



Lakes Oil NL

ABN 62 004 247 214

Annual Report - 30 June 2019

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| | |
|---|----|
| Corporate directory | 2 |
| Chairman's letter | 3 |
| Exploration and operational summary | 4 |
| Directors' report | 18 |
| Auditor's independence declaration | 30 |
| Statement of profit or loss and other comprehensive income | 31 |
| Statement of financial position | 32 |
| Statement of changes in equity | 33 |
| Statement of cash flows | 34 |
| Notes to the financial statements | 35 |
| Directors' declaration | 63 |
| Independent auditor's report to the members of Lakes Oil NL | 64 |
| Shareholder information | 67 |

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| Directors | Chris Tonkin (Non-Executive Chairman) Nicholas Mather (Non-Executive Director) Ian Plimer (Non-Executive Director) Kyle Wightman (Non-Executive Director) Richard Ash (Non-Executive Director) |
| Chief Executive Officer | Roland Sleeman |
| Company secretary | Melanie Leydin |
| Notice of annual general meeting | The Company will hold its annual general meetings of shareholders on 13 November 2019. |
| Registered office | Level 4 100 Albert Road South Melbourne Victoria 3205 Telephone: (03) 9629 1566 |
| Share registry | Computershare Investor Services Pty. Ltd. Yarra Falls 452 Johnston Street Abbotsford Victoria 3067 Telephone: 1300 850 505 |
| Auditor | Pitcher Partners Level 13 664 Collins Street Docklands 3008 |
| Solicitors | Baker & McKenzie Level 19 CBW 181 William Street Melbourne Victoria 3000 |
| Bankers | Westpac Banking Corporation 303 Collins Street Melbourne Victoria 3000 |
| Stock exchange listing | Lakes Oil NL shares are listed on the Australian Securities Exchange (ASX code: LKO) |
| Website | www.lakesoil.net.au |
| Corporate Governance Statement | Details of the Company's corporate governance statement are set out on the Company's website. http://lakesoil.net.au/2017/10/20/corporate-governance/ |



LETTER FROM THE CHAIRMAN

Dear Shareholder

Looking back over the last few years, your Company has endured challenges that have taken us to the brink of survival but, as philosopher Friedrich Nietzsche postulated, "that which does not kill us makes us stronger".

The challenges we have endured have been addressed through severe cost-cutting measures in 2016/17, diversification initiatives in 2017/18 and, in the year just gone, implementation of initiatives to realise the value of the Company's now diversified exploration portfolio.

During 2018/19 the Rawson transaction was completed, ownership of highly prospective PNG exploration acreage was confirmed and preparations completed for drilling of the Nangwarry-1 gas well in South Australia. Drilling of the Nangwarry well will commence late in 2019 and given the prospectivity of the well and the desperate need for gas in southeastern Australia, we are confident that a successful outcome there will allow Lakes Oil to quickly develop the well and generate cashflow to support envisaged future exploration activity.

Looking to the future:

- we are progressing arrangements for commercialisation of Nangwarry, including discussions with prospective transporters and purchasers of gas;
- we are advancing plans to realise value from the PNG assets, with an initial strong focus on the multi-Tcf Buna Prospect;
- we are expecting a decision in relation to our Appeal regarding the long-running Victorian legal proceedings will be handed down early in 2020; and
- at year end 2019/20 the present ban on exploration onshore in Victoria comes to an end and exploration of the Company's compelling Gippsland and Otway prospects will hopefully be able to proceed.

Having survived the unprecedented challenge of being prevented from pursuing its core Victorian exploration I believe your Company is now stronger, with its diverse portfolio of highly prospective assets, with Nangwarry about to be drilled and with line-of-sight to recommencement of Victorian exploration activity.

The forthcoming drilling of the Nangwarry-1 gas well, an endeavour itself not without risk, while an important step in Lakes Oil transformational pathway is but one of many to come.

It is our commitment to keenly and cost-effectively pursue each and every step, and to realise for Shareholders the massive prospective value of the Company's assets.

I thank my fellow Directors, and Roland Sleeman and Tim O'Brien as the backbone of the Company's efforts, for their tireless and cooperative commitment to the success of your Company.

Chris Tonkin
Chairman



Exploration and Corporate Operations Report

1. Overview

The diversification initiatives that were initiated by Lakes Oil NL in 2018 were successfully completed by early 2019 allowing the Company to then focus on plans to progressively realise the potential of its spread of exploration opportunities, some of which are world-scale (as demonstrated in Table 1).

Table 1: Prospectivity of Lakes Oil NL's Exploration Portfolio

| Licence | Prospect | Status | Best Estimate (net to Company) |
|------------------------|---------------------------------------|------------------------|--------------------------------|
| PRL 2 (Victoria) | Wombat ¹ | Contingent Resource | 329 Bcf gas |
| | Trifon ¹ | Contingent Resource | 224 Bcf gas |
| | Baragwanath ¹ | Prospective Resource | 966 Bcf gas |
| PRL 3 (Victoria) | Lakes Entrance Oil Field ² | Prospective Resource | 0.6 MMBbl oil |
| PEP 166 (Victoria) | Permit area ³ | Prospective Resource | 1,278 Bcf gas |
| PEP 167 (Victoria) | Permit area ⁴ | Gas Initially In Place | 155,584 Bcf gas |
| PEP 169 (Victoria) | Otway-1 ³ | Prospective Resource | 29 Bcf gas |
| PEP 175 (Victoria) | Permit area ⁴ | Gas Initially In Place | 286,416 Bcf gas |
| | Focus area ⁴ | Gas Initially In Place | 49,999 Bcf gas |
| | Focus area ⁴ | Prospective Resource | 11,469 Bcf gas |
| PEP 154 (South Aus.) | Benara ⁵ | Prospective Resource | 24.9 Bcf gas |
| | Benara East ⁵ | Prospective Resource | 15 Bcf gas |
| PEP 155 (South Aus.) | Nangwarry ^{5,6} | Prospective Resource | 28.5 Bcf gas |
| | South Salamander ⁵ | Prospective Resource | 9.7 Bcf gas |
| ATP 1183 (Queensland) | Wellesley ⁴ | Prospective Resource | 41 Bcf gas |
| | Bendee ⁴ | Prospective Resource | 1 MMBbl oil |
| | Major East ⁴ | Prospective Resource | 13.8 Bcf gas |
| | Emu Apple ⁴ | Prospective Resource | 3.4 MMBbl oil |
| ATP 642 (Queensland) | Permit area ⁷ | Gas Initially In Place | 3.11 Bcf gas |
| | | Oil Initially In Place | 0.05 MMBbl oil |
| ATP 662 (Queensland) | Permit area ⁷ | Gas Initially In Place | 0.27 Bcf gas |
| | | Oil Initially In Place | 0.54 MMBbl oil |
| PPL 560 (PNG) | Buna ⁸ | Prospective Resource | 3,101 Bcf gas |
| | Buna West ⁸ | Prospective Resource | 190 Bcf gas |
| | Kumasi North ⁸ | Prospective Resource | 256 Bcf gas |
| | Kumasi South ⁸ | Prospective Resource | 180 Bcf gas |
| PPL 391 APPL 622 (PNG) | Matapau ³ | Prospective Resource | 4.1 MMBbl oil |

Notes:

- Gaffney, Cline & Associates, in accordance with SPE-PRMS guidelines.
- Internal Lakes Oil NL estimate derived from Victorian Government study
- Internal Lakes Oil NL estimate
- SRK Consulting (Australasia) Pty Ltd, in accordance with SPE-PRMS guidelines
- Exploration and Production Consultants (Australia) Pty Ltd, in accordance with SP-PRMS guidelines
- RISC independent valuation, in accordance with SPE-PRMS guidelines
- AWT International, in accordance with SPE-PRMS guidelines
- Modified from Fekete Associates 2010 report, in accordance with SPE-PRMS guidelines



Based upon the presently identified exploration prospects, the total portfolio has a hypothetical value in excess of \$1 billion based upon a gas price equivalent of \$8.00 per Gigajoule.

At the date of this report the Company has finalised plans for drilling of the Nangwarry-1 gas well, in the onshore South Australian portion of the Otway Basin. Approvals are in place, site-preparations complete, long-lead items procured and the state-of-the-art, Easternwell Rig 106 drilling rig contracted.

The Nangwarry-1 well, to be spudded by year-end 2019, is being drilled with the support of a South Australian Government \$4.95m Petroleum Accelerated Exploration Grant. If successful, development of the well will be expedited in compliance with Grant requirements, to supply gas into the under-supplied and highly-priced eastern Australian gas market.

