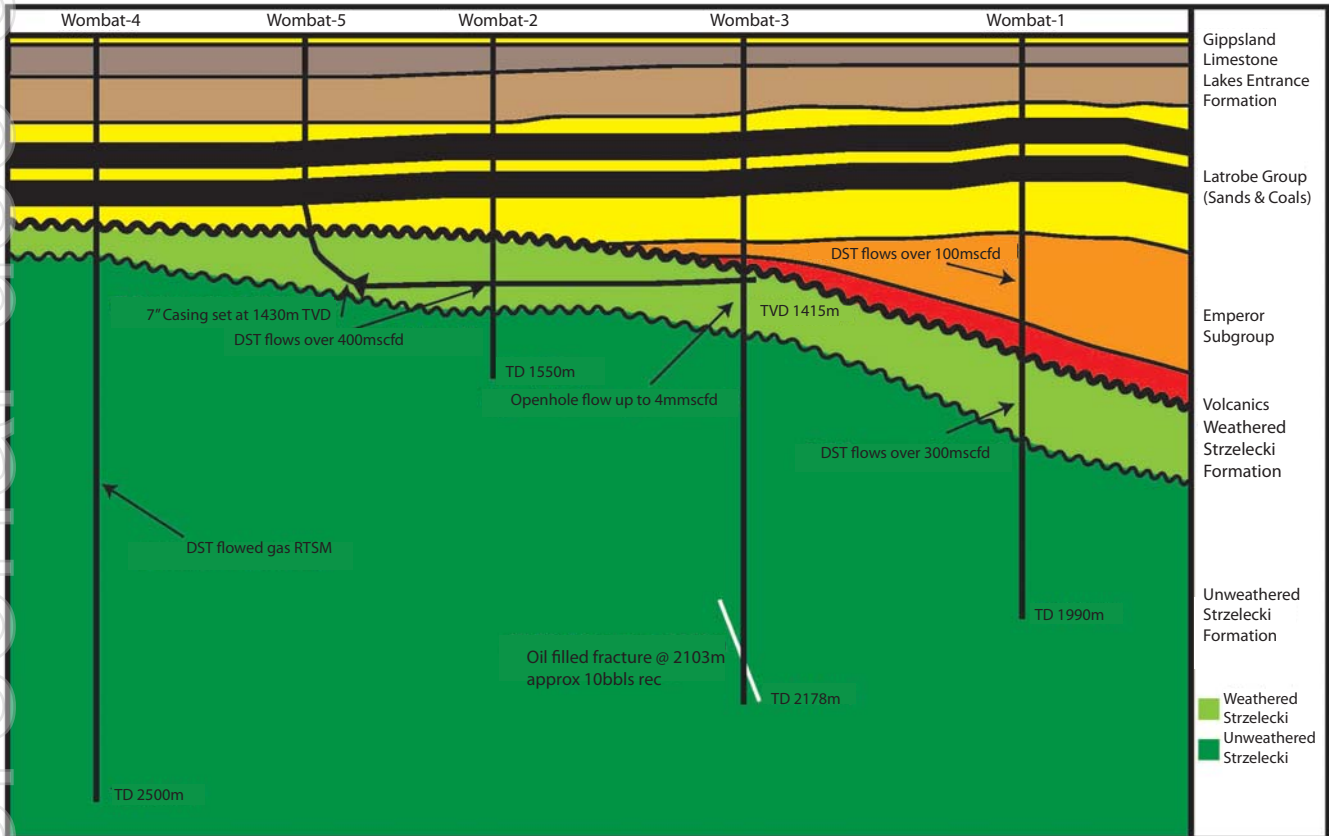
Permit Summaries (cont.)

PRL2 - Onshore Gippsland Basin (cont.)

Proposed Field Operations (cont.)

Proposed Wombat-5 well

Lakes Oil had planned to drill Wombat-5 as a conventional well in the first quarter of 2014. However, these plans have been stalled until the State Government bans are lifted and all approvals are given. The well will be drilled as a directional, conventional well through the "weathered zone" at the top of the Strzelecki Formation. It will be drilled on the company's own land, off to the northeast towards Wombat-1 to intersect as many known gas sands in the weathered zone as possible, targeting producing zones which have flowed on DST at up to 430,000 cubic feet per day. The well is expected to give commercial flow rates without the need to be fracture stimulated.



Proposed Wombat-5 schematic

Permit Summaries (cont.)

PRL2 - Onshore Gippsland Basin (cont.)

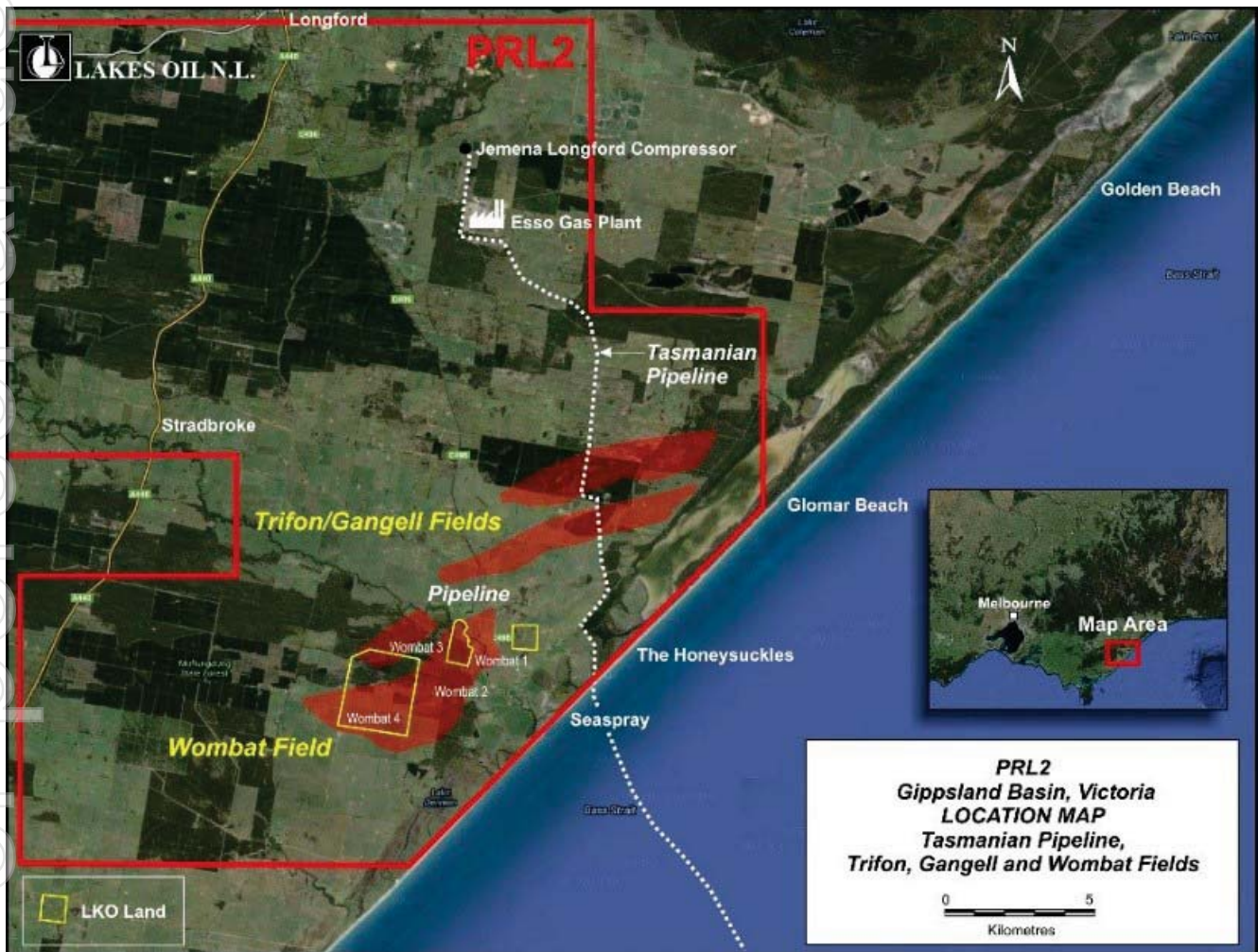
Proposed Field Operations (cont.)

PRL 2 Technology Development and Field Appraisals: 2013-2014 Work Completed

No operational activities have taken place in the permit in this year due to the State Government bans on both onshore drilling and hydraulic fracturing. Hence, the plans that were in-place for 2014 for the conventional drilling of Wombat-5 and the oil pump test in Wombat-3 have been stalled until the bans are lifted. The following non-operational activities were conducted:

Study of proposed pipeline links from Wombat Field to Tasmanian Pipeline

Investigations and a preliminary feasibility study by independent specialists were made into pipeline links connecting to, and options for a possible development of, the Wombat-Trifon and Gangell Fields. Any options for development cannot be realised until such time that the State Government allows onshore drilling in order to evaluate and eventually bring the tight gas resources to commerciality in this Retention Lease.



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Permit Summaries (cont.)

PRL2 Onshore Gippsland Basin (cont.)

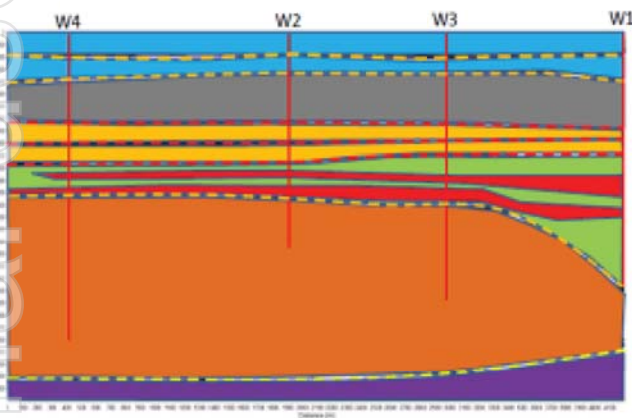
PRL 2 Technology Development and Field Appraisals: 2013-2014 Work Completed (cont.)

Experimental electro-seismic survey of the Wombat Field.

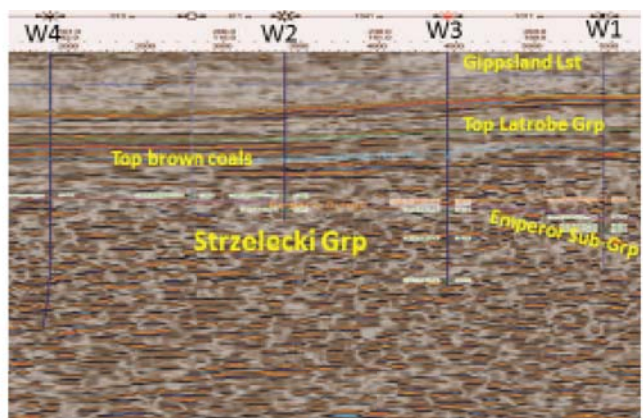
In June 2013, an experimental low impact electro-seismic survey was conducted over the Wombat Field in order to better map the aquifer systems and gross structures within the site that have not been possible to map using conventional seismic methods. The field operations were completed in June 2013 and the mapping and interpretation were completed in the current financial year.

The survey showed that the electro-seismic imaging technique can help to solve the problem of imaging below the thick brown coals which are extensive across the Wombat Field and have limited the resolution of traditional vibroseis seismic surveys. Measuring the changes in electrical conductivity as the shear waves pass through the interface between formations and fluids within those formations can assist in identifying zones where gas/oil are located as compared to water accumulations or non-saturated intervals.

The results from electro-seismic surveys indicate a favourable correlation with the 3D seismic interpretation over the same profile. See comparison of the two data sets below.



Hydraulic Conductivity 2D section



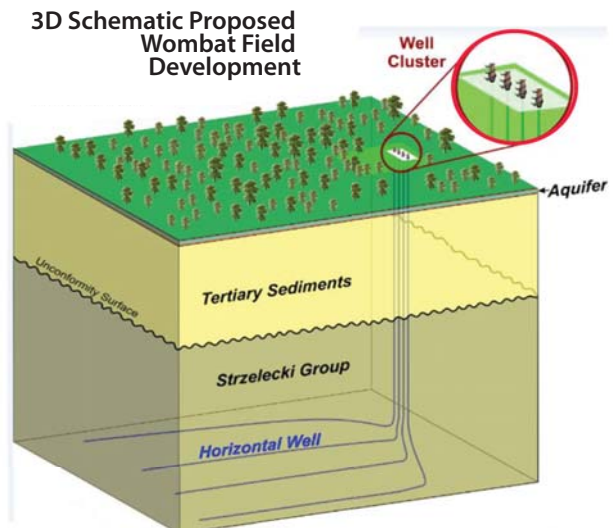
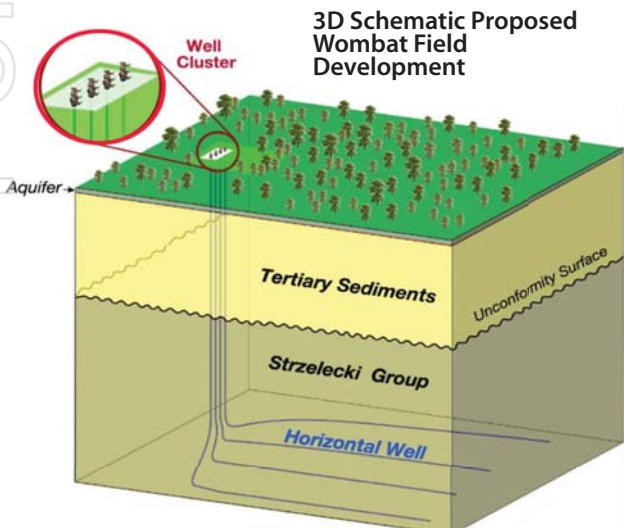
Seismic cross section

Seismic attribute analysis of Wombat 3D seismic survey

Lakes Oil conducted a new attribute analysis of the Wombat 3D seismic data set using proprietary software to provide a multifaceted attribute package of the Wombat 3D seismic data set. Attributes analyzed included: event curvature (convex – concave), folding, natural fracturing, faulting, and event continuity. These attributes can assist in potential development of the field, location of natural fractures, location of possible gas chimneys, etc. This work is continuing,

Conceptual development options for Wombat Field.

Several potential options were examined for development of the Wombat Field including multi-lateral development from single surface pads.



Permit Summaries (cont.)

PRL2 - Onshore Gippsland Basin (cont.)

PRL 2 Technology Development and Field Appraisals: 2013-2014 Work Completed (cont.)

Marketing

During the period that the company has been restricted from conducting operational activities, the company has continued to pursue potential markets for use of the gas once it is in production. It has recently signed conditional letters of intent with two potential end-users – Simplot Australia and Dow Chemical Australia for sale of gas from the Wombat-Field, conditional on flow rates and other factors.

Lakes Oil and its prospective customers are hopeful that eventually the Victorian government will complete its review of the “science” and community consultations and will allow controlled development of what the company believes are potentially large undeveloped onshore gas resources across the State in the Otway and Gippsland Basins.

Future Work

Work programs in the company’s onshore acreage areas cannot continue until drilling and hydraulic fracturing bans are lifted by the Victorian State Government.

Until such time as these bans are lifted all onshore exploration work in the State has stopped.

PRL 3 – Onshore Gippsland Basin

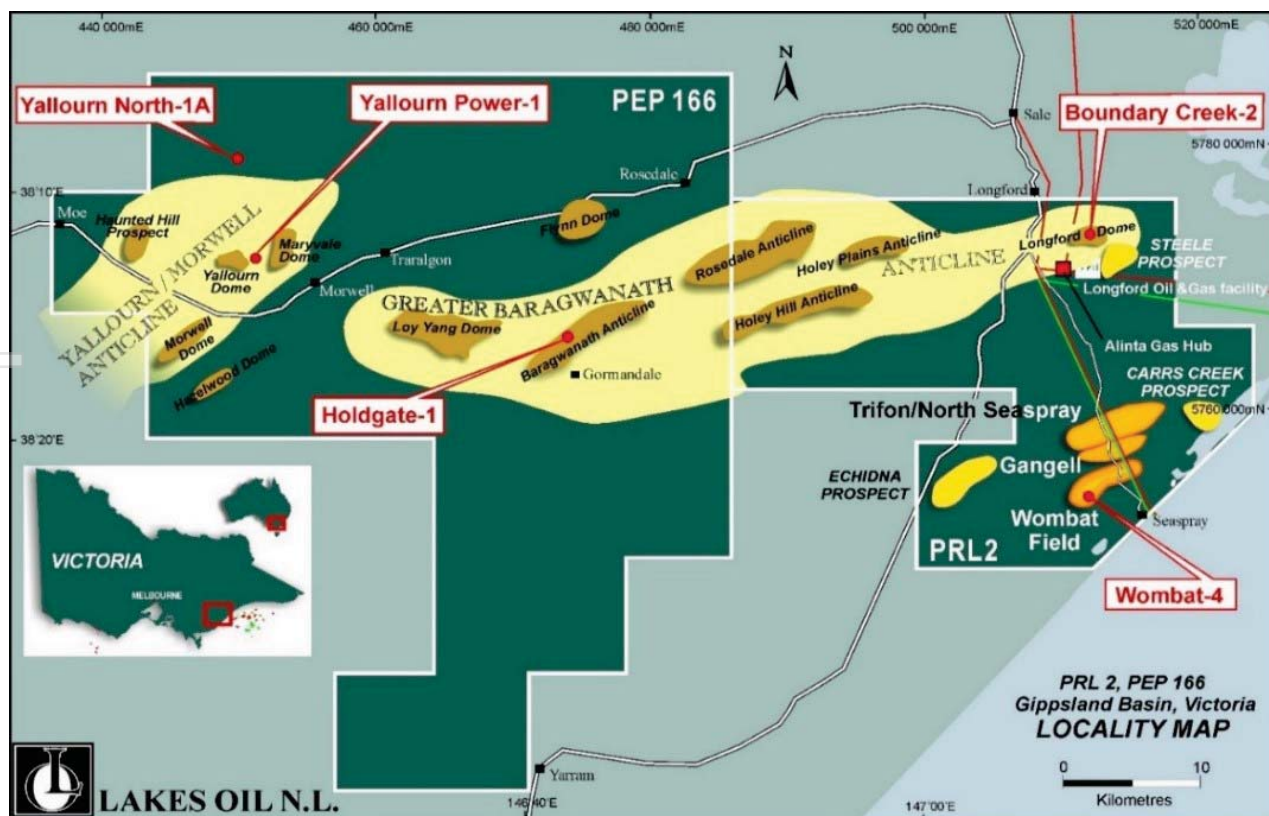
(Lakes Oil Group, Operator: 100% interest)

No operational activities took place in this permit during the period. Lakes Oil has been working to resolve the continued access issues to chosen drill sites.

The process of planning and engineering for two potential drilling sites had commenced, but because of the uncertainty of State bans on drilling, plans have been delayed.

PEP166 - Onshore Gippsland Basin

(Lakes Oil Group, Operator 75% interest) Armour Energy Ltd (Armour) 25% interest)



Map of PEP 166 and PRL 2 showing the location of several of the company’s most recent wells including Yallourn Power 1. Note that the Greater Baragwanath Anticline (shown in yellow shading) extends across both PRL 2 and PEP 166.

Permit Summaries (cont.)

PEP166 - Onshore Gippsland Basin (cont.)

PEP 166: Regional Mapping

Regional mapping within the permit has focused on evaluating the potential prospects to test additional Strzelecki and Rintouls Creek Formation tight gas and conventional plays. Without adequate and sufficient seismic data in the permit, mapping of intra-Strzelecki and base Strzelecki surfaces is extremely difficult. Re-interpretation of old coal bores, early wells and existing seismic data has been completed in the eastern part of the permit, where basement is indicated at around 3000 metres. Further mapping is continuing.

No operational activity has occurred during the past year.

PEP169 Onshore Otway Basin

(Lakes Oil Group, 49% interest)(Operator as delegated by Armour Energy Ltd)(Armour Energy Ltd (Armour Energy Ltd - 51% interest)

Regional Mapping

Potential drillable Waarre and Eumeralla prospects, which are being considered for follow-up drilling, have been mapped in the southern part of the permit.

The Early Cretaceous potential of the Port Campbell Embayment remains underexplored, despite gas flows from the Eumeralla Formation in Iona 3 and Skull Creek 1, and more recently in Lakes' Moreys 1 well. The absence of Waarre Formation in the northern portion of the permit has led to this area in particular remaining under-explored.

In addition to the southern targets, several other targets across the central and northern permit have been mapped in the Tertiary Pebble Point Formation and Early Cretaceous Eumeralla Formation, which occur at relatively shallow depths.

Further investigations into the potential of Eumeralla and underlying Crayfish Group tight gas plays are also currently being assessed.

Future Operations

Proposed Otway-1 Well

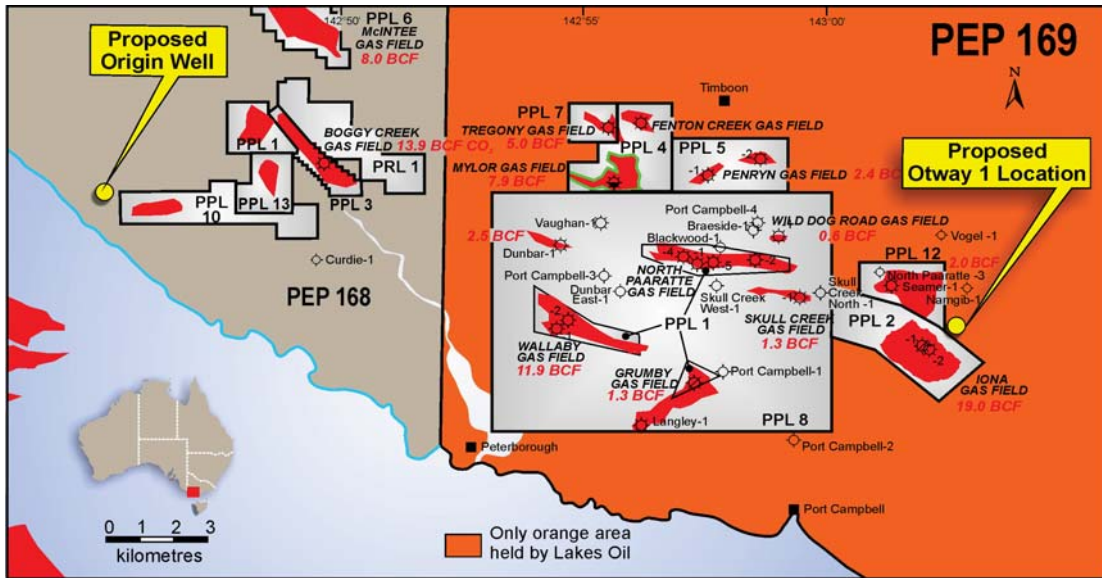
The joint operation with Armour planned to drill Otway 1 in the first quarter of 2014. However, due to protracted landowner access issues; and more recently a total ban on onshore drilling in Victoria, preparations have been put on hold indefinitely until the drilling ban is lifted.

This proposed well is located adjacent to and up-dip from the Iona Gas Field (see map) targeting three objectives in a tilted fault block with closures at three potential levels. The targets are: Pebble Point Formation, Waarre 'C' Formation and Eumeralla Formation. The estimated total depth is 1500 metres.

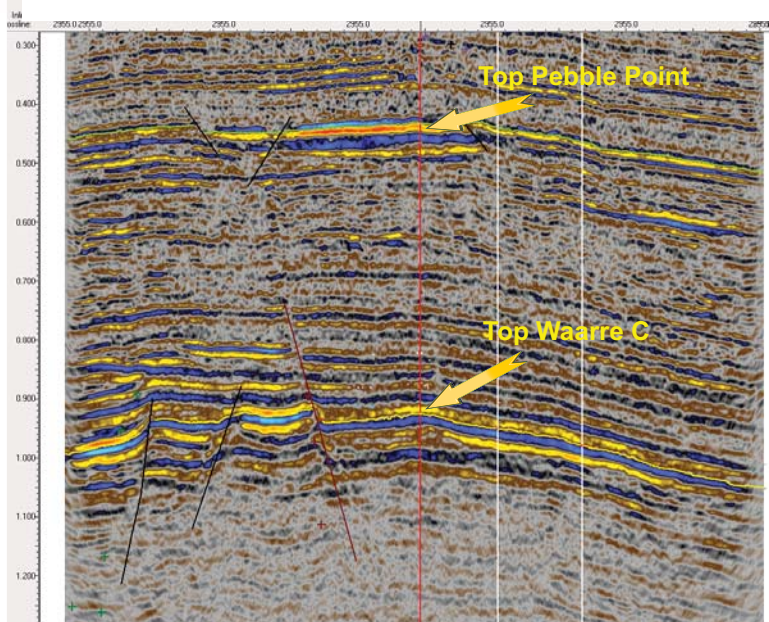
The 3D seismic data indicates that there is an amplitude anomaly (bright spot) present at the Pebble Point and Eumeralla horizons, which could indicate oil or gas. (See figure on next page)

The Otway Prospect can be correlated to the Iona Field and mapped from 3D seismic to contain the Waarre 'C' Formation, the producing reservoir in the Iona Field. Note that because of the proximal location to the Iona Gas Facility, the flow of gas may not need to be large in order to be commercial.

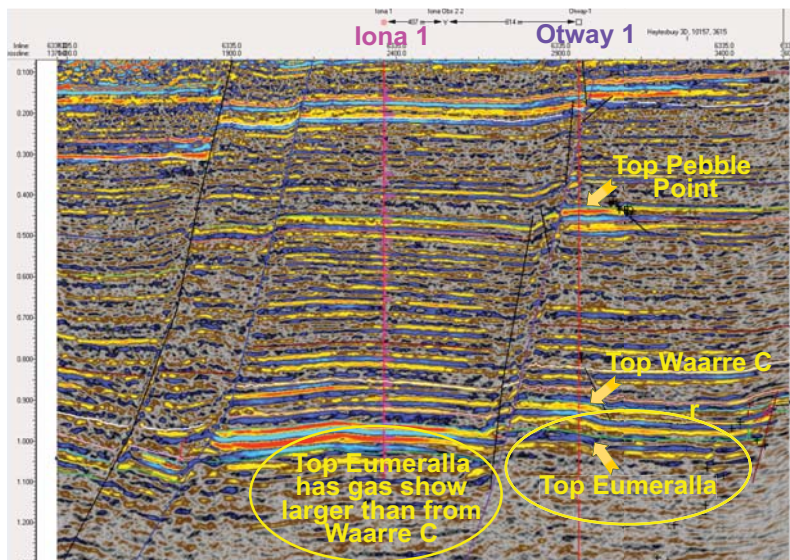
Permit Summaries (cont.)
 PEP169 - Onshore Otway Basin (cont.)
 Future Operations (cont.)



Locality map – Southern part of PEP 169 and surrounds



Proposed Otway 1 Dip Section showing Pebble Point, Waarre C and Eumeralla horizons



Strike section showing Waarre C and Pebble Point horizons

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Permit Summaries (cont.)

PEP163 Onshore Otway Basin
(Lakes Oil Group, Operator 100% interest)

Due to the State Government's imposed moratorium on hydraulic fracturing and onshore drilling, no further exploration activities have been conducted in the permit since August 2012 when the ban came into effect.

Eagle Oil Pool Prospect - Onshore, California, U.S.A.
(Lakes Oil Group: 17.97% working interest; Operator: Strata-X, Inc.)

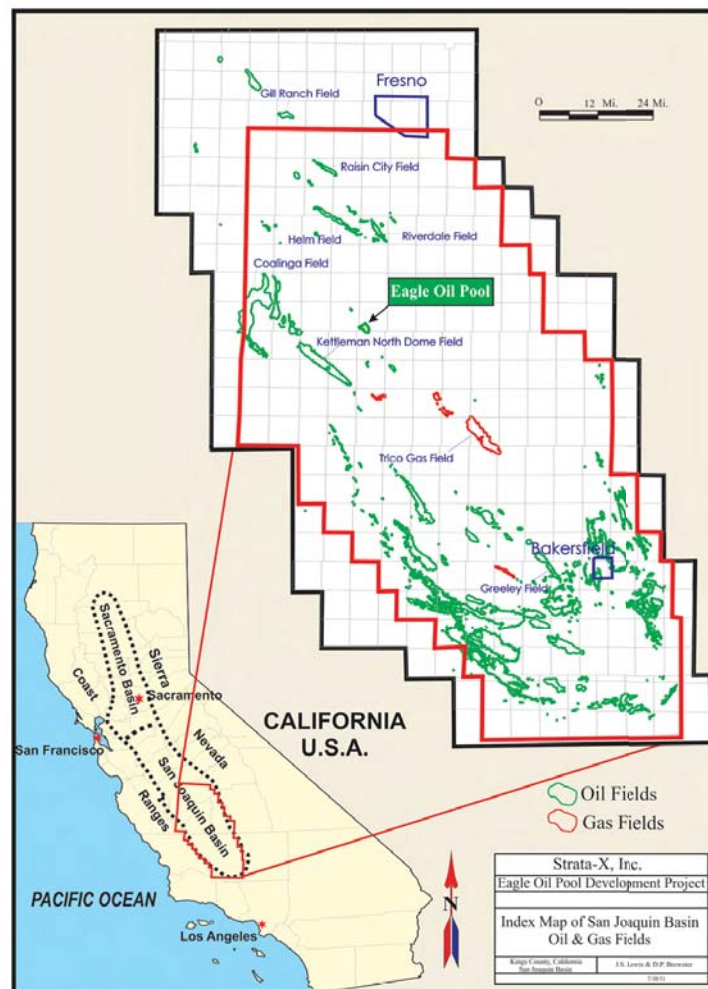
Proposed Shannon-1

This permit contains the Mary Bellochi-1 well drilled in 1986 by Lakes Oil and its joint operation partners. The well flowed oil to surface for several weeks before withering out from, what was believed at the time to be, a mechanical problem rather than oil ceasing to be present. The permit at the time was operated by U.S company Royal Resources, and is now operated by Strata-X, Inc.

The proposed Shannon-1 well is to be located close to the Mary Bellochi accumulation. The joint operation group proposes to drill Shannon-1 vertically as a near-offset appraisal of the P90 reserves case of 1.2 MMB(oil) and 3.8 BCF(gas). Shannon-1 is to be located close to the Mary Bellochi accumulation.

Lakes Oil's share in the joint operation moved from 15% to 17.97% following exit of one of the joint operation partners in the previous quarter.

Drilling is planned, but not confirmed,



Location map of Southern San Joaquin Basin, California showing location of Eagle Oil Pool Prospect.

Victorian Exploration Leases

Commonwealth Mining Pty Ltd, a wholly owned subsidiary of Lakes Oil N.L. holds three exploration leases in the Gippsland Basin.

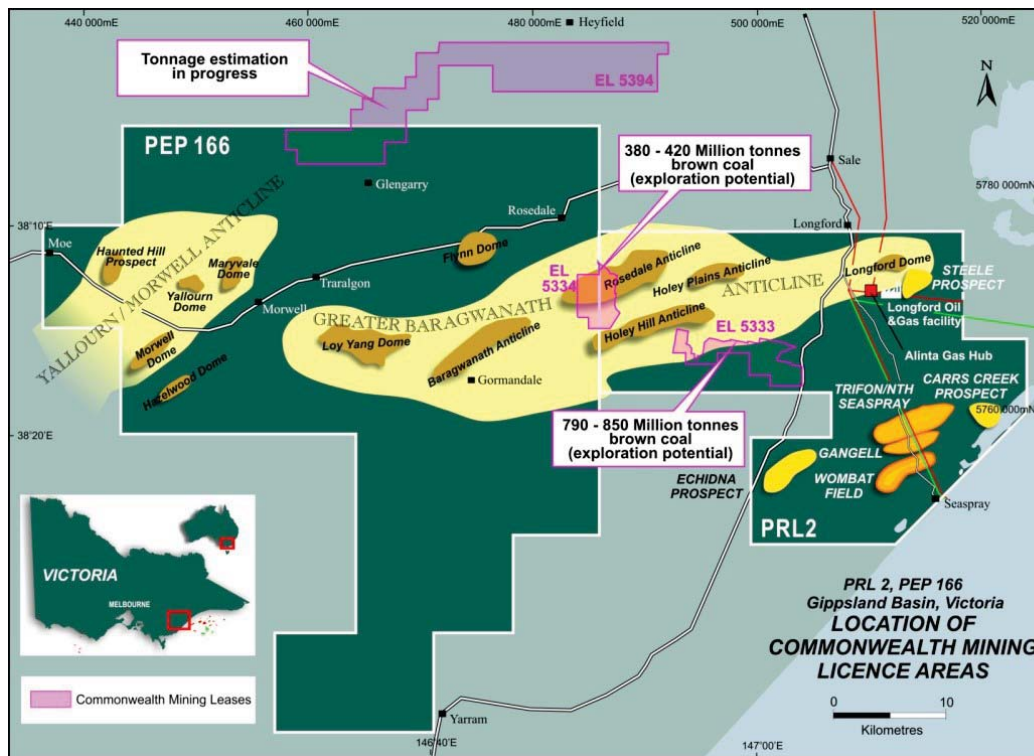
The areas are: EL 5333, EL 5334 and EL 5394. Refer to the locality map below.