2. Exploration

Lakes Oil holds relevant interests in petroleum and mineral exploration rights in Victoria, Queensland, South Australia, Papua New Guinea and the United States of America. Prospects of key immediate to medium term interest are overviewed below.

i) South Australia: Petroleum Exploration Licences 154 and 155

Lakes Oil has a net 93.51% interest in PPL 154, a net 46.76% interest in PEL 155 and is operator of both tenements.

PEL 155 contains the Nangwarry prospect, drilling of which will take place later this year at Nangwarry-1. The Nangwarry-1 well is of conventional design, as illustrated in Figure 1, and will be partly funded by a South Australian Government Petroleum Accelerated Exploration ('PACE') Grant of \$4.95m. Site works and procurement of long lead items have been completed (see Figures 2a and 2b) and Easternwell's state-of-the-art, fully-automated Rig 106 (see Figure 3) has been contracted to mobilise to site as soon as its present Western Australia assignment (including drilling Australia's deepest ever onshore well) is completed.

The Nangwarry-1 well is located close to the Haselgrove-3 well, which flowed gas at a tubing constrained rate of 25 million cubic feet per day, with potential to achieve much higher flow rates. The Unrisked Prospective Resource Best Estimate¹ of the potential of the Nangwarry prospect is 28.5 Bcf (net to the Company).

Given present and predicted shortfalls of gas supply to eastern Australian gas markets, and consequent high gas prices, the Company is confident that it will be able to quickly and profitably sell gas from the Nangwarry prospect. A successful drilling outcome has potential to provide the Company with cash flow to substantially fund envisaged future exploration activity, including in Victoria after the mid-2020 expiry of the present Victorian conventional exploration moratorium.

¹ Source of Estimate: Rawson Media Release dated 24 May 2018. The Company is not aware of any new information or data that materially affects the information included in the relevant market announcement and confirms that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Figure 1: Conventional Nangwarry-1 Well Configuration

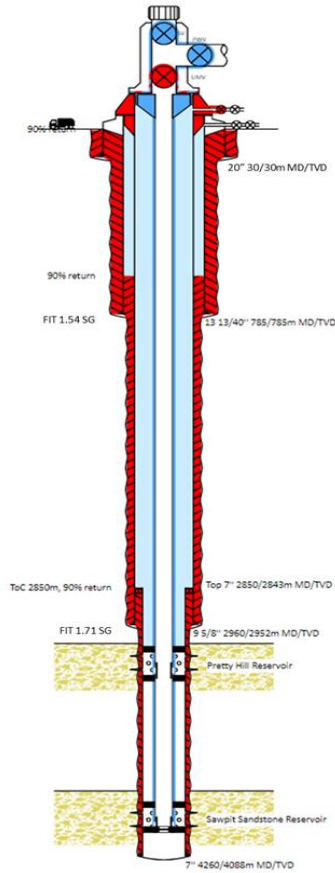


Figure 2a: Nangwarry-1 Well Site



Figure 2b: Nangwarry-1 Well Casing



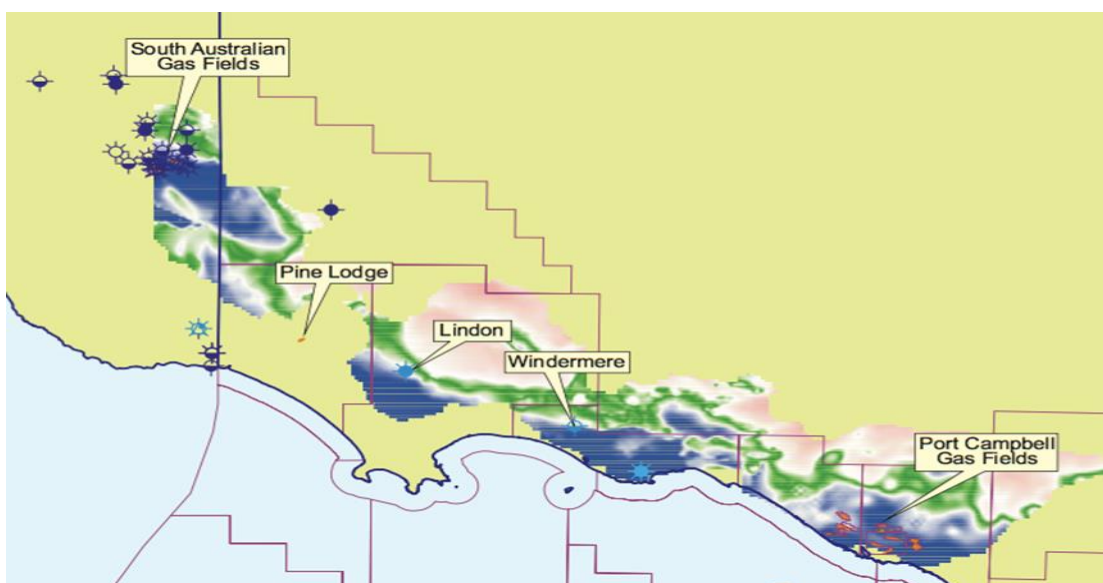
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Figure 3: Easternwell Rig 106



The Nangwarry-1 well is targeting formations that are analogous to those existing in the Company's onshore Otway Basin tenements in Victoria, as illustrated in Figure 4. A successful drilling outcome would also reinforce the potential of the Company's Victorian tenements, exploration of which is planned to recommence following expiry of the legislated Victorian onshore gas moratorium on 30 June 2020.

Figure 4: Extent of Astral 1 Petroleum System²



² Source: Figure 10 of VIMP Report 90 ("A Technical Assessment of the Yet-to-find Hydrocarbon Resource Inventory, Offshore and Onshore Otway Basin, Victoria, Australia", GeoScience Victoria, June 2007).

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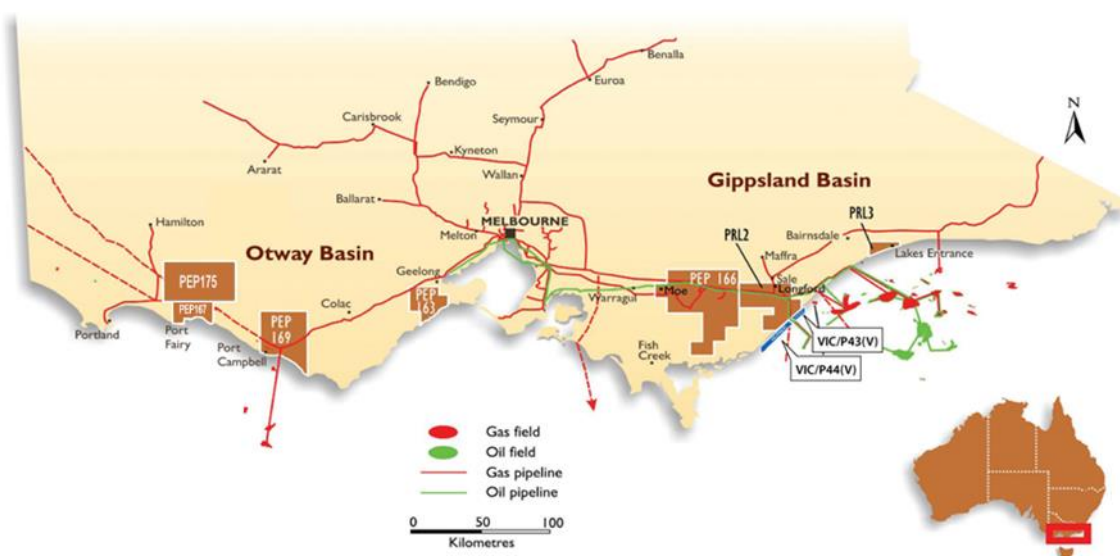


ii) Victoria

While Lakes Oil has tenure over the most prospective of Victoria's onshore petroleum exploration acreage (Figure 5), exploration activities have not been possible since 2012 as a consequence of the Victorian Government's unprecedented onshore exploration ban. The ban is legislated to expire at mid-2020, following which the Company is planning to promptly resume its onshore exploration efforts.

The Company has identified and is ready to pursue several conventional exploration opportunities, as set out below. Based upon independent advice, the Company anticipates that these exploration opportunities will support commercial production of natural gas for the benefit of Victoria, and south-eastern Australia more generally.

Figure 5: Lakes Oil's Victorian Petroleum Exploration Interests



Petroleum Retention Lease 2 (PRL2):

Lakes Oil has 100% interest in PRL2, with the exception of the Trifon and Gangell blocks where Lakes Oil has a 57.5% interest and Jarden Corporation Australia Pty Ltd has a 42.5% interest.