These areas have been acquired to investigate the resource potential of economically recoverable brown coal resources (**not** coal seam gas) and their potential for economic heavy mineral deposits. The latter has been the focus of investigation this year by analysis of geophysical and existing bore data and several target zones have been delineated.

These leases are not being explored for coal seam gas resources.

The leases have JORC exploration potential coal tonnages estimated by independent consultants as follows:

Exploration Potential of Economically Recoverable Brown Coal Resources	
Exploration Licence	Million Tonnes
EL5333	790 – 850
EL5334	380 – 420
EL5394	2,600 – 4,000
Total	3,770 – 5,270



Location map of Commonwealth Mining’s exploration leases, Gippsland Basin

Environmental regulation and performance

Lakes Oil holds interests in petroleum exploration permits and mineral licences in Victoria. All of these permits and licences impose regulations regarding environmental issues. There have been no known breaches of the environmental regulations during the financial year.

Remuneration Report

Remuneration policy

The board of directors of Lakes Oil NL is responsible for determining and reviewing compensation arrangements for the directors, the Executive Chairman, Executive Officers and other employees.

The Board established a Remuneration Committee in July 2013 which has been charged with establishing and reviewing remuneration procedures appropriate for a Board and consolidated entity of this size.

The Remuneration Committee has the responsibility to assess the appropriateness of the nature and amount of emoluments for non-executive directors with reference to performance, relevant comparative remuneration and independent expert advice with the objective of retaining a high quality board to ensure maximum stakeholder benefit. The non-executive directors receive fees in arrears and do not receive bonus payments.

The Remuneration Committee has the responsibility to assess the appropriateness of the nature and amount of emoluments for the Executive Chairman on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality executive. During the year the Committee engaged independent remuneration consultants Mercer Consulting (Australia) Pty Ltd (Mercer) to advise on the Executive Chairman's remuneration and to make remuneration recommendations thereon to the Committee. The protocol that the Committee engages the consultant is used to ensure that the advice the Committee receives is free from any undue influence from management. One aspect of this protocol is that the Committee through its Chairman appoints and engages directly with the consultant in relation to remuneration matters. The terms of engagement by Mercer were finalised by the Chairman of the Committee and all remuneration recommendations are provided directly to the Committee Chairman. Management is involved in this process only to the extent that it can assist the consultant by providing factual information as requested by the consultant. Mercer benchmarked Executive Chairmen's' fees and remuneration, both fixed and at risk components. For these services it received fees of \$ 27,142 (inc GST). The board is satisfied that the remuneration recommendations made by its consultant were made free from undue influence by the Executive Chairman. Mercer is an independent remuneration consultant that provides services in relation to executive and board remuneration consulting. Therefore the scope for potential conflicts of interest is minimised.

The Remuneration Committee has the responsibility to review the appropriateness of the nature and amount of emoluments for Senior Executives as recommended by the Executive Chairman. These recommendations are made by the Executive Chairman on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality team.

The Executive Chairman is given the opportunity to receive his base emolument in a variety of forms including cash and fringe benefits such as expenses payment plans. All other staff must take their base emolument as cash and superannuation. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost.

For directors and staff, the consolidated entity provides a remuneration package that currently incorporates both cash-based and share-based remuneration. The contracts for services between the consolidated entity and specified directors and executives are on a continuing basis the terms of which are not expected to change in aligning director and shareholder interests. The remuneration policy is not related to the consolidated entity's performance. The board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth for shareholders.

The Executive Chairman, Executive Officers and other employees are all employed under various forms of agreement that can be terminated with notice by either side. These agreements, which do not specify fixed periods of employment, can be terminated by either party with a notice period of four weeks. Termination payments comprise the base salary payment for the duration of the applicable notice period, plus any statutory entitlements owing, such as outstanding annual and long service leave entitlements and superannuation contributions.

Lakes Oil NL determines the maximum amount for remuneration, including thresholds for share-based remuneration, and bonus payments, if any, by directors' resolution.

There were no at-risk compensation components forgone during the year.

Remuneration Report (cont.)

Named directors and executives

The names and positions of each person who held the position of director at any time during the financial year is provided above. There are three executives in the consolidated entity who hold positions of a senior nature that directly influences the overall direction of the consolidated entity focus as named below:

Executives	Position
I Campbell	Chief Geologist
T O'Brien	Operations Manager
L Smith	Chief Financial Officer/Company Secretary

Directors' remuneration

		Primary Benefits		Post Employment		Equity Options*	Other Benefits	Total
		Salary & fees	Non Monetary	Super-annuation	Retirement Benefits			
R.J. Annells ^A	2014	315,791	5,000	29,209	-	-	-	350,000
	2013	299,584	4,750	-	-	-	-	304,334
B.I. Berold	2014	7,246	-	42,754	-	-	-	50,000
	2013	25,000	-	25,000	-	-	-	50,000
A.J.G. Downer ^C	2014	36,965	-	3,419	-	-	-	40,384
	2013	19,069	-	1,764	-	-	-	20,833
P.B. Lawrence ^D	2014	-	-	-	-	-	-	-
	2013	20,833	-	-	-	-	-	20,833
N Mather	2014	50,000	-	-	-	-	-	50,000
	2013	50,000	-	-	-	-	-	50,000
I.R. Plimer ^B	2014	45,793	-	4,207	-	-	-	50,000
	2013	11,468	-	9,365	-	-	-	20,833
W.R. Stubbs	2014	45,793	-	4,207	-	-	-	50,000
	2013	45,871	-	4,129	-	-	-	50,000
J.H.Y. Syme ^D	2014	-	-	-	-	-	-	-
	2013	20,833	-	-	-	-	-	20,833
K Wightman ^E	2014	-	-	-	-	-	-	-
	2013	-	-	-	-	-	-	-
Total directors remuneration	2014	501,588	5,000	83,796	-	-	-	590,384
	2013	492,658	4,750	40,258	-	-	-	537,666

^A For Mr Annells the values shown represent payments made and accrued as a director and chief executive officer.

^B Professor Plimer was appointed on 27 January 2013 and earned *pro rata* director's fees for the period to 30 June 2013

^C Mr Downer was appointed on 31 January 2013 and earned *pro rata* director's fees for the period to 30 June 2013. He resigned on 17 April 2014 and received *pro rata* director's fees for the period 1 July 2013 to 17 April 2014.

^D Mr Lawrence and Mr Syme retired on 28 November 2012 and earned *pro rata* director's fees for this period.

^E Mr Wightman was appointed on 4 August 2014 and received no fees in the reporting period.

Remuneration Report (cont.)

Executives' remuneration

		Primary Benefits		Post-Employment		Equity Options*	Other Benefits	Total
		Salary & fees	Non Monetary	Super-annuation	Retirement Benefits			
I. Campbell	2014	190,473	-	24,637	-	-	-	215,110
	2013	183,480	-	16,512	-	666	-	200,658
T. O'Brien~	2014	227,542	-	21,043	-	-	-	248,585
	2013	183,480	-	16,512	-	666	-	200,658
L. Smith	2014	147,492	-	24,997	-	-	-	172,489
	2013	124,992	-	24,984	-	-	-	149,976
Total executive remuneration	2014	565,507	-	70,677	-	-	-	636,184
	2013	491,952	-	58,008	-	1,332	-	551,292

* The values shown in the column headed "Equity Options" represents the non-cash amortised notional value of the options
 ~ Mr O'Brien elected to cash-out 20 days of accrued annual leave in the year. The value of this payment is included in these figures

Remuneration - options and options with no performance criteria

The percentage of each director and executive remuneration which comprises options is shown in the table below:

	2014 % of Remuneration from Options	2013 % of Remuneration from Options
Directors		
R.J. Annells	-	-
B.I. Berold	-	-
A.J.G Downer AC	-	-
P.B. Lawrence	-	-
N. Mather	-	-
I.R. Plimer	-	-
W.R. Stubbs	-	-
J.H.Y. Syme	-	-
K Wightman	-	-
Executives		
I. Campbell	-	0.33%
T. O'Brien	-	0.33%
L. Smith	-	-

Options granted as remuneration that have been exercised or lapsed during the financial year

No options have been granted, exercised or lapsed in the year, or in the previous year.

Remuneration Report (cont.)

Directors' and executives' equity holdings

(a) Compensation options: granted and vested during the year (consolidated)

No options were granted and vested during the year ended 30 June 2014 or the year ended 30 June 2013.

(b) Share issued on exercise of compensation options

No shares have been issued on exercise of compensation options by any director or executive.

(c) Number of options held by key management personnel (consolidated)

2014	Balance at beginning of period	Granted as compensation	Options Exercised	Options lapsed	Balance at end of period	Vested at 30 June 2014		
						30 June 2014	Total	Not Exercisable
Directors	1 July 2013							
R.J. Annells	-	-	-	-	-	-	-	-
B.I. Berold	-	-	-	-	-	-	-	-
A.J.G Downer AC	-	-	-	-	-	-	-	-
N. Mather	-	-	-	-	-	-	-	-
I.R. Plimer	-	-	-	-	-	-	-	-
W.R. Stubbs	-	-	-	-	-	-	-	-
K Wightman	-	-	-	-	-	-	-	-
Executives								
I. Campbell	-	-	-	-	-	-	-	-
T. O'Brien	-	-	-	-	-	-	-	-
L. Smith	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-
Weighted average exercise price (\$)	-	-	-	-	-	-	-	-

2013	Balance at beginning of period	Granted as compensation	Options Exercised	Options lapsed	Balance at end of period	Vested at 30 June 2013		
						30 June 2013	Total	Not Exercisable
Directors	1 July 2012							
R.J. Annells	-	-	-	-	-	-	-	-
B.I. Berold	-	-	-	-	-	-	-	-
A.J.G Downer	-	-	-	-	-	-	-	-
P.B. Lawrence	-	-	-	-	-	-	-	-
N. Mather	-	-	-	-	-	-	-	-
I.R. Plimer	-	-	-	-	-	-	-	-
W.R. Stubbs	-	-	-	-	-	-	-	-
J.H.Y. Syme	-	-	-	-	-	-	-	-
Executives								
I. Campbell	2,000,000	-	-	(2,000,000)	-	-	-	-
T. O'Brien	2,000,000	-	-	(2,000,000)	-	-	-	-
L. Smith	-	-	-	-	-	-	-	-
Total	4,000,000	-	-	(4,000,000)	-	-	-	-
Weighted average exercise price (\$)	0.015	-	-	-	-	-	-	-

Remuneration Report (cont.)

Valuation of options issued to directors and executives

No options were issued to directors and executives during the 2014 or 2013 financial years.

Number of shares held by key management personnel

2014		Balance 1 July 2013	Net Change Other	Balance 30 June 2014
Directors		Ord#	Ord	Ord#
R.J. Annells	D	5,237,259	-	5,237,259
	I	167,000,000	10,000,000	177,000,000
B.I Berold	D	5,799,167	-	5,799,167
	I	49,373,611	-	49,373,611
A.J.G. Downer	D	-	-	-
	I	-	-	-
N Mather [^]	D	-	-	-
	I	-	-	-
I.R. Plimer	D	-	-	-
	I	-	-	-
W. R. Stubbs [^]	D	6,000,000	-	6,000,000
	I	-	-	-
K Wightman	D	-	-	-
	I	-	-	-
Executives		-	-	-
I. Campbell	D	11,300,000	-	11,300,000
	I	-	-	-
T. O'Brien	D	6,000,000	-	6,000,000
	I	10,000,000	1,000,000	11,000,000
L. Smith	D	5,000,000	-	5,000,000
	I	1,416,600	-	1,416,600
Total		267,126,637	11,000,000	278,126,637

Note: D = direct ownership. I = indirect ownership.

This balance includes partly paid shares purchased in previous years. Refer Note 17 for more detail

[^] Mr Mather and Mr Stubbs are Directors of Armour Energy Ltd which held a 18.60% fully diluted interest in the consolidated entity at balance date and at the date of signing the accounts.

2013		Balance 1 July 2012	Net Change Other	Balance 30 June 2013
Directors		Ord#	Ord	Ord#
R.J. Annells	D	3,120,417	2,116,842	5,237,259
	I	169,116,842	(2,116,842)	167,000,000
B.I Berold	D	5,799,167	-	5,799,167
	I	49,373,611	-	49,373,611
A.J.G Downer	D	-	-	-
	I	-	-	-
N Mather [^]	D	-	-	-
	I	-	-	-
I.R. Plimer	D	-	-	-
	I	-	-	-
W. R. Stubbs [^]	D	-	-	-
	I	6,000,000	-	6,000,000
Executives		-	-	-
I. Campbell	D	11,300,000	-	11,300,000
	I	-	-	-
T. O'Brien	D	6,000,000	-	6,000,000
	I	12,500,000	(2,500,000)	10,000,000
L. Smith	D	5,000,000	-	5,000,000
	I	1,416,600	-	1,416,600
Total		269,626,637	(2,500,000)	267,126,637

Note: D = direct ownership. I = indirect ownership.

This balance includes partly paid shares purchased in previous years. Refer Note 17 for more detail

[^] Mr Mather and Mr Stubbs are Directors of Armour Energy Ltd which held an 18.6% fully diluted interest in the consolidated entity at balance date and at the date of signing the accounts.

Remuneration Report (cont.)

Number of listed unsecured converting notes held by key management personnel

2014		Balance 1 July 2013	Net Change Other	Balance 30 June 2014
Directors				
R.J. Annells	D	-	-	-
	I	5,000	(5,000)	-
B.I Berold	D	-	-	-
	I	4,797	-	4,797
A.J.G. Downer	D	-	-	-
	I	-	-	-
N Mather [^]	D	-	-	-
	I	-	-	-
I.R. Plimer	D	-	-	-
	I	-	-	-
W. R. Stubbs [^]	D	-	-	-
	I	-	-	-
K. Wightman	D	-	-	-
	I	-	-	-
Executives				
I. Campbell	D	200	-	200
	I	-	-	-
T. O'Brien	D	-	-	-
	I	1,250	-	1,250
L. Smith	D	-	-	-
	I	142	-	142
Total		11,389	(5,000)	6,389

Note: D = direct ownership. I = indirect ownership.

This balance includes partly paid shares purchased in previous years. Refer Note 17 for more detail

[^] Mr Mather and Mr Stubbs are Directors of Armour Energy Ltd which held an 18.6% fully diluted interest in the consolidated entity at balance date and at the date of signing the accounts.

2013		Balance 1 July 2012	Net Change Other	Balance 30 June 2013
Directors				
R.J. Annells	D	-	-	-
	I	-	5,000	5,000
B.I Berold	D	-	-	-
	I	-	4,797	4,797
A.J.G. Downer	D	-	-	-
	I	-	-	-
N Mather [^]	D	-	-	-
	I	-	-	-
I.R. Plimer	D	-	-	-
	I	-	-	-
W. R. Stubbs [^]	D	-	-	-
	I	-	-	-
Executives				
I. Campbell	D	-	200	200
	I	-	-	-
T. O'Brien	D	-	-	-
	I	-	1,250	1,250
L. Smith	D	-	-	-
	I	-	142	142
Total		-	11,389	11,389

Note: D = direct ownership. I = indirect ownership.

This balance includes partly paid shares purchased in previous years. Refer Note 17 for more detail

[^] Mr Mather and Mr Stubbs are Directors of Armour Energy Ltd which held an 18.6% fully diluted interest in the consolidated entity at balance date and at the date of signing the accounts.

Remuneration Report (cont.)

All equity transactions with specified directors and executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Relationship between remuneration policy and company performance

	2014	2013	2012	2011
Revenue (\$'000)	79	572	47	95
Loss before tax (\$'000)	(3,168)	(2,953)	(3,024)	(3,684)
Change in share price	(40.0%)	-	25.0%	(20.0%)
Dividends paid to shareholders (\$'000)	-	-	-	-
Return of capital (\$'000)	-	-	-	-

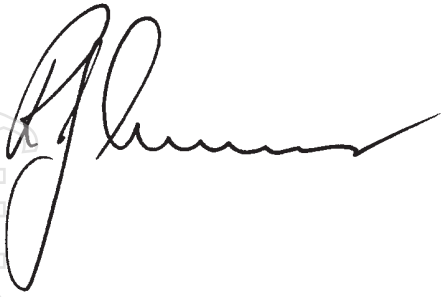
The remuneration policy is not related to the consolidated entity's performance. The board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth for shareholders.

End of Remuneration Report.

Voting and Comments made at Lakes Oil NL's 2013 Annual General Meeting

At the company's most recent AGM, a resolution to adopt the prior year remuneration report was put to the vote and at least 75% of "yes" votes were cast for adoption of that report. No comments were made on the remuneration report that were considered at the AGM.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'R. Annells', written in a cursive style.

ROBERT J. ANNELLS

Chairman

Signed at Melbourne, Victoria on
30 September 2014

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COMMUNITY INVOLVEMENT

Yarram Secondary College

The College conducted the 2013 Student of the Year Awards on 18 December 2013 in Yarram's prestigious Regent Theatre. This wonderful and historic theatre was fully packed with College students, their parents and families, to formally end the year of study.

Lakes Oil has supported the College over the past five years sponsoring the Outstanding Year 12 VET Student of the Year Award. The 2013 award winner was Darcy Pattinson, a year 12 VET engineering student. Darcy has recently completed Certificate 3 in Digital Media Technology at Yallourn TAFE and intends to enrol at Federation University, Churchill in 2015 to study IT in business or mobile application and security.

The 2014 VET Award will be awarded to a year 11 and 12 student who has shown outstanding ability in their chosen VET subject, whether it be Engineering, Building and Construction, Sport, Recreation or Music.

Lakes Oil will continue to support Yarram Secondary College in its aim to raise the level of education standard for the benefit of our youthful citizens.

Lucknow Cricket Club

Lucknow Cricket Club has continued to maintain and improve an effective indigenous cricket program, which has the support of Cricket's major authorities.

The Club has continued to take on new participants, both indigenous and disadvantaged youth, thus providing a welcoming and comfortable environment to learn the skill and rules of cricket. Members of the Club and external community members are totally behind the project and donate their time and life's experiences for the benefit of these young Australians.

The Club, through past President, Paul Garry and current President Brad Montant, have acknowledged the financial and moral support by Lakes Oil which has assisted in the provision of uniforms, equipment, transport, coaching, meals and subsidised registration fees. A great country cricket club supporting the Community.



Pictures: Courtesy Paul West Indigenous Program Coordinator.

2014 Lakes Oil Tour of Gippsland

The 2014 Tour, conducted and well managed by Cycling Australia, was deferred until the warmer weather applied and to fit snugly into the 2014 National Road Series, from 3rd to 7th September.

The Tour was well designed to provide the 164 young entrants, incorporating 25 sponsored teams, with sprint and road race experience and competition with applicable points and prize money resulting.



Pictures: Courtesy of Cycling Australia. Featuring Bob Thompson and Lakes Oil Tour of Gippsland 2014 team.

Stage 1: commenced at Warragal, traversed through the Baw Baw Shire of rolling hills and great scenery to Willow Grove, Moe, Trafalgar, Yarragon and on the flat to Warragal. 91.5km.

Stage 2: 115 km road race from Leongatha, through the gruelling hills to Mirboo North, Boolarra and to the finish at Yinnar. As Tour Director and former champion cyclist, John Trevorrow stated " I am looking forward to stage 2 to Yinnar and I am sure this stage will play a major part in shaping the final general classification". The race encompassed South Gippsland Shire and Latrobe City Council.

Stage 3: Was 30 laps of the 1.2km criterium around Victoria Park, Sale. Always a sharp, sprinting race with lots of action for both riders and spectators. In total 36km.

Stage 4: 123.9km road race from Sale via Rosedale, Gormondale, Woodside with the finish at Port Albert, one of Victoria's first seaports and described by race commentator, Ian Maher, "Port Albert is one of Victoria's best kept tourist secrets". Both stage 3/4 were held in Wellington Shire country.

Stage 5: A new 97.4km stage commencing at Paynesville with a fast finish at Metung after travelling through the East Gippsland Shire towns of Bairnsdale, Calulu, Wy Yung, Bruthen, Tambo Upper, Swan Reach to the finish line.

Stage 6 45 km, 30 lap criterium in the vibrant town of Traralgon. This stage was to produce the winner of the Tour of Gippsland, Tim Roe from Adelaide, a young rider with promise and a member of the strong Budget Forklifts team from W.A.

The excellent sunny weather brought the huge crowds to watch all stages, particularly the school children who provided much enthusiasm and noise with their cow-bells and their presence. Thank you Teachers and the Schools.



Pictures: Courtesy of Cycling Australia. Chairman Rob Annells and Tour of Gippsland finalists.

The Yinnar Bowling and Recreation Club once again provided a great country style refreshment banquet in the Club's premises at the conclusion of stage 2 at Yinnar. Thank you Lady Members for your excellent hospitality and the Club's executive for the opportunity to visit your premises following the severe storm damage in 2012.

Lakes Oil Executive and Management are resolved to further develop this challenging cycling race for the benefit of these young Australian and International aspired cyclists to further their heights in this great sport. A number of stage and Tour winners have already progressed to international competition including the Tour De France.

Lakes Entrance Football Netball Club

With the advent of a new President mid 2013 of Greg Dear the 2014 started off with a bang. The Club installed lights and the opening event on Easter Friday was against Paynesville, the 2013 Premiers.

The Club recruited ex AFL star Shane Tuck and a record attendance resulted with Lakes winning at the end. It was noticed that many AFL stars of the past attended including Michael Tuck, Paul Dear and his brother Greg, the President. All greats of the past in AFL but certainly interested in the future of our great game. Whilst the Club had a number of teams in the finals, both netball and football, the D grade Football team, under 18 years, won the grand final beating Orbost comfortably. Zoe Carr was awarded the League's 2014 netball best and fairest whilst David Richardson, coach of the U 18's, was awarded football's coach of the year.

As the president, Greg Dear, who visited Lakes Oil offices during the season, stated, "We as a club won the League's Most Disciplined award and we acknowledge Lakes Oil and its personnel support and interest in the Club's activities". "Go Seagulls."



Photograph: Greg Dear and Lakes Oil staff, Tim O'Brien and Ingrid Campbell



Pictures: Courtesy of Bairnsdale Advertiser.

Churchill Football Netball Club -COUGARS

"What a difference a season in sport makes!!"

Following a most disappointing 2013 season as far as success is concerned the Club enjoyed a stellar end of season by winning the 2014 Seniors and Thirds premierships in the North Gippsland Football Netball League.

The Seniors defeated the unbeaten Heyfield team, quite comfortably, and the Thirds defeated Traralgon-Tyers United in a similar manner. Brendon Holt posted 7 goals in a match winning effort at full-forward for the Seniors and was awarded the medal for his best on ground performance. The Senior coach, Allan Chandler, continued his excellent playing and coaching form throughout the season to achieve the team's success. Travis Brighton-No.4, was awarded the League's best and fairest medal for an outstanding season and actually won his Club's B & F for the fifth time.

The Thirds team, well coached by Senior player, Joe Whykes, again proved superior throughout the season, deserved the win following being runners-up in 2013. Ben Skinner-No.1, won the League's best and fairest award.

In netball, the D Grade team coached by Katrina Hutchinson fell short by 5 goals in their grand final v Glengarry Magpies. Captain, Emily Hutchinson won the League's best and fairest award.

Altogether it was a huge year for the Club, and as President Mick Johnson stated "a lot of effort by many people resulted in the Club and its facilities going forward".



Pictures: Courtesy of North Gippsland Football Netball League and Latrobe Valley Express



Pictures: Courtesy of North Gippsland Football Netball League and Latrobe Valley Express

Community presence

Despite another difficult time for the Company, Lakes Oil has continued to be involved during 2013/14 with many organisations in the Latrobe and Gippsland regions, including education, sporting, cultural and community clubs.

In addition to those mentioned, Lakes Oil has supported Rotary Club of Lakes Entrance (the prestigious Art Show will be held in March, 2015), North Gippsland Football Netball League and Yinnar Bowling and Recreation Club.

The Company has also continued to maintain its close association with the elected representatives for both State and Federal Governments in the regions, the Committee for Gippsland, VECCI and with Latrobe City, Wellington and East Gippsland Shires.

The official opening of the oval lighting was performed in August by Minister for Energy, Russell Northe. Contributions towards the funding for this project were from the Victorian Government and Latrobe City Council and the Club itself. Cr. Darrell White, on behalf of Latrobe City Council, performed the opening of the new electronic scoreboard. The push to achieve this objective came from Members of the Hazelwood & Churchill Past Players & Officials Association, with support from Latrobe City Council, the AFL and Lakes Oil.

In acknowledging the support by Lakes Oil to the CFN Club and the many other organisations throughout Gippsland, President Mick welcomed the news that Lakes Oil will again hold its Annual Meeting in the Churchill clubrooms on Monday, November 24, 2014.

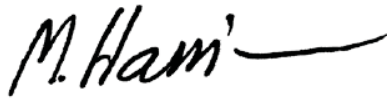


Photograph: Lakes Oil's directors and clubrooms staff at the Churchill football and netball league clubrooms, 2013 Annual General Meeting

AUDITOR'S INDEPENDENCE DECLARATION**To the Directors of Lakes Oil N.L.**

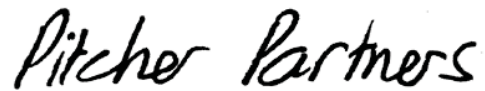
In relation to the independent audit for the year ended 30 June 2014, to the best of my knowledge and belief there have been:

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



M J HARRISON
Partner

30 September 2014



PITCHER PARTNERS
Melbourne

Consolidated Statement of Comprehensive Income
For the Year Ended 30 June 2014

	Note	2014 \$'000	2013 \$'000
Revenue and other income			
Other revenue	4	55	88
Other income	4	24	484
Fair value gains/(losses) on financial assets through profit or loss		414	(207)
		493	365
Less: Expenses			
Employee benefits expenses	5a	(1,196)	(1,108)
Depreciation expenses	5b	(67)	(58)
Exploration expenditure written off	12	(75)	-
Accounting and audit expenses		(89)	(109)
Marketing and promotion expenses		(170)	(220)
Rent and occupancy expenses		(270)	(242)
Consulting expenses		(308)	(299)
Administrative expenses	5c	(890)	(1,128)
Impairment of property, plant and equipment	11	(471)	-
Finance costs		(125)	(154)
Total expenses		<u>(3,661)</u>	<u>(3,318)</u>
(Loss) before income tax		<u>(3,168)</u>	<u>(2,953)</u>
Income tax expense	6	-	-
(Net Loss) from continuing operations		<u>(3,168)</u>	<u>(2,953)</u>
Loss for the year		(3,168)	(2,953)
Other comprehensive income		-	-
Total comprehensive loss for the year		<u>(3,168)</u>	<u>(2,953)</u>
Loss attributable to members of the parent		(3,168)	(2,953)
Total comprehensive loss attributable to members of the parent		<u>(3,168)</u>	<u>(2,953)</u>
Basic loss per share from continuing operations (cents per share)	20	(0.04)	(0.04)
Diluted loss per share from continuing operations (cents per share)	20	(0.04)	(0.04)

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

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Consolidated Statement of Financial Position
As at 30 June 2014

	Note	2014 \$'000	2013 \$'000
CURRENT ASSETS			
Cash and cash equivalents	19	3,262	7,465
Receivables	7	170	229
Financial assets at fair value through profit or loss	10	828	414
Other financial assets	9	22	22
Other current assets	8	49	53
TOTAL CURRENT ASSETS		4,331	8,183
NON-CURRENT ASSETS			
Property, plant and equipment	11	1,964	2,390
Deferred exploration, evaluation and development	12	50,148	50,896
TOTAL NON-CURRENT ASSETS		52,112	53,286
TOTAL ASSETS		56,443	61,469
CURRENT LIABILITIES			
Trade and other payables	13	564	1,025
Borrowings	14	-	1,000
Converting notes	15	79	642
Provisions	16	264	242
TOTAL CURRENT LIABILITIES		907	2,909
NON-CURRENT LIABILITIES			
Converting notes	15	-	276
Provisions	16	315	308
TOTAL NON-CURRENT LIABILITIES		315	584
TOTAL LIABILITIES		1,222	3,493
NET ASSETS		55,221	57,976
EQUITY			
Share capital – ordinary shares	17	105,384	100,265
Share capital – converting notes	17	1,756	6,462
Total Share Capital		107,140	106,727
Other reserves	18	-	-
Accumulated losses	18	(51,919)	(48,751)
TOTAL EQUITY		55,221	57,976

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

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Consolidated Statement of Changes in Equity
For the Year Ended 30 June 2014

	Contributed equity \$'000	Reserves \$'000	Accumulated Losses \$'000	Total Equity \$'000
Balance as at 30 June 2012	99,713	27	(45,828)	53,912
Loss for the year	-	-	(2,953)	(2,953)
Total comprehensive income for the year	-	-	(2,953)	(2,953)
Transactions with owners in their capacity as owners:				
Contributions	7,239	-	-	7,239
Interest returned on early conversion	83	-	-	83
Capital raising costs	(308)	-	-	(308)
Employee share options	-	3	-	3
Share options expired	-	(30)	30	-
Total transactions with owners in their capacity as owners	7,014	(27)	30	7,017
Balance as at 30 June 2013	106,727	-	(48,751)	57,976
Loss for the year	-	-	(3,168)	(3,168)
Total comprehensive income for the year	-	-	(3,168)	(3,168)
Transactions with owners in their capacity as owners:				
Present value of interest returned on early conversion	413	-	-	413
Total transactions with owners in their capacity as owners	413	-	-	413
Balance as at 30 June 2014	107,140	-	(51,919)	55,221

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

Consolidated Statement of Cash Flows
For the Year Ended 30 June 2014

	2014	2013
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts	17	17
Payments to suppliers and employees	(2,937)	(2,579)
Payments for exploration and evaluation costs	(1,364)	(5,843)
Receipts from joint operation partners towards exploration and evaluation costs	-	3,490
Interest received	74	69
Research & development - Tax refund	1,662	2,137
Finance costs	(33)	(122)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	19(a) (2,581)	(2,831)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(119)	(4)
Proceeds from sale of plant and equipment	14	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(105)	(4)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of converting notes	-	8,614
Converting note interest paid	(517)	(431)
Payment of note issue costs	-	(309)
Proceeds from borrowings	-	1,000
Repayment of borrowings	(1,000)	-
NET CASH FLOWS (USED IN)/PROVIDED BY FINANCING ACTIVITIES	(1,517)	8,874
NET (DECREASE)/INCREASE IN CASH HELD	(4,203)	6,039
Add opening cash brought forward	7,465	1,426
CLOSING CASH CARRIED FORWARD	19(b) 3,262	7,465

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

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report.

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Lakes Oil NL and controlled entities as a consolidated entity. Lakes Oil NL is a no-liability company incorporated and domiciled in Australia. Lakes Oil NL is a for-profit entity for the purpose of preparing the financial statements.

The financial report was authorised for issue by the directors at the date of the directors' report.

Compliance with IFRS

The consolidated financial statements of Lakes Oil NL also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

Critical accounting estimates

The preparation of the financial report requires the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

(b) Going concern

The Directors have prepared the financial report on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred an operating loss after income tax expense for the year ended 30 June 2014 of \$3.1 million (2013: \$2.9 million) and at reporting date has net assets of \$ 55.2 million (2013: \$57.9 million) including \$ 50.1 million (2013: \$50.9 million) of deferred exploration, evaluation and development.

The Directors forecast cash flow requirements to meet the consolidated entity's obligations and forecast expenditure has resulted in the recognition that additional funding is required over the next twelve months.

Subsequent to the period the entity has sought to address the cash requirements by:

- Commencing the process of accessing additional equity or financial instrument funding, however at the date of this report had not reached any decision on raising additional capital
- Continuing to pursue opportunities to negotiate pre-paid gas supply contracts however at the date of this report no agreements have been signed
- Continuing to pursue opportunities to farm-out part of the consolidated entity's exploration interests, however at the date of this report no agreements have been signed.
- Securing finance by secured mortgage over one of the consolidated entity's properties, however at the date of this report no agreements have been signed.

The consolidated entity's ability to continue as a going concern and meet its commitments as they fall due is dependent on its ability to raise sufficient funding.

This financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the economic entity be unable to continue to raise sufficient funding. If the going concern basis of accounting is found to be no longer appropriate, the recoverable amounts of the assets shown on the balance sheet are likely to be significantly less than the amounts disclosed and the extent of the liabilities may differ significantly, from those reflected in the balance sheet.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, in respect of which the parent has the power to control the financial and operating policies so as to obtain benefits from its activities.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the company has control. Details on the controlled entities are detailed in Note 10.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including any unrealised profits or losses arising from intra-group transactions, have been eliminated on consolidation.

(d) Foreign currency transactions

Transactions and balances

Transactions in foreign currencies of entities within the consolidated entity are translated into functional currency at the rate of exchange prevailing at the date of the transaction.

(e) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, short-term deposits with an original maturity of three months or less held at call with financial institutions.

(f) Impairment of assets

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

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(g) Property, plant and equipment

Cost and valuations

All classes of property, plant and equipment are stated at cost less depreciation and any accumulated impairment loss.

The carrying amount of plant and equipment is reviewed annually for impairment by directors to ensure it is not in excess of the recoverable amount from those assets. Refer to Note 1(f).

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(g) Property, plant and equipment (cont.)