Prior to introduction of the Victorian onshore exploration ban Lakes Oil made preparations for and sought approval to drill the Wombat-5 well, a conventional directionally-drilled well targeting the upper, more permeable section of the massive, gas saturated Strzelecki Formation. Based upon independent modelling Lakes Oil is optimistic that the Wombat-5 well will flow gas at an initial rate of around 10 TJ/d, rendering both the well and the Wombat Gas Field commercial.

Given the onshore location of the Wombat Gas Field, close to existing gas pipeline infrastructure, the field could be brought on line quickly (circa 18 months) and at low cost. With a gas production potential of around 20 PJ/a, development of the Wombat Gas Field could provide quick relief for both the present Victorian gas supply shortfall and the high gas prices that have resulted from it. Drilling of the Wombat-5 well is a compelling initiative that will be undertaken by Lakes Oil immediately after the Victorian exploration ban is overturned or renounced.

Petroleum Exploration Permit 169 (PEP169):

Lakes Oil has a 49% interest in PEP166 with Armour Energy Limited holding the remaining 51% interest. Operatorship of the permit has been delegated by Armour Energy to Lakes Oil. As a consequence of the Victorian Government's onshore exploration ban, no exploration activity was undertaken within PEP169 during the financial year.

Lakes Oil has plans to drill the Otway-1 well, a conventional well to be located adjacent to, but on the opposite side of a fault from, the highly commercial Iona Gas Field. The well will be drilled to a depth of 1,500 metres and will target both the Waarre Sands and the Eumeralla Formation. The Waarre Sands are the basis of historic gas production from the Iona Gas Field and, at the Otway-1 location, are uplifted relative to the Iona Gas Field. While the deeper Eumeralla Formation has not historically been developed for gas production it is considered to be highly prospective and is a key target of the Otway-1 well. This is because, wherever that Formation has been historically penetrated, it has been gas charged and, at nearby locations, has historically flowed gas at commercial rates.



Figure 6: Location of Proposed Otway-1 Gas Well

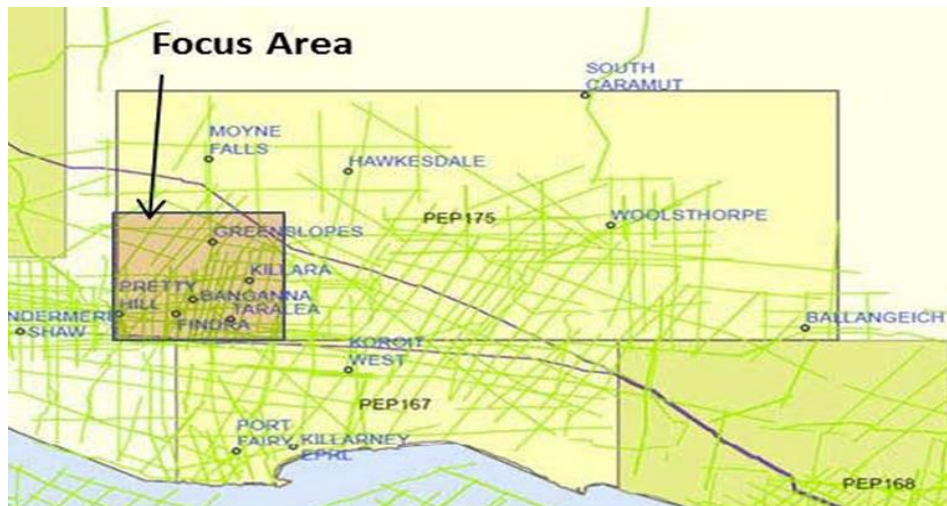


The Company will be able to drill the Otway-1 well as soon as requisite approvals are received. Given the wells location, adjacent to existing gas processing facilities, it can be brought on line immediately to contribute to relieving the present Victorian gas supply shortfall and the consequent high gas prices that are a burden on households and a threat to industry competitiveness.

Petroleum Exploration Permits 167 and 175 (PEP167, PEP175):

Lakes Oil has a 100% interest in PEP167 & PEP175, which were acquired in September 2014 and form the basis of the company's 'Portland Energy Project'. The Portland Energy Project is based upon a Focus Area in the southwestern corner of PEP175, to north of Port Fairy, selected for investigation on the basis of historic seismic and drilling data, and in recognition of the potential for production of gas by conventional means. As is evident in Figure 7, there has been considerable historic drilling activity in and around the Focus Area, all of which has confirmed beyond doubt the presence of natural gas within the thick Eumeralla Formation. While gas was demonstrated to exist, the potential for its production was not historically tested since the search, at that time, was for oil, there was no market available for gas and no gas pipeline infrastructure was present. These circumstances have of course now all changed. Pipeline infrastructure is available and the Victorian gas market (indeed the eastern Australian gas market) is desperate for increased supplies of gas to curtail prohibitive gas price increases.

Figure 7: Portland Energy Project



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With independent expert assistance, the company has identified preferred locations for drilling of two proof-of-concept wells, Greenslopes-2 and Portland Energy-1. Both wells are to be conventional wells, drilled to a depth of around 1,500 metres with the specific purpose of demonstrating that gas can be produced by conventional means from the Eumeralla Formation.

Lakes Oil has commissioned independent assessments that confirm the gas-in-place potential of the Eumeralla Formation. The estimated³ (50% probability) gas resource of the Focus Area is 11.4 trillion cubic feet, of which the Company considers around 3 trillion cubic feet should be recoverable by conventional means. The Portland Energy Project has the potential to fundamentally change the landscape of gas supply into the eastern Australian gas market.

iii) Queensland: Petroleum Exploration Permit ATP 1183 - Roma Shelf Oil and Gas Project

ATP 1183 is highly prospective for oil, gas and condensate discoveries, and is within close proximity of established production facilities and infrastructure. The tenement area itself surrounds the Riverslea Oil Field and Major Gas/Condensate Field.

The Company has undertaken extensive review of exploration prospects within the permit area and a number of compelling exploration opportunities, as outlined below, have been identified. Drilling of the prospects will proceed when funding permits.

- *Wellesley Dome*

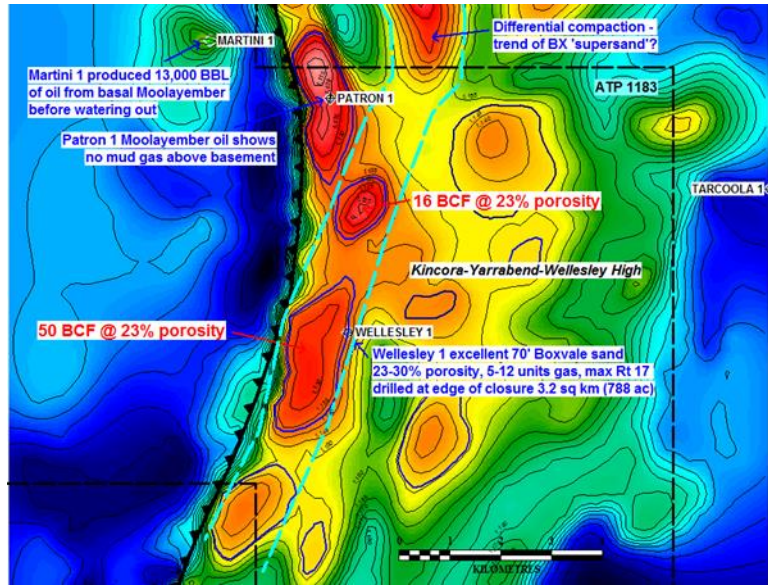
The Wellesley Dome is a fault bound, three way dip closure approximately 4.4km² in area, lying on the Kincora-Yarrabend-Wellesley High to the south of the productive Kincora Gas Field. The Wellesley Dome has a prospective gas resource⁴ of 41 Bcf.

³ Source of Estimate: "Independent Specialist Report on the petroleum assets of Navgas Pty Ltd and Lakes Oil NL", SRK Consulting (Australasia) Pty Ltd, December 2016.