Depreciation

Land is not depreciated. The depreciable amounts of all other plant and equipment is provided on a diminishing value basis. Leasehold improvements are depreciated on a straight-line basis over the lease term.

The useful lives for each class of assets are:

	2014	2013
motor vehicles	5 years	5 years
technical equipment	3-10 years	3-10 years
computer equipment	3 years	3 years
plant and equipment	7 years	7 years
office equipment	8 years	8 years
buildings	40 years	40 years
leasehold improvements	the lease term	the lease term

(h) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

Lease payments for operating leases are recognised as an expense on a straight-line basis over the term of the lease.

Finance leases

The consolidated entity currently has no finance leases.

(i) Joint venture operations

The consolidated entity's share of the assets, liabilities, revenues and expenses of joint operations are included in the respective items of the statements of financial performance and position. Details of the consolidated entity's interests are shown in Note 26.

(j) Exploration and evaluation costs

Costs arising from exploration activities are carried forward provided such costs are expected to be recouped through successful development or sale, or exploration activities have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. AASB 6 "Exploration for and Evaluation of Mineral Resources" requires that the company perform impairment tests on those assets when facts and circumstances suggest that the carrying amount may be impaired.

Exploration expenses are recognised net of exploration costs written off and rebate and grant income and joint operation contributions received. Rebate and grant income and joint operation contributions received in excess of net exploration costs are recognised as income.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

Amortisation

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(j) Exploration and evaluation costs (cont.)

Restoration costs

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, waste site closure, platform removal and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs that have been discounted to their present value. Any changes in the estimates are adjusted on a retrospective basis. In determining the restoration obligations, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration of such wells in the future.

(k) Payables

Liabilities for trade creditors and other amounts are recognised at amortised cost.

Payables to related parties are carried at fair value.

(l) Provision

Provisions are recognised when the consolidated entity has a legal, equitable or constructive obligation, as a result of past events, for which it is probable that an out flow of economic benefits will result and that outflow can be reliably measured.

(m) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the consolidated entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(n) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and that the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest

Control of the right to receive the interest payment.

Sale of investments

In respect of sales of fixed assets or investments (including creation of options), the proceeds arising from their sale are recognised when control of the asset is passed to the buyer

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

(o) Taxes

Income tax losses

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(o) Taxes (cont.)

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

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

Tax consolidation

The parent entity and its controlled entities have formed an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current and deferred tax assets arising in respect of tax losses for the tax consolidated group. The tax consolidated group has also entered a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(p) Employee benefits

Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employment benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

Employee benefit obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Long-term employee benefit obligations

The provision for employee benefits in respect of long service leave not expected to be settled within twelve months of the reporting date, are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Defined contribution superannuation fund

The consolidated entity makes contributions to defined contribution superannuation plans in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period as employee services are received.

Share-based payments

There is no formal share option plan. However, from time to time share options are granted and partly paid shares offered for subscription to directors, employees and consultants on a discretionary basis. The bonus element over the exercise price for the grant of shares and options is recognised as an expense in the Income Statement in the period(s) when the benefit is earned.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date.

(q) Third party share-based payments

Share-based payments are granted to third party consultants on a discretionary basis for services rendered. The bonus element over the exercise price for the grant of shares and options is recognised as an expense in the Statement of comprehensive income in the period(s) when the services were provided.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(r) Financial instruments

Classification

The consolidated entity classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, financial liabilities and compound financial instruments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the designation at each reporting date.

Financial assets at fair value through profit or loss

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

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

Loans and receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Held-to-maturity investments

Fixed term investments intended to be held to maturity are classified as held-to-maturity investments. These are measured at amortised cost using the effective interest rate method.

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Compound financial instruments

Compound financial instruments issued by the consolidated entity comprise converting notes that, while being able to be converted to share capital on a limited basis during the instrument's life by the note holder, must be converted to share capital at the end of the instrument's life.

The liability component of a compound financial instrument is initially recognised at the fair value of a comparable liability that does not have an equity conversion option. The equity component is initially recognised at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. All directly attributable transaction costs are allocated to the liability and equity component on a proportional bases.

After initial recognition, the liability component of the compound financial instrument will be measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured after initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised through equity, net of any tax benefit.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(s) New accounting standards and interpretations

Due to new or revised accounting standards which became operative for the annual reporting period commencing 1 January 2013, Lakes Oil N.L. has changed some of its accounting policies as described below.

(i) AASB 10 Consolidated Financial Statements

The consolidated financial statements are those of the consolidated entity ("the group"), comprising the financial statements of the parent entity and of all entities the parent control.

Under AASB 10, the group controls an entity where it has the power, for which the parent has exposure or rights to variable returns from its involvement with the entity, and for which the parent has the ability to use its power over the entities to affect the amount of its returns.

The group has applied AASB 10 retrospectively in accordance with the transition provisions. The group has determined that AASB 10 has no impact on the composition of the consolidated group. Therefore, no adjustments to any of the carrying amounts are required.

(ii) AASB 11 Joint Arrangements

Under AASB 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the rights and obligations of the parties to the arrangement, rather than the legal structure of joint arrangements.

If the parties share the right to the net assets of the joint arrangement, these parties are parties to a joint venture. A joint venturer accounts for an investment in the arrangement using the equity method, and the choice to proportionately consolidate is no longer permitted.

If the parties share the right to the separate assets and obligations for the liabilities of the joint arrangement, these parties are parties to a joint operation. A joint operator accounts for assets, liabilities and corresponding revenues and expenses arising from the arrangement by recognising their share of interest in each item.

The group has applied AASB 11 retrospectively in accordance with the transition provisions. The group has determined that AASB 11 has no impact on the composition or performance of the consolidated group. All joint interests in exploration licences are joint operations. Therefore, no adjustments to any of the carrying amounts are required.

(t) Comparatives

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

(u) Rounding amounts

The parent entity and the consolidated entity have applied the relief available under ASIC Class Order 98/0100 and accordingly, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(v) Accounting standards and interpretations Issued but not Operative at 30 June 2014

The following standards and interpretations have been issued at the reporting date but are not yet effective. The directors' assessment of the impact of these standards and interpretations is set out below.

(i) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosure and AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (effective from 1 January 2017)*

AASB 9 *Financial Instruments* improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. When adopted, the standard could change the classification and measurement of financial assets. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income for equity investments that are not held for trading. In the current reporting period, the consolidate entity recognised \$nil, in the comprehensive income in relation to the movements in the fair value of available for sale financial assets, which are not held for trading.

Most of the requirements for financial liabilities were carried forward unchanged. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. The consolidated entity does not have any financial liabilities that are designated at fair value through profit or loss. The new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss. Therefore, there will be no impact on the consolidated entity's accounting for financial liabilities.

In December 2013, new general hedge accounting requirements were incorporated into AASB 9. The new model aligns hedge accounting more closely with risk management, and will be easier to apply and reduce the costs of implementation. However, the new model requires extended disclosure. The standard is not applicable until 1 January 2017 but is available for early adoption. The consolidated entity has yet to assess the impact of new general hedge accounting model on its hedge arrangements. The consolidated entity has decided not to early adopt AASB 9 at 30 June 2014.

Other standards and interpretations, have been issued at the reporting date but are not yet effective. When adopted, these standards and interpretations are likely to impact on the financial information presented. However the assessment of impact had not yet been completed.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are based on past performance and management's expectation for the future.

The consolidated entity makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below.

(a) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) Employee benefits

Calculation of long term employment benefits requires estimation of the retention of staff, future remuneration levels and timing of the settlement of the benefits. The estimates are based on historical trends.

(c) Share based payments

Calculation of share based payments involving options requires estimation of the timing of the exercise of the underlying equity instrument. The estimates are based on historical trends and are calculated using the Black Scholes method.

(d) Deferred exploration expenditure

Exploration expenditure is carried forward when management expects that the expenditure can be recouped through successful development and exploration of the area of interest. In this event management will consider impairment of deferred exploration expenditure in accordance with Note 1(f) and 1(j).

Where there is ongoing commitment to exploration in the area of interest, and activities have not yet reached a stage which permits reasonable assessment to indicate successful development, the exploration expenditure is carried forward.

Where a farminee (A farminee is a joint operation partner which earns an interest in a tenement by funding the costs of appraisal, development or exploration) contributes towards exploration expenditure the exploration expenditure is deferred and then the deferred exploration expenditure is reduced by the value of the revenue received from the farminee.

(e) Provision for restoration costs

Restoration costs that are expected to be incurred are provided for as part of the cost of the deferred exploration expenditure. The costs include obligations relating to reclamation, waste site closure, platform removal and other costs associated with the restoration of the site. These costs are estimated and are based on the anticipated technology and legal requirements and future costs. These costs are also dependent on there being no significant changes to relevant federal and state legislation.

NOTE 3: FINANCIAL RISK MANAGEMENT

The consolidated entity's financial instruments consist mainly of deposits with banks, accounts receivable, payables and loans.

The consolidated entity does not have any derivative instruments.

Financial risks

The main risks the consolidated entity is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, market or price risk and credit risk.

Interest rate risk

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

The consolidated entity had no fixed interest bearing debt as at 30 June 2014 (2013: \$1 million). Cash deposits attract interest at the prevailing floating interest rate. There is no material exposure to interest rate risk.

Foreign currency risk

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

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

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The consolidated entity manages liquidity risk by forecasting and monitoring cash flows on a continuing basis.

The tables below represent the undiscounted contractual settlement terms for financial instruments and management expectations for settlement of undiscounted maturities.

	< 6 Months	6-12 Months	1-5 Years	Total contractual cash flows	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000
Year Ended 30 June 2014					
Cash & cash equivalents	3,262	-	-	3,262	3,262
Receivables	170	-	-	170	170
Other financial assets	22	-	-	22	22
Payables	(564)	-	-	(564)	(564)
Borrowings	-	-	-	-	-
Other financial liabilities	(109)	-	-	(109)	(79)
Net maturities	2,781	-	-	2,781	2,811
Year Ended 30 June 2013					
Cash & cash equivalents	6,659	403	403	7,465	7,465
Receivables	229	-	-	229	229
Other financial assets	-	-	22	22	22
Payables	(1,025)	-	-	(1,025)	(1,025)
Borrowings	(1,000)	-	-	(1,000)	(1,000)
Other financial liabilities	(403)	(403)	(403)	(1,209)	(918)
Net maturities	4,460	-	22	4,482	4,773

Market or price risk

Market or price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

NOTE 3: FINANCIAL RISK MANAGEMENT (cont.)

Sensitivity

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

	2014	2013
	\$'000	\$'000
<i>± 10% price variation</i>		
<i>Impact on profit after tax</i>	83	41
<i>Impact on equity</i>	83	41

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the consolidated statement of financial position and notes to the financial statements.

The consolidated entity does not have any material credit risk exposure to cash on hand or any single receivable or group of receivables under financial instruments entered into by the consolidated entity. This risk is managed by ensuring the consolidated entity only trades with parties that are able to trade on the consolidated entity's credit terms. Additionally cash at bank is held with a major Australian bank.

Fair values

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

NOTE 4: REVENUE

	2014 \$'000	2013 \$'000
Revenues from continuing operations		
Other revenue		
Interest - Other persons/corporations	55	88
	55	88
Other income		
Gain on sale of property plant & equipment	7	-
Tax Rebate – Research & Development	-	467
Other Income	17	17
	24	484

NOTE 5: LOSS FROM CONTINUING OPERATIONS

Loss from continuing operations before income tax has been determined after the following specific expenses:

(a) Employee benefits expense		
Wages and salaries	947	915
Superannuation costs	110	89
Expense of share – based payments	-	3
Other employee related costs	139	101
Total employee benefits expenses	1,196	1,108
(b) Depreciation of non-current assets		
Plant and equipment	1	1
Motor vehicles	16	9
Office equipment	2	2
Computer equipment	21	9
Leasehold Improvements	18	27
Buildings	9	10
Total depreciation expenses	67	58
(c) Other expenses from ordinary activities include:		
Travel and accommodation	146	94
Share registry costs and listing fees	128	337
Legal fees	193	364
Directors fees	265	283
Insurance premiums	157	173
Office expenses	330	266
	1,219	1,517
Less portion attributed to exploration permits capitalised	(329)	(389)
Total other expenses from ordinary activities	890	1,128
(d) Finance costs expensed		
Other loans	18	102
Converting notes	92	34
Bank fees & other	15	18
	125	154
(e) Specific items		

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

NOTE 6: INCOME TAX

(a) Components of tax expense:

	2014 \$'000	2013 \$'000
Current tax	-	-
Deferred tax	-	-
Under (over) provision in prior years	-	-
Total income tax expenses	<u>-</u>	<u>-</u>

(b) Income tax benefit

The prima facie tax on loss before income tax is reconciled to income tax benefit as follows:

Loss from ordinary activities	<u>(3,168)</u>	(2,953)
Prima facie tax benefit on loss from ordinary activities at 30%	<u>(950)</u>	(886)
Tax effect of (deductible)/non-deductible expenses	<u>154</u>	(43)
Add:		
Benefit of tax losses not brought to account	<u>494</u>	1,620
Income tax expense attributable to ordinary activities	<u>-</u>	<u>-</u>
Income tax losses		
Deferred tax assets arising from tax losses of the economic entity not brought to account at balance date as realisation of the benefit is not probable.	<u>20,640</u>	20,337

The amount of deferred tax assets which may be realised in the future is dependent on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will drive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law.

NOTE 7: RECEIVABLES

CURRENT

Trade debtors & joint operation receivables	98	74
GST receivable	18	22
Related Party debtors	54	133
	<u>170</u>	<u>229</u>

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

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

Trade and other receivables ageing analysis at 30 June is:

	Gross 2014 \$'000	Impairment 2014 \$'000	Gross 2013 \$'000	Impairment 2013 \$'000
Not past due	170	-	149	-
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	47	-
Past due more than 91 days	-	-	33	-
	<u>170</u>	<u>-</u>	<u>229</u>	<u>-</u>

(b) Related party receivables

Details of the terms and conditions of related party receivables are set out in Note 23.

NOTE 8: OTHER CURRENT ASSETS

	2014 \$'000	2013 \$'000
Prepayments	47	32
Accrued interest	2	21
	49	53

NOTE 9: OTHER FINANCIAL ASSETS

Current

Bonds and guarantees for property leases	22	22
	22	22

Terms and conditions

Terms and conditions relating to the above financial instruments

- (i) Bonds and guarantees for property leases are non-interest bearing and are refunded upon the termination of the lease contract.

NOTE 10: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

(a) Investments in listed securities at fair value through profit or loss comprise

Greenearth Energy Ltd.	828	414
	828	414

(b) Investments in controlled entities, unlisted, and carried at cost less impairment losses in the parent entity.

Name of Controlled Entity	Country of Incorporation	Percentage of equity interest held by the consolidated entity		Investment	
		2014 %	2013 %	2014 \$	2013 \$
Commonwealth Mining Pty. Ltd.	Australia	100%	100%	5	5
Geothermal Energy Victoria Pty. Ltd.*	Australia	100%	100%	1	1
The Gippsland Gas Corp. Pty. Ltd.	Australia	100%	100%	500	500
Gippsland Petroleum Pty. Ltd.	Australia	100%	100%	5	5
Mirboo Ridge Pty. Ltd.	Australia	100%	100%	10,062	10,062
Otway Resources Pty. Ltd.	Australia	100%	100%	1	1
Owens Lane Pty Ltd	Australia	100%	100%	2	2
Petro Tech Pty. Ltd.	Australia	100%	100%	722,101	722,101
Poolawanna Petroleum Pty Ltd.	Australia	100%	100%	500,000	500,000
Lakes Oil, Inc.	U.S.A.	100%	100%	460,021	460,021
Total investment				1,692,698	1,692,698
Impairment				(1,692,698)	(1,692,698)
Carrying value of investment				-	-

* - investment held by Petro Tech Pty Ltd

NOTE 11: PROPERTY PLANT AND EQUIPMENT

	2014 \$'000	2013 \$'000
<i>Plant and equipment</i>		
At cost	17	17
Accumulated depreciation	(13)	(12)
	<u>4</u>	<u>5</u>
<i>Motor vehicles</i>		
At cost	150	113
Accumulated depreciation	(64)	(73)
	<u>86</u>	<u>40</u>
<i>Office equipment</i>		
At cost	64	64
Accumulated depreciation	(44)	(42)
	<u>20</u>	<u>22</u>
<i>Computer equipment</i>		
At cost	332	283
Accumulated depreciation	(297)	(277)
	<u>35</u>	<u>6</u>
<i>Technical equipment</i>		
At cost	29	29
Accumulated depreciation	(28)	(28)
	<u>1</u>	<u>1</u>
<i>Leasehold Improvements</i>		
At cost	295	295
Accumulated depreciation	(260)	(242)
	<u>35</u>	<u>53</u>
<i>Land</i>		
At cost	2,118	2,118
Accumulated impairment losses	(435)	-
	<u>1,683</u>	<u>2118</u>
<i>Buildings</i>		
At cost	204	204
Accumulated depreciation	(68)	(59)
Accumulated impairment losses	(36)	-
	<u>100</u>	<u>145</u>
<i>Total land and buildings</i>		
At Cost	2,322	2,322
Accumulated depreciation	(68)	(59)
Accumulated impairment losses	(471)	-
	<u>1,783</u>	<u>2,263</u>
Total property, plant and equipment	<u>1,964</u>	<u>2,390</u>

(a) Valuations

The carrying values of freehold land, and buildings on freehold land have been based upon independent valuations obtained from Lee Property Valuers and Advisors on 4 September 2014. Such valuations were performed on an open market basis, being the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms' length transaction at valuation date.