The Company is not aware of any new information or data that materially affects the information included in the relevant market announcement and confirms that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

⁴ This is a best estimate prepared on a deterministic basis. It is sourced from page 17 of "Independent Specialist Report on the petroleum assets of Navgas Pty Ltd and Lakes Oil NL", SRK Consulting (Australasia) Pty Ltd, made public in December 2016. The Company is not aware of any new information or data that materially affects the information included in the relevant market announcement and confirms that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Figure 8: Wellesley Dome



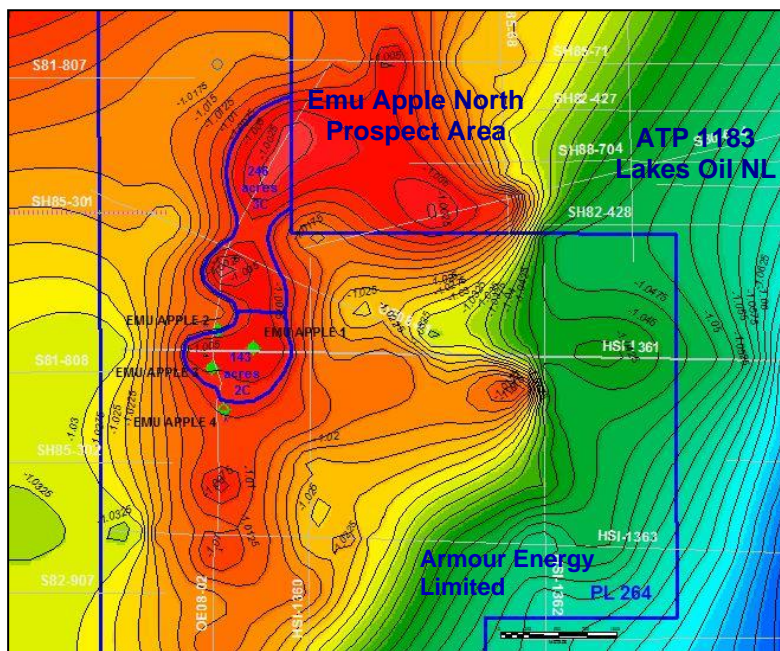
A well (Wellesley-1) drilled by BHP in 1979 intersected in excess of 20 metres of thick clean Boxvale Sand. Although the well had fair gas shows and good porosity (average 28%) it was at the time not considered to be of commercial interest. Apart from the Wellesley-1 well, the extensive Wellesley Dome prospect is underexplored. With modern production techniques and at prevailing gas prices, the Company considers the Wellesley Dome to be a compelling exploration opportunity.

The Company proposes to drill an exploration well approximately 800 metres southwest of Wellesley-1 to a depth of around 1,600 metres.

- *Emu Apple North*

The Emu Apple North prospect comprises the northern extension of the Emu Apple oilfield, an oilfield recently brought back into commercial production by Armour Energy Limited.

Figure 9: Emu Apple North Prospect



The prospect is a broad, low relief, anticlinal structure separated by a small saddle from the main Emu Apple Field. The entire Emu Apple area has been charged with hydrocarbons from Permian source rocks to the southeast.

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The Hutton Sandstone and Boxville Sands, both of which are productive in the Emu Apple-3 well, are the main reservoir targets. The reservoir units will be intersected at shallow depths, between approximately 1350 and 1430 metres, which means drilling the Emu Apple North prospect will be low cost. The Company's proposed well location is readily accessible by existing road infrastructure and is close to Armour's Emu Apple production facilities (meaning any discovery can be quickly developed).

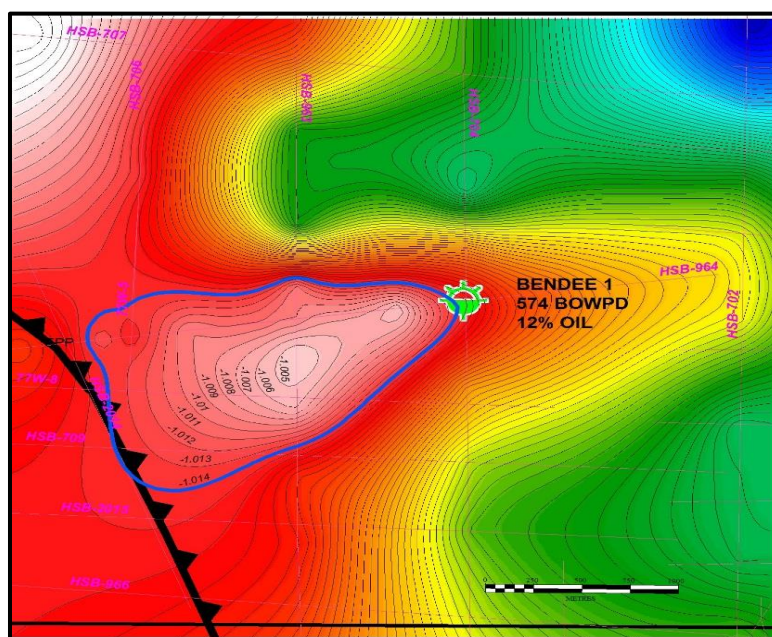
The Emu Apple North prospect covers an area of approximately 382 acres and is estimated⁵ to hold up to 3.4 million barrels of oil.

- *Bendee Prospect*

The Bendee Prospect is a four-way dip closure located just to the west of the producing Thomby Creek Oil Field. An historic (Bendee-1) well flowed oil and water to surface, demonstrating that the structure contains oil. However, using currently available data the Company has identified that the Bendee-1 well was drilled on the edge of closure, at the level of the oil water contact. Considerable up-dip potential exists.

The Bendee Prospect covers an area of approximately 2 square kilometres and could contain approximately 1 million barrels of oil⁶.

Figure 10: Bendee Prospect



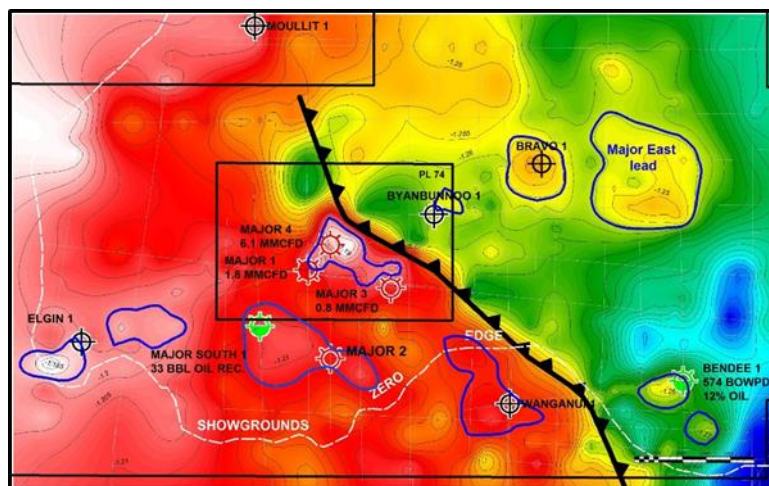
⁵ This is a best estimate prepared on a deterministic basis. It is sourced from page 17 of "Independent Specialist Report on the petroleum assets of Navgas Pty Ltd and Lakes Oil NL", SRK Consulting (Australasia) Pty Ltd, made public in December 2016. The Company is not aware of any new information or data that materially affects the information included in the relevant market announcement and confirms that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

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- *Major East Lead*

The Major East Lead is four way dip closure approximately 5km² in area, located to the east of the producing Major Gas Field. The Major East Lead has a prospective gas resource⁷ of 13.8 Bcf.

Figure 11: Major East Lead



iv) Papua New Guinea

The Company has 100% ownership of a portfolio of highly prospective exploration acreage in Papua New Guinea. One key tenement is Petroleum Prospecting Licence (PPL) 560, which contains the multi-trillion cubic feet Buna prospect.

The Company has recently successfully completed legal action, by way of Judicial Review, having the PNG Minister for Petroleum's purported cancellation of PPL 560 ruled illegal and quashed.

The Company is now in the process of securing an extension of the term of PPL 560, to compensate for time lost whilst dealing with the purported cancellation of the licence. A program to realise the value of the PNG tenements, especially PPL 560, is now being formulated with options including sell-down or farm-out.

⁷ This is a best estimate, determined by Mr Peter Bubendorfer, Exploration Adviser to Navgas Pty Ltd, who is an AAPG member, qualified in accordance with the requirements of ASX Listing Rule 5.42, and who has consented to the use of the estimate in the form and context in which it appears in this report. The estimate was finalised on 3 February 2015 and was published on the ASX Announcements Platform by the Navgas Pty Ltd then owner Dark Horse Resources Limited (known at that time as Navaho Gold Limited). The Company is not aware of any new information or data that materially affects the information included in the relevant market announcement and confirms that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.



Figure 12: PNG Interests

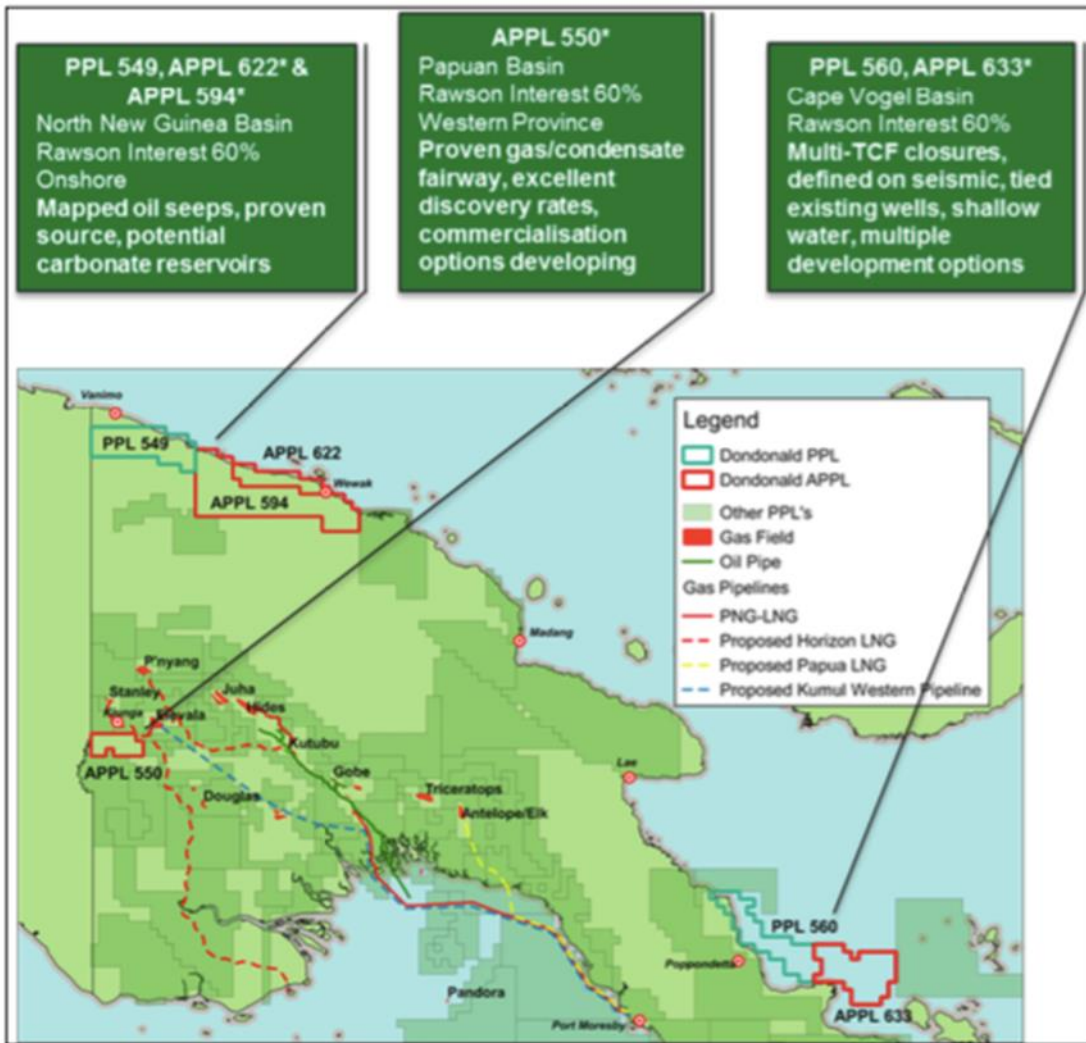
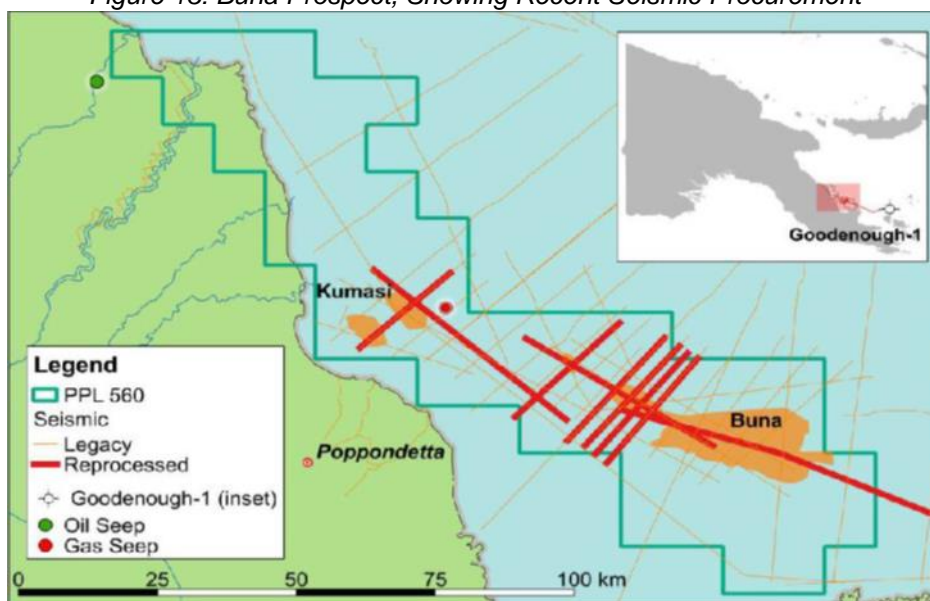


Figure 13: Buna Prospect, Showing Recent Seismic Procurement



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3. Operations

While a key focus of 2018-19 involved positive action toward realising the value of the Company's diversified exploration portfolio, there was also ongoing challenge principally as a consequence of actions of Government and Government Departments.

Further information regarding overall corporate activities for the year is set out below.

i) Legal Action Against Victorian Government

On 5 November 2018 the Company lodged an appeal against the decision handed down by Justice Macaulay on 21 September 2018. Although Justice Macaulay confirmed that the Department's purported unilateral changes to the conditions of Lakes Oil's authorities were invalid, he did not support the Company's contention that pre-existing obligations and commitments (as specified in Licences) are exempt from the Victorian Government's exploration moratorium. The Company's advice was that Justice Macaulay did not deal with and incorrectly applied the law in respect of key aspects of the Company's case.

The Appeal was heard in the Victorian Supreme Court on 6 August 2019. At the date of this report a decision is awaited.

ii) Victorian Department

The Company has concerns regarding the behaviour of the Victorian Department of Economic Development, Jobs, Transport and Resources. The Company has offered its full assistance and cooperation to address these concerns, the basis of which is evidenced by the following examples.

Well Status Concerns

The Company has repeatedly sought clarification from, and offered to provide technical assistance to, the Department regarding changes made by the Department in early 2018 to its online Earth Resources – GeoVic mapping facility. Specifically, the Department erroneously changed the status of the Company's Wombat and Trifon gas wells to either "other" or "plugged and abandoned".

The actual status of the wells in question is:

- Wombat-1: live gas well with minor oil shows, cased and perforated, shut-in pending further work.
- Wombat-2: live gas well, cased and perforated, shut-in pending further work.
- Wombat-3: live gas well with minor oil shows, cased and perforated, shut-in pending further work.
- Wombat-4: live gas well with minor oil shows, cased and perforated, shut-in pending further work.
- Trifon-2: live gas well, cased and perforated, shut-in pending further work.

Unfortunately the Department has not satisfactorily responded to the Company's requests or offers.

Purported Licence Expiry

In April 2019 the Department wrote to the Company expressing the view that Petroleum Retention Licence (PRL) 3 had 'expired'. This was despite:

- a 12 month Suspension and Extension (S&E) Application, extending the term of the Licence to 2020, having already been granted;
- two further S&E Applications having already being formally lodged and paid for; and
- annual Licence fees having been billed by the Department and paid by the Company.

On 14 May 2019 the Company responded to the Department with a detailed chronology of events relating to PRL 3, showing clearly that all applications had been lodged and fees paid in strict accordance with Licence terms, and pointing out that there have been chronic and systemic delays in the Department's processing of applications.

The Executive Director acknowledged receipt of the Company's response, indicating that it would be considered. At the date of this report:

- no formal response has been received from the Executive Director, although on 4 September 2019 in an email relating to well maintenance he again expressed the view that PRL 3 has expired; and



- in excess of 10 routine applications, some dating back to 2017, have yet to be processed by the Department.

Prudent Maintenance of Live Gas Wells

On 7 August 2018 the Company applied for approval to carry out inspection activities on live gas wells in Gippsland, as a routine measure to monitor and ensure the integrity of the wells and associated facilities.

On 18 July 2019, in excess of 11 months after the application was made, the Executive Director, Earth Resources Regulation (in his role as Minister's delegate under the *Petroleum Act 1998*) advised of his intention to refuse permission for the Company to undertake the inspection activities.

On 15 August 2018 the Company responded in detail to the Executive Director. The Company has formally advised that it will hold the Executive Director liable for any and all consequences arising from any otherwise unavoidable incident that might occur should approval to undertake inspection activities be refused.