(b) Impairment Loss

The accumulated impairment losses relates to freehold land and buildings on freehold land and are based on the independent valuations obtained from Lee Property Valuers and Advisors discussed in (a) above. The whole amount of the impairment losses has been included in Impairment of property, plant and equipment within the statement of comprehensive income, as there are was no amount in the asset revaluation surplus relating to the relevant assets. The recoverable amount of these assets was determined by fair value less costs to sell.

NOTE 11: PROPERTY PLANT AND EQUIPMENT (cont.)

Reconciliations

Reconciliation of the carrying value of plant and equipment at the beginning and end of the current and previous financial year.

	2014 \$'000	2013 \$'000
<i>Plant and equipment:</i>		
Carrying amount at beginning	5	6
Additions	-	-
Depreciation	(1)	(1)
	<u>4</u>	<u>5</u>
<i>Motor vehicles</i>		
Carrying amount at beginning	40	49
Additions	69	-
Depreciation	(16)	(9)
Disposals	(7)	-
	<u>86</u>	<u>40</u>
<i>Office equipment</i>		
Carrying amount at beginning	22	21
Additions	-	3
Depreciation	(2)	(2)
	<u>20</u>	<u>22</u>
<i>Computer equipment</i>		
Carrying amount at beginning	6	14
Additions	50	1
Depreciation	(21)	(9)
	<u>35</u>	<u>6</u>
<i>Technical equipment</i>		
Carrying amount at beginning	1	1
Depreciation	-	-
	<u>1</u>	<u>1</u>
<i>Leasehold</i>		
Carrying amount at beginning	53	80
Additions	-	-
Depreciation	(18)	(27)
	<u>35</u>	<u>53</u>
<i>Land</i>		
Carrying amount at beginning	2,118	2,118
Additions	-	-
Impairment	(435)	-
	<u>1,683</u>	<u>2,118</u>
<i>Buildings</i>		
Carrying amount at beginning	145	165
Additions	-	-
Depreciation	(9)	(10)
Impairment	(36)	-
	<u>100</u>	<u>145</u>
<i>Total Land and Buildings</i>		
Carrying amount at beginning	2,263	2,273
Additions	-	-
Depreciation	(9)	(10)
Impairment	(471)	-
	<u>1,783</u>	<u>2,263</u>

NOTE 12: DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

	2014 \$'000	2013 \$'000
Exploration and evaluation costs carried forward in respect of mining areas of interest:		
Pre-production - exploration and evaluation phases		
Balance at the beginning of the year brought forward	50,896	50,859
Add: net expenditure incurred during the year	989	4,009
Less: amounts offset arising from joint operations partner contributions and research and development tax concessions	(1,662)	(3,972)
Less: net expenditure written off during the year	(75)	-
Total exploration and evaluation costs carried forward	<u>50,148</u>	<u>50,896</u>

Reconciliation of total exploration and evaluation costs carried forward by Permit

Permit name	Location/ (basin name)		
PEP 163	Otway	1,262	1,260
PEP 169 [^]	Otway	86	-
PRL 2 – Overall Permit [^]	Gippsland	35,133	34,768
PRL 2 – Trifon Field [^]	Gippsland	-	-
PRL 3	Gippsland	2,101	2,099
PEP 166 [^]	Gippsland	7,141	8,523
Eagle Prospect	California USA	3,811	3,776
EL5333	Gippsland	99	104
EL5334	Gippsland	20	18
EL5394	Gippsland	23	21
Permit Applications Pending	Various	172	27
Provision for Restoration Costs		300	300
		<u>50,148</u>	<u>50,896</u>

[^] These areas are subject to agreements, farminee rights and option agreements as described in Note 26

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective permit areas.

NOTE 13: PAYABLES (Current)

Trade creditors	433	889
Deferred revenue	100	100
Other creditors	31	36
	<u>564</u>	<u>1,025</u>

(a) Terms and conditions

Terms and conditions relating to the above financial instruments:

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

(b) Related party payables

Details of the terms and conditions of related party payables are set out in Note 23.

NOTE 14: BORROWINGS (Current)

	2014	2013
	\$'000	\$'000
Mortgage	-	1,000

(a) Terms and conditions

In August 2012 a Lakes Oil NL fully owned subsidiary entered into a mortgage over land that it had purchased. This mortgage was for \$1 million. Interest was fixed and the principal was repaid in August 2013. Lakes Oil NL was guarantor for this mortgage.

NOTE 15: CONVERTING NOTES

Current		
Fair value of future interest payable	79	642
Non current		
Fair value of future interest payable	-	276

The listed unsecured converting notes issued by Lakes Oil NL in the year are compound financial instruments. The liability component of these notes is initially recognised at the fair value of a comparable liability that does not have an equity conversion option. After initial recognition, the liability component of the compound financial instrument will be measured at amortised cost using the effective interest method.

For additional information on converting notes Refer Note 17(c).

NOTE 16: PROVISIONS

Current		
Employee benefits	264	242
Non current		
Employee benefits	15	8
Restoration costs (a)	300	300
	315	308
(a) Restoration Costs		
Opening Balance	300	300
Amounts Provided	-	-
Amounts Used	-	-
	300	300

NOTE 17: CONTRIBUTED CAPITAL

(a) Issued and paid up share capital

	2014 \$'000	2013 \$'000
Ordinary shares fully paid, 10,144,088,039 (2013:7,208,868,039) shares.	(i) 105,192	100,073
Other rights to ordinary shares	(b) 192	192
	105,384	100,265

(i) Movements in shares on issue

	2014		2013	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of the financial year	7,208,868,039	100,073	6,927,128,039	99,521
Issued during the year				
- public equity raising /placement	-	-	5,000,000	25
- conversion of converting notes	2,935,220,000	4,706	276,740,000	444
- add present value of interest returned on early conversion of converting notes	-	413	-	83
- less share issue costs	-	-	-	-
End of the financial year	10,144,088,039	105,192	7,208,868,039	100,073

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a company meeting.

(a) Other rights to ordinary shares – partly paid

	2014		2013	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of the financial year	191,500,000	192	191,500,000	192
Issued during the year				
- Partly paid shares	-	-	-	-
End of the financial year	191,500,000	192	191,500,000	192

The issuance of partly paid shares has replaced the issuance of options as a component of the remuneration strategy.

No partly paid shares were issued during the year or in the previous year.

In the year 60,000,000 unquoted partly paid shares, held by officers and employees of the consolidated entity who had ceased their employment, were called. No calls were received in respect of these partly paid shares by the required date and these shares were offered for sale by public auction in January 2014. None of these shares were sold at auction. These shares were not cancelled and the consolidated entity will now proceed to dispose of them in such a manner as permitted by the Corporation Act and its Constitution.

NOTE 17: CONTRIBUTED CAPITAL (cont.)

(a) Converting Notes

	2014	2013
	\$'000	\$'000
Converting Notes 219,010 (2013: 806,054)	1,756	6,462
	1,756	6,642

(i) Movements in converting notes on issue

	2014		2013	
	Number of notes	\$'000	Number of notes	\$'000
Beginning of the financial year	806,054	6,462	-	-
Issued during the year				
- public equity raising	-	-	861,402	7,214
- conversion of converting notes	(587,044)	(4,706)	(55,348)	(444)
- less note issue costs	-	-	-	(308)
End of the financial year	219,010	1,756	806,054	6,462

Converting Notes

No converting notes were issued during the year. In the year to June 2013 the company issued 861,402 listed unsecured converting notes for \$10 per note.

These notes were issued under a "limited disclosure" section 713 prospectus under the *Corporations Act 2001 (Cth)* dated 23 October 2012. Interest is payable half yearly at the rate of 50 cents per note, with the last payment due on 30 November 2014 equating to 10% per annum interest rate.

The maturity date (when conversion into shares occurs) is 30 November 2014. These notes did offer early conversion opportunities to noteholders, but there are no more early conversion opportunities available. Notes will also convert in the case of a change in control at 0.2 cents per share. The notes are not redeemable by Lakes Oil NL.

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

There is no additional payment required upon conversion.

During the year 587,044 (2013: 55,348) notes were converted into 2,935,220,000 fully paid ordinary shares (2013 276,740,000).

At the end of the year there were 219,010 converting notes on issue (2013: 806,054). These will convert into 1,095,050,000 fully paid ordinary shares at 5,000 shares per note, unless the maximum uplift factor of 6,667 applies in which case the notes will convert into 1,460,139,670 fully paid ordinary shares.

Future interest payable on the 219,010 notes on issue at the end of year is \$109,505 which is held on trust by the Trust Company (Australia) Limited for the holders of notes and for their benefit for the payment of all future interest payments.

NOTE 17: CONTRIBUTED CAPITAL (cont.)

(d) Share options

Issued to directors and staff

(i) *Options held at the beginning of the reporting period*

No options were held by directors and staff as at 1 July 2013.

(ii) *Options granted during the period*

No options were granted during the financial year.

(iii) *Options exercised*

No options were exercised by staff or directors during the financial year.

(iv) *Options expired*

No options expired during the financial year.

(v) *Options held as at the end of the reporting period*

No options were held by directors and staff at 30 June 2014:

(e) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as ensuring there are sufficient funds to meet exploration commitments, which is performed via monitoring of historical performance and cashflow forecasts.

NOTE 18: RESERVES AND ACCUMULATED LOSSES

	2014 \$'000	2013 \$'000
Employee equity benefits reserve (a)	-	-
Accumulated losses (b)	51,448	48,751
(a) Employee equity benefits reserve		
Nature and purpose of reserve		
This reserve represents the fair value of options that is attributable up to 30 June 2014 granted to staff and directors as detailed in Note 17.		
Movement in reserve		
Balance at beginning of year	-	27
Share based payments	-	3
Options expired	-	(30)
Balance at end of year	-	-
Total Reserves	-	-
(b) Accumulated losses		
Balance at the beginning of the year	48,751	45,828
Net loss attributable to members of Lakes Oil NL	3,168	2,953
Values of options expired in year - transferred from equity reserves	-	(30)
Balance at the end of the year	51,919	48,751

NOTE 19: CASH FLOW INFORMATION

	2014 \$'000	2013 \$'000
(a) Reconciliation of cash flow from operations with operating loss after income tax		
Net loss from ordinary activities after income tax	(3,168)	(2,953)
Non-Cash Items		
Depreciation of plant and equipment	67	58
(Gain)/Loss on fair value of investments held	(414)	207
(Gain) on sale of fixed assets	(7)	-
Impairment of property, plant and equipment	471	-
Non-cash payments – shares issued in lieu of cash for services	-	25
Non-cash interest	92	32
Employee equity share based payments	-	3
Changes in assets and liabilities		
Decrease/(Increase) in exploration and evaluation costs carried forward	748	(37)
Decrease/(Increase) in receivables	59	1,543
Decrease/(Increase) in other current assets	4	(13)
Increase/(Decrease) in payables	(462)	(1,736)
(Decrease)/Increase in employee benefit provisions	29	40
Net cash flows used in operating activities	(2,581)	(2,831)

NOTE 19: CASH FLOW INFORMATION (cont.)

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position is as follows:

	2014 \$'000	2013 \$'000
Cash at bank	3,261	7,464
Cash on hand	1	1
Closing cash balance	<u>3,262</u>	<u>7,465</u>

Included in the cash at bank figure is \$ 206,000 (2013: \$1,286,000) held on trust by the Trust Company (Australia) Limited for the holders of listed unsecured converting notes and for their benefit for the payment of all future interest payments. These funds are restricted funds. Of the \$206,000 held in trust \$109,505 will be paid as interest to noteholders. The balance will revert to the company upon the termination of the Trust.

NOTE 20: LOSS PER SHARE

Net loss	(3,168)	(2,953)
Adjustments:		
- nil		
Loss used in calculating basic and diluted earnings per share	(3,168)	(2,953)
Weighted average number of ordinary shares on issue used in calculating basic earnings per share	8,819,338,286	6,945,922,011
Effect of dilutive securities:		
- Partly Paid Shares	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	8,819,338,286	6,945,922,011
Basic loss per share (cents per share)	(0.04)	(0.04)
Diluted loss per share (cents per share)	(0.04)	(0.04)

Outstanding options and converting notes are not considered to be dilutive when converted to ordinary shares because they would decrease the loss per share. There are no options held at the end of the reporting period

Conversion, calls, subscriptions or issues after 30 June 2014

There have been no conversions, call, subscriptions or issues of capital since 30 June 2014.

NOTE 21: COMMITMENTS

(a) Lease expenditure commitments

	2014 \$'000	2013 \$'000
Operating leases (non-cancellable)		
Minimum lease payments		
- not later than one year	6	217
- later than one year and not later than five years	6	13
Aggregate lease expenditure contracted for at reporting date	<u>12</u>	<u>230</u>

These commitments represent payments due for leased premises and office equipment under non-cancellable operating leases.

(b) Bank guarantees in relation to rental premises and exploration permits

Maximum amount bank may call	<u>297</u>	<u>297</u>
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(c) Exploration commitments

The consolidated entity retains interests in exploration tenements via direct ownership and participation in joint operations. To continue these interests a work program is maintained in each tenement for various periods up to five years. The work programs have minimum expenditure requirements and carry no formal commitments or legal obligations but are an indication of the tasks required to be completed to retain the permit.

The current estimated expenditure to carry out all of the planned work programs across all tenements in the period to 30 June 2015 is \$0.3m. The final cost to the consolidated entity is uncertain as it will be dependent on the extent of the works actually undertaken, the negotiated costs and whether or not the consolidated entity is able to secure contributions from other parties such as a farminee (A farminee is a joint operation partner who earns an interest in a tenement by funding the costs of appraisal, development or exploration).

(d) Contingent assets & liabilities

There were no contingent assets or liabilities outstanding at reporting date, nor were there any contingent assets or liabilities at the end of the previous financial year.

NOTE 22: AUDITOR'S REMUNERATION

Amounts paid and payable to Pitcher Partners for

- An audit or review of the financial report of the entity and any other entity in the consolidated entity	70	75
- Other non-audit services		
- Taxation services	17	34
Total remuneration of Pitcher Partners	<u>87</u>	<u>109</u>

NOTE 23: RELATED PARTY DISCLOSURES

(i) Ultimate parent

Lakes Oil NL is the ultimate Australian parent entity.

(ii) Director-related entity

Greenearth Energy Limited is a director-related entity of Lakes Oil NL which is a substantial shareholder of Greenearth Energy Limited with a 6.98% share interest.

(iii) Wholly-owned group transactions

As at 30 June 2014, an amount of \$50,775,772 before impairment provision (2013: \$50,362,964) was receivable by Lakes Oil NL from its various controlled entities (refer Note 10). The loans are unsecured and interest free.

(iv) Other related party transactions

Receivables

During the financial year, and in previous financial years, Lakes Oil NL settled accounts with consultants and contractors on behalf of Greenearth Energy Limited. As at 30 June 2014 an amount of \$54,135 (2013: \$133,984) was receivable from Greenearth Energy Limited.

(v) Director transactions

During the financial year an amount of \$Nil excluding GST (2013: \$20,416) was paid or was due and payable by Lakes Oil NL to companies associated with Mr. R.J. Annells, a Director of Lakes Oil NL, in respect of consulting services provided by him to the consolidated entity. These transactions are disclosed in the Remuneration Report.

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

Two of the Directors of Lakes Oil NL Nicholas Mather and William Stubbs, are Directors of Armour Energy Ltd. Matthew Stubbs, an Alternate Director of Lakes Oil NL until his resignation on 26 August 2014, was an Alternate Director of Armour Energy at various times from May 2012 to July 2013. Robbert de Weijer, an Alternate Director for Mr Mather and Mr Stubbs, of Lakes Oil NL, appointed on 5 June 2014 is the CEO of Armour Energy Ltd. Armour Energy Ltd is party to an agreement with Lakes Oil NL as described in Note 26.

(vi) Loans to key management personnel

There are no loans made by Lakes Oil NL to key management personnel or any related party.

(vii) Key management personnel - compensation by category

	2014	2013
	\$	\$
Short term employment benefits	1,067,095	984,610
Non monetary benefits	5,000	4,750
Post employment benefits	154,473	98,266
Share based payments	-	1,332
	1,226,568	1,088,958

NOTE 24: SEGMENT INFORMATION

The consolidated entity has two reportable segments as described below:

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

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

2014	Segment 1 \$'000	Segment 2 \$'000	Total \$'000
Segment revenue			
Total segment revenue	24	-	24
Revenue from external source	24	-	24
Segment result			
Total segment result	(3,570)	414	(3,156)
Segment result from external source	(3,570)	414	(3,156)
Interest revenue			55
Depreciation and amortisation			(67)
Loss before income tax			(3,168)
2013			
	Segment 1 \$'000	Segment 2 \$'000	Total \$'000
Segment revenue			
Total segment revenue	484	-	484
Revenue from external source	484	-	484
Segment result			
Total segment result	(2,776)	(207)	(2,983)
Segment result from external source	(2,776)	(207)	(2,983)
Interest revenue			88
Depreciation and amortisation			(58)
Loss before income tax			(2,953)

All segment revenue is derived in Australia.

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

All assets and liabilities on the statement of financial position are based in Australia, with the exception of a Segment 1 Non-Current Asset, being Deferred Exploration, Evaluation and Developments Costs for Eagle Prospect, a permit in the USA. This asset is disclosed in Note 12.

(i) Reconciliation of segment revenue from external source to the consolidated statement of comprehensive income

	2014 \$'000	2013 \$'000
Segment revenue from external source	24	484
Interest revenue	55	88
Total revenue	79	572

NOTE 25: SUBSEQUENT EVENTS

Conditional letters of intent to supply gas

In July 2014 the consolidated entity announced that it had signed letters of intent to supply Victorian gas from its Gippsland, Wombat Field to Simplot Australia PL and to Dow Chemical (Australia) Limited. Both letters of intent were for a period of 10 years' supply of gas. The supply is subject to the execution of formal supply agreements, final commercialisation of the Wombat Field together with the lifting of the Victorian State Government's moratorium on onshore natural gas exploration.

Acquisition of PEP167 and PEP175 – Otway Basin, Victoria

In July 2014 the consolidated entity announced that it had entered into an agreement with Bass Strait Oil Company Limited to acquire 100% equity in PEP167 and PEP175. These permits are in the Otway Basin, Victoria and the acquisition was subject only to the approval of the regulatory authorities. Acquisition of these permits was completed in September 2014 for consideration of \$300,000 ex GST.

Acquisition of Permits in the Cooper/Eromanga Basin

In July 2014 the consolidated entity announced that it is in the process of acquiring two permits in Queensland, ATP642P and ATP662P in the Cooper/Eromanga Basin. Acquisition of these permits was completed in August 2014 by the purchase of 100% of the entities holding interests in the permits. The consideration was \$1,000,000 plus \$128,000 of costs incurred by the vendor to secure the permits to the date of the sale agreement. The acquisition price identified represents the consolidated entity's assessment of the underlying value of the exploration permits.

Operating lease agreement

In August 2014 the consolidated entity completed a heads of agreement to lease its existing premises for a period of 4 years.

Partly paid shares - call

In September 2014 the company, under the terms of issue, called 131,500,000 partly paid shares held by officers and employees. These are 1.5 cent shares, paid to 0.1 cents and payment of the outstanding 1.4 cents per share is required before 30 September 2014 to avoid forfeiture. There is no obligation by the holders for these shares to be paid. At the date of the call company shares were trading at 0.4 cents per share.

NOTE 26: INTEREST IN PERMITS

As at 30 June 2014, the consolidated entity held interests in various unincorporated joint operations. Apart from its share of the exploration permits which are the subject of the operations, the consolidated entity has no interest in any other joint operation assets. As at balance date, the consolidated entity had no outstanding amounts owing in respect of its joint operations.

At 30 June 2014, the petroleum and mineral permits in which the consolidated entity had an interest are as follows:

Joint Operation or Permit name	Location (basin name)	Registered holder	Group interest	
			2014	2013
PEP 163	Otway	Mirboo Ridge Pty Ltd	100.00%	100.00%
PEP 169	Otway	Mirboo Ridge Pty Ltd	49.00%	49.00%
PRL 2–Overall Permit*	Gippsland	Petro Tech Pty. Ltd.	100.00%	85.00%
PRL 2–Trifon Field*	Gippsland	Petro Tech Pty. Ltd.	57.50%	42.50%
PRL 3	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PEP 166	Gippsland	Petro Tech Pty. Ltd	75.00%	75.00%
Eagle Prospect	California USA	Lakes Oil, Inc.	17.79%	17.79%
EL5333	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%
EL5334	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%
EL5394	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%

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

* In the year Beach Energy Ltd and Somerton Energy (now Cooper Energy) Ltd formally withdrew from their farm-in agreement over PRL2 and their interests were reassigned to Petrotech Pty Ltd, giving Petrotech Pty Ltd a 100% interest in PRL2–Overall Permit and a 57.5% interest in PRL2–Trifon Field. (Refer to Note 25 for more information). Armour Energy Ltd had a period of 6 months, until February 2014, to match any other farm-in proposal in respect of PRL2 from any third party or in any event to match the terminated agreement with Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited. In December 2013 the consolidated entity received notice from Armour Energy Ltd purporting to exercise these matching rights. These matching rights relate, amongst other things to the Phase 1 fracture stimulation of 2 wells incurring up to \$10 million of expenditure which unfortunately will be prohibited during the currently imposed moratorium on on-shore natural gas exploration. The parties have reserved their rights in this matter which is yet to be determined. Jarden Corporation Australia P/L currently has a 42.5% interest in PRL2–Trifon Field. Armour Energy Ltd has been granted a 3 year option (Option) to acquire 50 % of Lakes Oil's interests in the Trifon and Gangell blocks, and a direct 25% interest in the remainder of PRL2, for a total payment of \$30 million. The Option has a maximum lifetime value of \$0.6 million. Option fees received are treated as deferred revenue until the Option exercises or lapses. The life of this option has been extended while the moratorium is in place.

NOTE 27: PARENT ENTITY INFORMATION

As at, and throughout the financial year ended 30 June 2014, the parent company of the consolidated entity was Lakes Oil NL

	Parent Entity	
	2014 \$'000	2013 \$'000
Summarised Statement of Comprehensive Income		
Loss for the year after tax	(2,701)	(2,869)
Other comprehensive Income	-	-
Total Comprehensive Income for the year	(2,701)	(2,869)
Summarised Statement of Financial Position of the Parent Entity at Year End		
Current Assets	50,001	53,600
Non-Current Assets	851	806
Total Assets	50,852	54,406
Current Liabilities	888	1,886
Non-Current Liabilities	15	284
Total Liabilities	903	2,170
Net Assets	49,949	52,236
Total equity of the parent entity comprising:		
Share capital – ordinary shares	105,384	100,265
Share capital – converting notes (\$10)	1,756	6,462
Total Share Capital	107,140	106,727
Reserves	-	-
Retained Earnings	(57,191)	(54,491)
Total Equity	49,949	52,236

In August 2012 a Lakes Oil NL fully owned subsidiary entered into a mortgage over land that it had purchased. This mortgage was repaid in August 2013. This mortgage was for \$1 million and interest was fixed. Lakes Oil NL was guarantor for this mortgage.

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 34 to 66 in accordance with the Corporations Act 2001:

- (a) Complying with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;
- (b) As stated in note 1(a), the consolidated financial statements also comply with International Financial Reporting Standards; and
- (c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2014 and of its performance for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Lakes Oil NL will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ending 30 June 2014.

This declaration is made in accordance with a resolution of the directors.



ROBERT J. ANNELLS
Chairman

Signed at Melbourne, Victoria
30 September 2014

LAKES OIL N.L.
ABN 62 004 247 214
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
LAKES OIL N.L.

Report on the Financial Report

We have audited the accompanying financial report of Lakes Oil N.L. and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

LAKES OIL N.L.
ABN 62 004 247 214
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
LAKES OIL N.L.

Opinion

In our opinion:

- (a) the financial report of Lakes Oil N.L. is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter

The Directors have prepared the financial report on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity incurred an operating loss after income tax expense for the year ended 30 June 2014 of \$3.1 million (2013: \$2.9 million) and at the reporting date had net assets of \$55.2 million (2013: \$57.9 million) including \$50.0 million (2013: \$50.9 million) of deferred exploration, evaluation and development.

The Directors forecast cash flow requirements to meet the consolidated entity's obligations and forecast expenditure has resulted in the recognition that additional funding is required over the next twelve months.

Subsequent to the period the entity has sought to address the cash requirements by:

- Commencing the process of accessing additional equity or financial instruments funding, however at the date of this report had not reached any decision on raising additional capital.
- Continuing to pursue opportunities to negotiate pre-paid gas supply contracts however at the date of this report no agreements have been signed.
- Continuing to pursue opportunities to farm-out part of the consolidated entity's exploration interests, however at the date of this report no agreements have been signed.
- Securing finance by secured mortgage over one of the consolidated entity's properties, however at the date of this report no agreements have been signed.

The consolidated entity's ability to continue as a going concern and meet its commitments as they fall due is dependent on its ability to raise sufficient funding.

LAKES OIL N.L.
ABN 62 004 247 214
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
LAKES OIL N.L.

The financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the economic entity be unable to continue to raise sufficient funding.

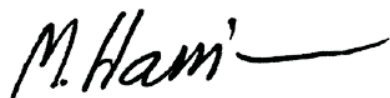
If the going concern basis of accounting is found to be no longer appropriate, the recoverable amounts of the assets shown in the Balance Sheet are likely to be significantly less than the amounts disclosed and the extent of the liabilities may differ significantly from those reflected in the Balance Sheet.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 28 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Lakes Oil N.L. and controlled entities for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.



M J HARRISON
Partner

30 September 2014



PITCHER PARTNERS
Melbourne

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ASX SUPPLEMENTARY INFORMATION

The following information is provided pursuant to Australian Securities Exchange Limited (“ASX”) Listing Rule 4.10.

ISSUED CAPITAL

Lakes Oil NL’s issued capital comprised

- (a) fully paid ordinary shares
- (b) Partly paid ordinary shares at a price of 1.5 cents each paid to 0.1 cents. The shares are to be paid in full at any time up to and including 30 September 2014 subject to certain terms and conditions. The partly paid shares will be forfeited if the unpaid amount remains unpaid at that date but the holder does not remain liable to pay the unpaid amount.
- (c) listed unsecured converting notes issued at \$10 per note

Fully paid ordinary shares

Substantial shareholders

One shareholder, Armour Energy Ltd holds 19.85% of the issued fully paid ordinary shares. Timeview Enterprises PL holds 17.25% of the issued fully paid ordinary shares. No other shareholder has 5% or more of the issued capital.

Distribution of fully paid ordinary shares

Lakes Oil NL’s Register of Shareholders of fully paid ordinary shares at 15 September 2014 disclosed a total of 11,786 shareholders. The distribution of these shareholdings is tabled below.

Category of shareholders	Number of shareholders	Number of shares held	Percentage of total
1 - 1,000	353	108,480	0.00
1,001 - 5,000	228	739,951	0.01
5,001 - 10,000	425	3,708,184	0.04
10,001 - 100,000	4,266	226,354,286	2.26
100,001 - and over	6,514	9,913,177,138	97.69
	11,786	10,144,088,039	100.00

The number of shareholders that held less than a “marketable parcel” of shares (being 166,667 shares) was 6,466. These shareholders held a total of 389,701,437 fully paid ordinary shares in the company as at that date, representing approximately 3.84% of the total issued share capital of the company as at that date.

Voting rights – fully paid ordinary shares

Subject to the rights or restrictions attached to any shares, on a show of hands every Member present at a general meeting in person or by proxy or attorney or by his or her duly appointed representative shall have one vote.

Quotation of securities – fully paid ordinary shares

Lakes Oils NL’s fully paid ordinary shares are included on the Official List of the Australian Securities Exchange Limited (code: LKO).

ISSUED CAPITAL (cont.)

Fully paid ordinary shares (cont.)*Twenty largest shareholders of fully paid ordinary shares as at 15 September 2014*

Rank	Shareholder	Shares held	Percentage of capital
1	Armour Energy Ltd	2,014,000,000	19.85
2	Timeview Enterprises Pty Ltd	1,750,000,000	17.25
3	Encounter Bay Pty Ltd	77,245,000	0.76
4	Mr Jerry Hui Kang Gao	46,000,000	0.45
5	Mr Bertram Thompson	38,000,000	0.37
6	Mr David Corley	37,506,000	0.37
7	JBWere (NZ) Nominees Limited<43941 A/c>	35,235,901	0.35
8	PBL Investments Pty Ltd<Peter Begg Lawrence S/F A/C>	33,500,000	0.33
9	Micallef Plumbing Industries Pty Ltd	26,826,513	0.26
10	Sutton Nominees Pty Ltd<W M Gatacre Family Fund A/C>	25,000,000	0.25
11	Mr Robert John Annells,< RJ Annells Super Fund A/C>	24,750,000	0.24
12	J P. Morgan Nominees Australia Limited	23,911,799	0.24
13	Dunluce Superfund Pty Limited<Dunluce Private S/F A/C>	22,968,056	0.23
14	Mr Edwin Francis Duurland	22,615,250	0.22
15	Mr Alfred Otto Kuehne	22,000,000	0.22
16	T Penny Superannuation Fund Pty Ltd<T Penny Super Fund A/C>	21,833,924	0.22
17	Jarden Custodians Ltd	21,000,000	0.21
18	Marew Enterprises Pty Ltd<Parr Family A/c>	21,000,000	0.21
19	Mr Andrew William Arbon + Mrs Suzanne Ruth Arbon	20,000,000	0.20
20	Mr Basil Catsipordas	20,000,000	0.20
		4,303,392,443	42.43

ISSUED CAPITAL (cont.)

Partly paid shares

Lakes Oil NL has also issued partly paid shares. There are 191,500,000 partly paid shares on issue. These shares were issued at a price of 1.5 cents each paid to 0.1 cents and are to be paid in full at any time up to and including 30 September 2014 subject to certain terms and conditions. The partly paid shares will be forfeited if the unpaid amount remains unpaid at that date but the holder does not remain liable to pay the unpaid amount. At general meetings, on a poll every Member present in person or by proxy or attorney or by duly authorised representative has a fraction of a vote for every partly paid share equivalent to the proportion which the amount paid up bears to the total issue price of the share. Subject to the rights or restrictions attached to any shares, on a show of hands every Member present at a general meeting in person or by proxy or attorney or by his or her duly appointed representative shall have one vote.

In August 2013 Lakes Oil NL, under the terms of issue, called 60,000,000 partly paid shares, held by former officers and employees. There was no obligation by the holders for these shares to be paid and the shares were forfeited and offered for sale by public auction in January 2014. None of these share were sold at auction. These shares were not cancelled and Lakes Oil NL will now proceed to dispose of them in such a manner as permitted by the Corporations Act and its Constitution.

In September 2014 Lakes Oil NL, under the terms of issue, called 131,500,000 partly paid shares held by officers and employees. These are 1.5 cent shares, paid to 0.1 cents and payment of the outstanding 1.4 cents per share is required before 30 September 2014 to avoid forfeiture. There is no obligation by the holders for these shares to be paid. At the date of the call Lakes Oil NL shares were trading at 0.4 cents per share.

The shares are not quoted on the official List of the Australian Securities Exchange Limited.

ISSUED CAPITAL (cont.)

Unsecured converting notes

Lakes Oil NL issued 861,402 listed unsecured converting notes in the year to June 2013 for \$10 per note.

These notes were issued under a "limited disclosure" section 713 prospectus under the *Corporations Act 2001 (Cth)* dated 23 October 2012. Interest is payable half yearly at the rate of 50 cents per note, with the last payment due on 30 November 2014 equating to 10% per annum interest rate.

The maturity date (when conversion into shares occurs) is 30 November 2014. These notes did offer early conversion opportunities to noteholders, but there are no more early conversion opportunities available. Notes will also convert in the case of a change in control at 0.2 cents per share. The notes are not redeemable by Lakes Oil NL.

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

There is no additional payment required upon conversion.

During the year 587,044 (2013: 55,348) notes were converted into 2,935,220,000 fully paid ordinary shares (2013: 276,740,000).

At the end of the year there were 219,010 converting notes on issue (2013: 806,054). These will convert into 1,095,050,000 fully paid ordinary shares at 5,000 shares per note, unless the maximum uplift factor of 6,667 applies in which case the notes will convert into 1,460,139,670 fully paid ordinary shares.

Future interest payable on the 219,010 notes on issue at the end of year is \$109,505 which is held on trust by the Trust Company (Australia) Limited for the holders of notes and for their benefit for the payment of all future interest payments.