On 29 August, more than one year after the Company's initial application, the Executive Director advised that the Department will engage an independent expert to assist it with review of the Company's proposed activities. The Company has subsequently met with the independent expert and provided full and open access to all requisite data. The Executive Director's further response is now awaited.

iii) Research and Development Grant

Over the period from 2006 to 2013 the Company received Research and Development (R&D) rebates from the Australian Government for experimental exploration activities. Following the Victorian Government's introduction of a fracking ban, the Company refocused its R&D activity onto development of technology(s) for production of its large, already discovered Victorian gas resources without need for fracture stimulation. R&D rebates were also received for this work, including \$1.03m in respect of 2013/14.

In early 2016 Ausindustry undertook reviews of, and subsequently rejected, the Company's claims for 2013/14 and 2014/15.

Following an internal review of Ausindustry's decision, which reaffirmed the rejection decision, the Company applied to the Administrative Appeals Tribunal (AAT) for independent review. Submissions, including independent expert reports, with AAT expected to hear the matter early in 2020.

Pending the outcome of the AAT review, the Australian Taxation Office (ATO) has:

- issued a revised taxation assessment, seeking repayment of the 2013/14 rebate; and
- alleged that the Company did not take reasonable care when claiming the R&D rebates and is therefore liable for a 25% penalty on the rejected claim.

The Company is vigorously defending the ATO's claims.

iv) Takeover of Rawson Oil and Gas Limited

When the Company's offer to takeover Rawson Oil and Gas Limited (Rawson) closed on 14 September 2018, the Company had secured a relevant interest of 89.82% in Rawson. Rawson was subsequently removed from the Official List of the ASX (that is, delisted) with effect on 18 January 2019.

The Company's relevant interest in Rawson was:

- increased to just over 90% in February 2019 on completion of a share buyback scheme that was conducted to assist holders of unmarketable parcels of Rawson shares (that is, parcels with a value below \$500) with disposal of their holdings; and
- further increased to 93.51% on 30 May 2019 following completion of an offer for shareholders to convert their Rawson shareholdings into Lakes Oil shares at a conversion rate of 15 Lakes Oil shares for each Rawson share (as per the Company's original 2018 takeover offer).

v) Corporate Initiatives and Capital Raisings

- In September 2018 the Company completed a sale of a parcel of land, with proceeds of \$350,000 applied toward working capital requirements. The sale of a further parcel of land was settled on 16 July 2019 with sales proceeds of \$300,000 also applied toward working capital requirements.



- The following changes of Board composition occurred during the year:
 - Mr Richard Ash, previously a Director of Rawson Oil and Gas Limited, was appointed as a Non-Executive Director on 20 August 2018;
 - Mr William Stubbs retired from his role as Non-Executive Director on 13 November 2018, following the Company's 2018 Annual General Meeting;
 - Mr Barney Berold retired from his position as Non-Executive Director on 24 April 2019.
- On 17 December 2018 the Company placed 350,000,000 shares with sophisticated and professional investors at an issue price of \$0.001 (0.1 cent) per share, raising \$350,000.00.
- On 19 December 2018 the Company launched a non-renounceable entitlement issue of 1 new share for each 5 shares held in the Company, at an issue price of \$0.001 (0.1 cent) per share. After two extensions of the offer period, the entitlement issue closed on 15 February 2019 with \$2,080,467.19 raised. The Company's major shareholder, Dark Horse Resources Limited, supported the entitlement issue.

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The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Lakes Oil NL (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

The following persons were directors of Lakes Oil NL during the whole of the financial year and up to the date of this report, unless otherwise stated:

Chris Tonkin (Non-executive Chairman)
Barney Berold (Non-executive Director) - Resigned 24 April 2019
Nicholas Mather (Non-executive Director)
Ian Plimer (Non-executive Director)
William Stubbs (Non-executive Director) - Retired 13 November 2018
Kyle Wightman (Non-executive Director)
Richard Ash (Non-executive Director) - Appointed 20 August 2018
Roland Sleeman (Alternate Director) - Appointed 5 September 2018 and resigned 13 November 2018

Principal activities

During the period the principal continuing activities of the consolidated entity consisted of Exploration for oil and gas within Australia, United States and Papua New Guinea.

Financial Results

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to \$3,363,530 (30 June 2018: \$2,040,130).

Interest and other income for the period amounted to \$871,567 (2018: \$20,337), which included interest income of \$19,271 and other income of \$852,296.

Operating expenses for the financial year were \$4,220,915 (2018: \$2,060,467). The major expense for the year was the administration expenses amounting to \$1,515,329 (2018: \$988,098) resulting from continuing operations, largely due to the acquisition of Rawson. The provision for impairment of the consolidated entity's exploration and evaluation assets amounted to \$211,171 (2018: \$183,942). Employee benefit expenses amounted to \$246,413 (2018: \$165,496). Share based payments during the period amounted to \$258,868 (2018: \$149,358). Shares were also issued to directors in lieu of directors fees as approved by shareholders at the Company's Annual General Meeting held on 13 November 2018. In addition, the Company also recognised a liability of \$1,280,318 in relation to research and development tax claims. The claim was awarded during a previous financial year however, subsequent to an audit the claim was rejected by the Innovation Science Australia and as such the Company recognised a liability equivalent to the research and development tax claims received.

Financial Position

The net assets of the consolidated entity increased by \$3,081,409 to \$16,286,135 as at 30 June 2019 (2018: \$13,204,726). The consolidated entity's working capital position, being current assets less current liabilities was deficit of \$547,120 at 30 June 2019 (2018: surplus \$1,308,878). During the period the consolidated entity had a negative cash flow from operating activity of \$3,733,150 (2018: \$2,476,302).

Significant changes in the state of affairs

On 31 July 2018, the consolidated entity made an off-market offer to acquire all of the issued shares of Rawson Oil and Gas Limited (ASX: RAW), an Australian listed Company undertaking exploration and evaluation activities in Australia and overseas. The Offer was declared unconditional on 15 August 2018 with more than 50.1% acceptance, at which point the consolidated entity obtained control over Rawson. The Offer was closed on 24 September 2018 with the consolidated entity obtaining 89.18% ownership interest in Rawson. On 5 June 2019, the Company also acquired additional 4.33% ownership interest from the remaining shareholders of Rawson. In addition, on 14 June 2019, the Company acquired a 6.49% ownership interest in Dondonald Limited, a 93.51% owned subsidiary of Rawson. These acquisitions were completed on a scrip-for-scrip basis, where the accepting shareholders of Rawson and Dondonald were issued with shares in the Company. At the reporting date, the Company's interest in Rawson is 93.51%.



On 21 September 2018, the Victorian Supreme Court rejected the consolidated entity's claims in relation to the Victorian Government's state-wide moratorium on on-shore gas exploration, that its pre-existing obligations and commitments (as specified in its Licences) fall within the legislated exemptions to the Victorian Government's exploration moratorium.

On 5 November 2018 the Company lodged an appeal against the decision handed down by Justice Macaulay on 21 September 2018. The Appeal was heard in the Victorian Supreme Court on 6 August 2019. At the date of this report a decision is awaited.

During September 2018, the consolidated entity sold a section of the land for a total of \$320,000 (before costs). These funds were used for ongoing working capital purposes.

On 9 October 2018, the consolidated entity issued a total of 153,576,015 fully paid ordinary shares as part of the consideration for ordinary shares in Rawson under its Off-Market Takeover Bid.

On 29 October 2018, the consolidated entity issued a total of 10,308,000 unlisted options to eligible Rawson option holders, as the consideration for the cancellation of options in Rawson. The options have been issued on the same terms as the current class of options currently on issue.

On 17 December 2018, the consolidated entity completed a placement to professional and sophisticated investors for 350,000,000 fully paid ordinary shares at \$0.001 (0.1 cents) per share to raise \$350,000 (before costs).

On 19 December 2018, the consolidated entity announced that it would undertake a non-renounceable entitlement offer of one fully paid ordinary share for every five shares held by eligible security holders.

On 14 February 2019, the consolidated entity issued 10,000,000 fully paid ordinary shares to an employee of the consolidated entity.

On 22 February 2019, the consolidated entity announced the issue of 2,080,467,190 fully paid ordinary shares following applications received in relation to the non-renounceable entitlement offer which closed on 15 February 2019. The total subscriptions amounted to \$2,080,467 (before costs).

On 8 April 2019, the consolidated entity issued 10,000,000 fully paid shares to an employee of the Company. In addition, the Company also issued 414,035,400 fully paid shares under the Entitlement Offer dated 19 December 2019 to settle third party liabilities.