Substantial noteholders

Only two noteholders hold more than 5% of the issued notes. Timeview Enterprises Pty Ltd hold 34.25% and Armour Energy Ltd holds 10.14% of the issued notes.

Distribution of listed unsecured converting notes

Lakes Oil NL's Register of note holders at 15 September 2014 disclosed a total of 469 noteholders. The distribution of these noteholdings is tabled below.

Category of noteholders	Number of noteholders	Number of notes held	Percentage of total
1 - 1,000	449	82,065	37.47
1,001 - 5,000	18	39,745	18.15
5,001 - 10,000	-	-	-
10,001 - 100,000	2	97,200	44.38
100,001 - and over	-	-	-
	469	219,010	100.00

Voting rights – listed unsecured converting notes

Noteholders have no voting rights

ISSUED CAPITAL (cont.)

Unsecured converting notes (cont.)

Quotation of securities – listed unsecured converting notes

Lakes Oil NL's listed unsecured converting notes are included on the Official List of the Australian Securities Exchange Limited (code: LKOG).

Twenty largest holders of unsecured converting notes as at 15 September 2014

Rank	Noteholder	Notes held	Percentage of capital
1	Timeview Enterprises Pty Ltd	75,000	34.25
2	Armour Energy Ltd	22,200	10.14
3	Mr Gary Flanigan + Mrs Helen Flanigan<GR & HM Flanagan S/F A/C>Encounter Bay Pty Ltd	5,000	2.28
4	Dunluce Superfund Pty Limited<Dunluce Private S/F A/C>	4,797	2.19
5	Dymax Consultants Pty Ltd <Dymax Directors S/Fund A/c>	2,801	1.28
6	Mr Albert Leopold Koeleman	2,500	1.14
7	Mr Peter Fabian Hellings	2,450	1.12
8	Mr Ronald Harold Thorn	2,445	1.12
9	Statemoor Pty Ltd,Peters Family A/C>	2,300	1.05
10	T Penny Superannuation Fund Pty Ltd<T Penny Super Fund A/C>	2,184	1.00
11	Mr Chris Gallagher	2,000	0.91
12	Mr Albert Leopold Koeleman + Mr Gerard Antony Koeleman<Leo K Super Fund A/C>	2,000	0.91
13	Marew Enterprises Pty Ltd<Parr Family A/C>	2,000	0.91
14	Selstock Pty Limited<Superannuation Fund A/C>	2,000	0.91
15	Ginjat Pty Ltd<Syme Family S/F A/C>	1,918	0.88
16	Sims Ridge Super Co Pty Ltd<HJ & KJ RIJS Super Fund A/C>	1,600	0.73
17	Mr Max Sims Breadmore + Mr Andrew Max Breadmore,<Estate L J Breadmore A/c>	1,350	0.62
18	Mr Peter Begg Lawrence	1,200	0.55
19	Pinegold Pty Ltd<Greg Runge Family S/F A/C>	1,200	0.55
20	C A B Nominees Pty Ltd <Fourway A/c>	1,000	0.46
		137,945	63.00

INTEREST IN PERMITS

At 15 September 2014, the petroleum and mineral permits in which the consolidated entity had an interest are as follows:

Joint Operation or Permit name	Location (basin name)	Registered holder	Group interest	
			2014	2013
PEP 163	Otway	Mirboo Ridge Pty Ltd	100.00%	100.00%
PEP 169	Otway	Mirboo Ridge Pty Ltd	49.00%	49.00%
PRL 2 – Overall Permit *	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PRL 2 – Trifon Field*	Gippsland	Petro Tech Pty. Ltd.	57.50%	57.50%
PRL 3	Gippsland	Petro Tech Pty. Ltd.	100.00%	100.00%
PEP 166#	Gippsland	Petro Tech Pty. Ltd	75.00%	75.00%
Eagle Prospect	California USA	Lakes Oil, Inc.	17.79%	17.79%
EL5333	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%
EL5334	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%
EL5394	Gippsland	Commonwealth Mining Pty Ltd	100.00%	100.00%
ATP642	Cooper/Eromanga	EOIL Pty Ltd	100.00%	-
ATP662	Cooper/Eromanga	EOIL Pty Ltd	100.00%	-

* In the year Beach Energy Ltd and Somerton Energy (now Cooper Energy) Ltd formally withdrew from their farm-in agreement over PRL2 and their interests were reassigned to Petrotech Pty Ltd, giving Petrotech Pty Ltd an 100% interest in PRL2 –overall permit and a 57.5% interest in PRL2 – Trifon Field. Refer to Note 25 for more information). Armour Energy Ltd had a period of 6 months, until February 2014, to match any other farm-in proposal in respect of PRL2 from any third party or in any event to match the terminated agreement with Beach Energy Limited and Somerton Energy (now Cooper Energy) Limited. In December 2013 the consolidated entity received notice from Armour Energy Ltd purporting to exercise these matching rights. These matching rights relate, amongst other things to the Phase 1 fracture stimulation of 2 wells incurring up to \$ 10 million of expenditure which unfortunately will be prohibited during the currently imposed moratorium on on-shore natural gas exploration. The parties have reserved their rights in this matter which is yet to be determined. Jarden Corporation Australia P/L currently has a 42.5% interest in the Trifon Field. Armour Energy Ltd has been granted a 3 year option (Option) to acquire 50 % of Lakes Oil's interests in the Trifon and Gangell blocks, and a direct 25% interest in the remainder of PRL2, for a total payment of \$30 million. The Option has a maximum lifetime value of \$0.6 million. Option fees received are treated as deferred revenue until the Option exercises or lapses. The life of this option has been extended while the moratorium is in place.

CORPORATE GOVERNANCE

The Board of Directors of the Company is responsible for corporate governance. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company's corporate governance principles and policies are structured with reference to the Corporate Governance Council's best practice recommendations, which are as follows:

1. Lay solid foundations for management and oversight.
2. Structure the board to add value.
3. Promote ethical and responsible decision making.
4. Safeguard integrity in financial reporting.
5. Make timely and balanced disclosure.
6. Respect the rights of shareholders.
7. Recognise and manage risk.

1. Lay solid foundations for management and oversight

The Board's responsibilities include development of strategy, oversight of management, risk management and compliance systems, and monitoring performance. The responsibilities of the Board are set out in the Board Charter which is available on the Company's website.

Management is responsible for administering the Company in accordance with the directions and policies of the Board and within the powers delegated by the Board. The key roles and responsibilities of each Senior Executive are set out upon appointment and changes are advised by the Executive Chairman as delegated by the Board.

The Executive Chairman is responsible for matters not specifically identified as the responsibility of the Board, including reviewing the Company's quarterly reports, and is authorised to make statements and representations on the Company's behalf. The Board has also delegated to the Executive Chairman and the Chief Financial Officer such matters as the Company's liquidity, currency, interest rate and credit policies and exposures.

Appointment and induction of Senior Executives is carried out in a manner appropriate to the size of the Company. Performance of the Senior Executives is monitored and appraised on a continuous basis by the Executive Chairman against agreed work goals and communicated directly on an on-going basis. The performance of Senior Executives for the year ended 30 June 2014 has been evaluated in accordance with this process.

2. Structure the board to add value

The Board comprises an Executive Chairman and five non-executive directors whose qualifications and experience are set out in the Directors' Report.

One of the five non-executive directors, Mr Barney Berold, is considered to be independent having regard to the definition of Independent Director as set out in the ASX Corporate Governance Principles. Mr Mather and Mr Stubbs are not considered independent for the purposes of the ASX Corporate Governance Principles given they are directors of Armour Energy Ltd, which holds an 18.60% fully diluted interest in the Company. Professor Ian Plimer and Mr Kyle Wightman are not considered independent as they have been nominated to the Board by Timeview Enterprises Pty Ltd, which holds an 18.60% fully diluted interest in the Company. Mr. Robert Annells is the Executive Chairman and is not considered to be independent. Accordingly the Board does not have a majority of independent directors. The Board considers this to be appropriate given the Company's circumstances, size and budget, and the need to ensure that the Board has an appropriate level of industry experience and business skills.

Mr. Robert Annells is the Executive Chairman, exercising the roles of Chairperson and CEO. The Company has found that this combined role continues to work very well for the Company given its size and current operations.

The Company has no formal performance evaluation procedure for the Board. However the Board has established a Remuneration Committee which is developing appropriate evaluation procedures.

2. Structure the board to add value (cont.)

The functions of a nomination committee are carried out by the full Board; therefore a separate nominations committee has not been formed. New Directors are appointed by the Board having regard to the Company's needs from time to time. The Company has no formal policy in regard to nomination of new Directors. Re-election of Directors is done in accordance with the ASX Listing Rules and the Company's Constitution.

Whenever necessary, individual members of the Board may seek independent professional advice at the expense of the Company in relation to fulfilling their duties as directors.

3. Promote ethical and responsible decision-making

Directors, management and staff are expected to act ethically and responsibly and in accordance with their legal obligations and the Company's Code of Conduct (which is available in the Company's website).

The Company has a Securities Trading Policy which applies to directors, employees and consultants (insiders). The Securities Trading Policy (which is available on the Company's website) has two purposes. First, to inform insiders about the legal prohibitions on insider trading (including the consequences of insider trading). Secondly, to establish processes that confine trading in the Company's securities by insiders to circumstances where there is no risk of insider trading or damage to the Company's reputation.

The Securities Trading Policy:

- establishes a blackout period during which trading by insiders is prohibited, except in exceptional circumstances and as approved by the Executive Chairman; and –
- requires that, at all other times insiders discuss their intention to trade in the Company's shares with the Executive Chairman prior to trading.

The Company recognises the need to understand the cultural and spiritual significance to the community of the area in which it is licensed to operate.

The Company proposes to work closely with relevant community groups and people to identify significant cultural and heritage sites and any impact the Company's activities may have on them.

The Company is committed to protecting the environment and safeguarding public and employee health in all aspects of its operations. Environmental protection and safe conduct are the responsibility of the Company, its employees, its alliance partners and suppliers of goods and services.

Specifically, the Company will strive to:

- comply with the intent and provision of all applicable laws, regulations and standards;
- minimise environmental impact;
- ensure that employees, partners, suppliers and the public are made fully aware of the Company's responsibility for the effect of its operations on the environment;
- ensure adequate management systems and procedures are in place to manage and mitigate the risks to the environment from the Company's operations; and
- commit to continual improvement in environmental management performance.

The Company's business ethos is to operate in a manner which addresses three fundamental principles to achieve balanced outcomes. These fundamental principles are:

- social acceptability
- economic viability; and
- environmental responsibility.

3. Promote ethical and responsible decision-making (cont.)

The Company is committed to meeting these objectives, to monitoring the meeting of these objectives and to amending its approach if it proves to be inadequate in complying with its stated intentions and plans. In addition, the Company is committed to the public dissemination of this information.

The Board continues to review for best practice and is aware that it has not yet formalised a Diversity Policy, however the Company strives to provide the best possible opportunities for current and prospective employees of all backgrounds.

At 30 June 2014 the company had three female employees out of a total of seven employees and contractors, one of whom is in a senior executive position. There are no women on the Board.

4. Safeguard integrity in financial reporting

The Board has established an Audit and Compliance Committee consisting of three non-executive Directors:

- Mr Barney Berold BCom, MBA (Chairman of the Committee - independent),
- Mr William R Stubbs LLB and
- Professor Ian R. Plimer BSc(Hons), PhD

The number of meetings attended by each member is set out in the Directors' Report.

The Audit Committee's Charter can be viewed on the Company's website.

It is the Board's responsibility to ensure that an effective internal control framework exists to examine the effectiveness and efficiency of significant business processes such as the safeguarding of assets, the maintenance of proper accounting records and the integrity of financial information, the implementation of quality assurance practices and procedures and ensuring compliance with environmental regulations.

At regular occasions the Board:

- reviews the accounting policies;
- reviews the Company's annual and half yearly financial reports;
- reviews with the external auditors the effectiveness of accounting and internal control systems;
- addresses the findings of the external auditors;
- assesses the scope, quality and cost of the external audit;
- identifies any areas of operation, regulatory and legal risk and establishes procedures to ensure those risks are effectively managed;
- ensures that the auditors retain their independence and that the audit partner is changed periodically; and
- ensures that conflicts of interest do not arise from services provided by the Company's external advisors.

5. Make timely and balanced disclosure

The Board and Senior Management are aware of the Continuous Disclosure requirements of the ASX and have procedures in place to disclose any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities. These procedures are contained in the Company's Disclosure Policy.

The Executive Chairman is authorised to make statements on the Company's behalf. The Company Secretary is responsible for overseeing and coordinating the disclosure of information to the ASX, analysts, stockbrokers, shareholders, the media and the public.

The Directors and senior management personnel must ensure that the Company Secretary is aware of all information to be presented at briefings with analysts, stockbrokers, the media and the public. Prior to being presented, information that has not already been the subject of disclosure to the market and is not generally available to the market must be disclosed to the ASX. Only once the ASX has received the disclosure and released it to the market and the information has been posted on the Company's website may the information be presented.

If immediate disclosure of market sensitive information is required but the Company needs time to prepare an announcement the Company may request that the ASX grant a trading halt or suspend its securities from quotation. Management of the Company may consult the Company's external professional advisers and the ASX in relation to whether a trading halt or suspension is required.

6. Respect the rights of shareholders

The Board aims to ensure that all shareholders are informed of major developments affecting the affairs of the Company. Information is communicated to the shareholders through the Annual Report, Half-Yearly Report, Quarterly Reports, disclosures made to the ASX, notices of meetings and occasional letters to shareholders where appropriate.

The Company maintains a website on which is placed Company announcements, the Annual Report and Company policies.

The auditor is invited to the Annual General Meeting for the purpose of answering shareholders' questions.

7. Recognise and manage risk

The Board has responsibility for ensuring Management has adopted risk and internal control processes and acknowledges that risk management is a core principle of sound Corporate Governance. The financial viability, reputation and future of the Company are materially dependent on the manner in which risk is managed.

The Company's risk management processes cover the areas of financial risk, operational risk, insurance and internal control. The Company has not appointed a Risk Management Committee due to the importance the whole Board places on risk management. In addition, the small size of the Company and Board makes it appropriate for the full Board to manage this area.

Financial risk

The Board regularly receives and discusses financial reports which measure performance and trends. Any variations from prior periods and/or budget are highlighted, explained and evaluated. This scrutiny is considered appropriate given the size of the Company. In addition to quarterly financial reporting, the Company has in place policies to manage credit, foreign exchange and other business risks. Non-executive Directors meet at appropriate times with the external auditor in order to fulfil the Audit Committee Charter. This Charter may be viewed on the Company's website.

7. Recognise and manage risk (cont.)

Operational reporting

Projects are approved only after extensive review by highly qualified technical staff and consideration of detailed submissions made to the Board through the Executive Chairman. The operations of the Company consist of a search for oil, gas and minerals and projects are only considered after a review and evaluation of all technical data on record. External consultants are engaged as required. Environmental issues are considered in every new project and are fully evaluated and reported before approval by the Board. External consultants are engaged as required to assist in the development and review of occupational health and safety protocols. Operational personnel report regularly to the Board on occupational health and safety management.

Insurance as a risk mitigation strategy

The Board recognises the value of insurance as a risk mitigation strategy and requires that a leading insurance broker is engaged to ensure that appropriate insurance cover is in place at all times.

Internal control and audit

In view of the small size of the Company and its current operations, an extensive internal control system is considered appropriate. There is a natural control as a consequence of being small, as the transactional volume is low and administration costs are generally fixed. Accordingly the Board considers that its current system of internal control is appropriate to the Company's circumstances and its level of potential risk.

The Process employed by the Board to oversee the Company; risk management framework involves monitoring management implementation of the risk management strategy; and periodically considering, with management the effectiveness of that strategy and whether improvements or modifications should be made.

Declaration by the Executive Chairman and Chief Financial Officer

Both the Executive Chairman and Chief Financial Officer provided assurance to the Board, prior to the Board accepting the Financial Results for the year ended 30 June 2014 as follows:

That in accordance with the Corporations Act 2001 section 295A, we declare that, to the best of our knowledge and belief

- the financial records of the Company for the financial year have been properly maintained in accordance with section 286; and
- the financial statements, and the notes for the financial year comply with the accounting standards; and
- the financial statements and notes for the financial year give a true and fair view.

Also in accordance with the ASX Corporate Governance Council Best Practice Recommendation 7.3, to the best of our knowledge and belief, and in our opinion:

- i. the declaration above concerning the financial statements is founded on a sound system of risk management and internal control, which implements the policies adopted by the Board; and
- ii. the Company's risk management and internal control system is operating effectively in all material respects in relation to financial reporting risks.

Signed by the Chairman and Chief Financial Officer.

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