During the year the consolidated entity issued a total of 153,486,667 fully paid ordinary shares to directors in lieu of fees as approved at the company's Annual General Meeting held on 13 November 2018. These shares were allotted following the grant of a waiver in accordance with ASX Listing Rules 10.13.3 and 10.13.5. The waiver states that the price of the shares issued in lieu of directors fees will be the higher of a deemed issue price of \$0.001 and the monthly volume weighted average price of the shares prior to the relevant issue date.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

On 12 July 2019, the consolidated entity issued 11,536,900 fully paid ordinary shares to Directors in lieu of outstanding Directors fees as approved by shareholders at the 2018 Annual General Meeting.

On 16 July 2019, the consolidated entity completed the sale of a parcel of land near Seaspray. This was disclosed as held for sale assets as at 30 June 2019.

On 14 August 2019, the consolidated entity issued 11,536,900 fully paid ordinary shares to Directors in lieu of outstanding Directors fees as approved by shareholders at the 2018 Annual General Meeting.

On 3 September 2019, legal proceedings between Dondonald Limited, a subsidiary of the Company, and Papua New Guinea's Minister for Petroleum have been finalised in the Company's favour.

On 13 September 2019, the consolidated entity issued 11,536,900 fully paid ordinary shares to Directors in lieu of outstanding Directors fees as approved by shareholders at the 2018 Annual General Meeting.



No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Environmental regulation

Lakes Oil and its subsidiaries holds interest in petroleum exploration permits and mineral licences in Australia (Victoria, South Australia and Queensland), Papua New Guinea and the United States of America. All of these permits and licences impose regulations regarding environmental issues. There have been no known breaches of the environmental regulations during the financial year.

Information on directors

Name: Chris Tonkin
Title: Non-Executive Chairman
Qualifications: BSc (Hons.), BA, MBA, GAICD
Experience and expertise: Mr. Tonkin is the Chairman (appointed 23 May 2016) and a Non-Executive Director (appointed in 2015) and a former Managing Director of Arafura Resources Limited and is an Executive Director of advisory companies Catalyst Capital Solutions and Capital Advisory Services. He began his career as a metallurgist and environmental specialist and diversified into commercial roles at several major industrial companies and subsequently project finance, corporate and project advisory roles at AIDC, The Chase Manhattan Bank, KPMG Corporate Finance and ANZ, where his roles included Head of Project and Structured Finance and Head of Natural Resources. He has over 36 years' experience as a senior business executive with an extensive industry background in business development and management, finance and strategy development across all major industry sectors and particularly natural resources as an advisor and financier to the mining and metals and oil and gas industries.

Other current directorships: Arafura Resources Limited (ASX: ARU)

Former directorships (last 3 years): Nil

Interests in shares: 85,218,162 fully paid ordinary shares

Interests in options: Nil

Interests in rights: 3,881,945 unlisted performance rights

Name: Nicholas Mather
Title: Non-Executive Director
Qualifications: BSc (Hons. Geology) MAusIIM
Experience and expertise: Mr. Mather has served on the Board since February 2012 and in addition is currently Managing Director and founder of DGR Global Limited, Executive Chairman and founder of Armour Energy Ltd and Director (and co-founder) of SolGold Plc (LSE AIM). Mr. Mather has been involved in the junior resource sector at all levels for more than 30 years and was co-founder and a Non-Executive Director of Bow Energy Ltd until it was acquired by Arrow Energy NL for \$530 million in December 2011. Mr. Mather was also co-founder and served as an Executive Director of Arrow Energy NL until 2004. Arrow Energy NL was acquired by Royal Dutch Shell Plc and the PetroChina Group, for a value of approximately \$3.5 billion in 2010. Mr. Mather is Executive Chairman of Armour Energy Ltd and was also Chairman of Waratah Coal Inc. before its \$130 million takeover by Clive Palmer's Mineralogy Ltd in 2009.

Other current directorships: DGR Global Limited (ASX: DGR), SolGold Plc (LSE: SOLG), Amour Energy Ltd (ASX: AJQ), AusTim Mining Ltd (ASX: ANW), Iron Ridge Resources Limited (LSE: IRR) and Dark Horse Resources (ASX: DHR)

Former directorships (last 3 years): Nil

Special responsibilities: Member of Nomination and Remuneration Committee

Interests in shares: 108,888,973 fully paid ordinary shares

Interests in options: Nil

Interests in rights: Nil



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

Other current directorships: Niuminco Group Limited (ASX: NIU), Kefi Minerals Ltd (AIM: KEFI) and unlisted TNT Mines Ltd.

Former directorships (last 3 years): Silver City minerals Ltd (ASX: SCI) (resigned 19 November 2017)

Special responsibilities: Chairman of Nomination and Remuneration Committee and Member of Audit and Risk Committee

Interests in shares: 87,468,162 fully paid ordinary shares

Interests in options: Nil

Interests in rights: 2,256,945 unlisted performance rights

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

Other current directorships: Nil

Former directorships (last 3 years): Nil

Special responsibilities: Chairman of Audit and Risk Committee and member of Nomination and Remuneration Committee

Interests in shares: 100,697,987 fully paid ordinary shares

Interests in options: Nil

Interests in rights: 5,000,000 unlisted performance rights

Name: Richard Ash
Title: Non-Executive Director (Appointed 20 August 2018)
Qualifications: BComm, CA
Experience and expertise: Mr Ash is a Chartered Accountant and has a Bachelor of Economics degree with more than 25 years of experience in funds management and finance in Australia and Asia. Prior to forming AAP Capital, Mr Ash was a Managing Director, Head of Asset Finance for Developed Asia and a member of the Australian executive team for Nomura Australia. He has also worked at Westpac, Macquarie Bank and KPMG.

Other current directorships: Nil

Former directorships (last 3 years): Nil

Special responsibilities: Member of Audit and Risk Committee

Interests in shares: 51,820,020 Fully paid ordinary shares

Interests in options: 2,940,000 Unlisted options

Interests in rights: Nil



Name: Barney Berold
Title: Non-executive director (Resigned 24 April 2019)
Qualifications: BCom, MBA.
Experience and expertise: 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.
Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: Nil
Interests in options: Nil
Interests in rights: Nil

Name: William Stubbs
Title: Non-Executive Director (Retired 13 November 2018)
Qualifications: LLB
Experience and expertise: Mr Stubbs was appointed to the Board in 2012. He is a lawyer with 40 years' experience, having practiced in the area of commercial law including stock exchange listings and all areas of mining law. Mr Stubbs has been a Director of various public companies over the past 27 years in the mineral exploration and biotech fields. He is the former Chairman of Alchemia Limited, Stradbroke Ferries Limited and Bemax Resources Limited which discovered and developed extensive mineral sands resources in the Murray Basin. He was the founding Chairman of Arrow Energy NL. Mr. Stubbs currently acts as the Non-Executive Chairman of DGR Global Limited (appointed in 2009). He also serves as a Non-Executive Director of Armour Energy Ltd (appointed in 2009).
Other current directorships: DGR Global Limited (ASX: DGR)
Former directorships (last 3 years): Amour Energy Ltd (ASX: AJQ) (Retired 27 November 2018)
Interests in shares: Nil
Interests in options: Nil
Interests in rights: Nil

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Chief Executive Officer

Roland Sleeman

Mr Sleeman has over 30 years' experience in oil and gas as well as utilities and infrastructure. Mr Sleeman has served in various senior management roles within the oil and gas industry including with Eastern Star Gas Limited as Chief Commercial Officer and AGL as General Manager of the Goldfields Gas Pipeline. Mr Sleeman has extensive engineering and business experience including negotiation of gas sales agreements that provided a foundation for development of the North West Shelf Project, commercialisation of new gas and power station opportunities and management of Major gas transmission pipeline infrastructure. Mr Sleeman has provided specialist commercial regulatory and project development advice to both the public and private sectors. He has served as a Director of Armour Energy Limited since 2011.

Mr Sleeman held 186,064,422 fully paid shares as at 30 June 2019. He was appointed as Non-Executive Director on 5 September 2018 and resigned on 13 November 2018.

Company secretary

Melanie Leydin

Ms Leydin has over 25 years' experience in the accounting profession and is a director and company secretary for a number of oil and gas, junior mining and exploration entities listed on the Australian Securities Exchange. She is a Chartered Accountant and is a Registered Company Auditor. She Graduated from Swinburne University in 1997, became a Chartered Accountant in 1999 and since February 2000 has been the principal of chartered accounting firm, Leydin Freyer, and Director of Leydin Freyer Corp Pty Ltd, specialising in outsourced company secretarial and financial duties for resources and biotechnology sectors.



Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2019, and the number of meetings attended by each director were:

| | Full Board | | Nomination and Remuneration Committee | | Audit and Risk Committee | |
|-----------------|------------|------|---------------------------------------|------|--------------------------|------|
| | Attended | Held | Attended | Held | Attended | Held |
| Chris Tonkin | 20 | 20 | - | - | - | - |
| Barney Berold | 19 | 19 | - | - | 2 | 2 |
| Nicholas Mather | 15 | 20 | - | - | - | - |
| Ian Plimer | 16 | 20 | - | - | 2 | 2 |
| William Stubbs | 6 | 10 | - | - | - | 1 |
| Kyle Wightman | 19 | 20 | - | - | - | - |
| Richard Ash | 15 | 15 | - | - | - | - |
| Roland Sleeman | 13 | 19 | - | - | 2 | 2 |

Held: represents the number of meetings held during the time the director held office.

- During the year under review there were no meetings of the Nomination and Remuneration Committee as there were neither increases in remuneration nor new employees hired other than those which were initiated and approved by the entire Board of the Company.

Remuneration report (audited)

Remuneration policy

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

The remuneration report is set out under the following main headings:

- Details of remuneration
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

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

The Nomination and 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.

ASX Listing rules requires that the aggregate non-executive directors' remuneration shall be determined periodically by a general meeting. The most recent such determination was at the Annual General Meeting held on 16 January 2017, where the shareholders approved a maximum aggregate remuneration of \$300,000. No amendments have been made to the available Non-Executive director remuneration pool since that date.

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

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



For directors and staff, the consolidated entity provides a remuneration package that consists of cash and equity based remuneration. The contracts for services between the consolidated entity and specified directors and executives are on a continuing basis and the terms of which are not expected to change.

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

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.

Voting and comments made at the company's 13 November 2018 Annual General Meeting ('AGM')

The Company received 99.19% of 'for' votes in relation to its remuneration report for the year ended 30 June 2018. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Named directors and executives

The names and positions of each person who held the position of director at any time during the financial year is provided below.

- Chris Tonkin (Non-Executive Chairman)
- Barney Berold (Non-Executive Director) - Resigned 24 April 2019
- Nicholas Mather (Non-Executive Director)
- Ian Plimer (Non-Executive Director)
- Kyle Wightman (Non-Executive Director)
- Richard Ash (Non-Executive Director) - Appointed 20 August 2018
- Roland Sleeman (Alternative Director) - Appointed 5 September 2018 and resigned 13 November 2018
- William Stubbs (Non-Executive Director) - Retired 13 November 2018

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

- Roland Sleeman (Chief Executive Officer)
- Tim O'Brien (Operations Manager)

Amounts of remuneration

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



| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | Total |
|--|----------------------|----------------------|--------------|--------------------------|--------------------|----------------------|----------------|
| | Cash salary and fees | Termination payments | Non-monetary | Super-annuation | Long service leave | Equity-settled * | |
| 2019 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | |
| Barney Berold** | 6,753 | - | - | 2,362 | - | 18,107 | 27,222 |
| Nicholas Mather | - | - | - | - | - | 33,333 | 33,333 |
| Ian Plimer | 8,316 | - | - | 2,892 | - | 22,125 | 33,333 |
| William Stubbs*** | 2,939 | - | - | 1,036 | - | 7,969 | 11,944 |
| Chris Tonkin | 8,316 | - | - | 2,892 | - | 22,125 | 33,333 |
| Kyle Wightman | 2,916 | - | - | 2,892 | - | 27,525 | 33,333 |
| Richard Ash | - | - | - | - | - | 28,703 | 28,703 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| Roland Sleeman | 83,216 | - | - | - | - | 78,981 | 162,197 |
| Tim O'Brien | 216,595 | - | - | 22,477 | 4,150 | 20,000 | 263,222 |
| | <u>329,051</u> | <u>-</u> | <u>-</u> | <u>34,551</u> | <u>4,150</u> | <u>258,868</u> | <u>626,620</u> |

* Equity settled remuneration for Non-Executive directors and employees relates to share issued in lieu of directors fees as approved by shareholders at the Company's Annual General Meeting held on 13 November 2018.

** Barney Berold resigned 24 April 2019

*** Williams Stubbs retired 13 November 2018

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | Total |
|--|----------------------|----------------------|--------------|--------------------------|--------------------|----------------------|----------------|
| | Cash salary and fees | Termination payments | Non-monetary | Super-annuation | Long service leave | Equity-settled * | |
| 2018 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | |
| Barney Berold | 8,316 | - | - | 2,892 | - | 22,125 | 33,333 |
| Nicholas Mather | - | - | - | - | - | 33,333 | 33,333 |
| Ian Plimer | 8,316 | - | - | 2,892 | - | 22,125 | 33,333 |
| William Stubbs | 8,316 | - | - | 2,892 | - | 22,125 | 33,333 |
| Chris Tonkin | 8,316 | - | - | 2,892 | - | 22,125 | 33,333 |
| Kyle Wightman | 2,916 | - | - | 2,892 | - | 27,525 | 33,333 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| Roland Sleeman | 155,063 | - | - | - | - | - | 155,063 |
| Tim O'Brien | 219,696 | - | - | 20,871 | 2,472 | - | 243,039 |
| | <u>410,939</u> | <u>-</u> | <u>-</u> | <u>35,331</u> | <u>2,472</u> | <u>149,358</u> | <u>598,100</u> |

* Equity settled remuneration for Non-Executive directors and employees relates to share issued in lieu of directors fees as approved by shareholders at the Company's Annual General Meeting held on 16 January 2016 and 13 November 2017.



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

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|--|--------------------|------|---------------|------|---------------|------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| <i>Non-Executive Directors:</i> | | | | | | |
| Chris Tonkin | 100% | 100% | - | - | - | - |
| Barney Berold | 100% | 100% | - | - | - | - |
| Nicholas Mather | 100% | 100% | - | - | - | - |
| Ian Plimer | 100% | 100% | - | - | - | - |
| William Stubbs | 100% | 100% | - | - | - | - |
| Kyle Wightman | 100% | 100% | - | - | - | - |
| <i>Other Key Management Personnel:</i> | | | | | | |
| Roland Sleeman | 100% | 100% | - | - | - | - |
| Tim O'Brien | 100% | 100% | - | - | - | - |

Share-based compensation

Issue of shares

A total of 78,109,950 fully paid ordinary shares were issued to directors in lieu of directors fees as approved at the Company's Annual General Meeting held on 13 November 2018. A total of 20,000,000 shares were issued to an employee of the Company in lieu of fees. A total of 78,981,090 shares were issued to the CEO in lieu of consulting service provided.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

| Name | Number of options granted | Grant date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value per option at grant date |
|-------------|---------------------------|-----------------|-----------------------------------|----------------|----------------|-------------------------------------|
| Tim O'Brien | 20,000,000 | 8 January 2016 | 8 January 2016 | 8 January 2021 | \$0.005 | \$0.001 |
| Richard Ash | 2,940,000 | 29 October 2018 | 29 October 2018 | 8 January 2021 | \$0.005 | \$0.0004 |

Options granted carry no dividend or voting rights.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2019.

Performance rights

There were no performance rights over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2019.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2019 are summarised below:

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|---------|---------|---------|----------|---------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenue (excluding fair value gains and losses) (\$'000) | 872 | 20 | 64 | 1,205 | 51 |
| Loss before tax (\$'000) | (3,349) | (2,040) | (7,606) | (49,589) | (2,743) |
| Change in share price (%) | (50) | 150 | - | (50) | (33) |

The remuneration policy is not directly related to the consolidated entity's performance and the above data is provided for information only.



Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by any director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration | Additions | Other | Balance at the end of the year |
|------------------------|--|--|--------------------|----------------------|--------------------------------------|
| <i>Ordinary shares</i> | | | | | |
| Barney Berold* | 113,462,615 | 8,888,550 | - | (122,351,165) | - |
| William Stubbs** | 56,561,782 | - | - | (56,561,782) | - |
| Roland Sleeman | 107,083,332 | - | 78,981,090 | - | 186,064,422 |
| Tim O'Brien | 19,500,000 | 20,000,000 | 5,500,000 | - | 45,000,000 |
| Christopher Tonkin | 57,186,782 | 11,062,680 | 11,437,360 | - | 79,686,822 |
| Ian Plimer | 59,061,782 | 11,062,680 | 11,812,360 | - | 81,936,822 |
| Kyle Wightman | 66,711,637 | 13,762,680 | 13,342,330 | - | 93,816,647 |
| Nick Mather | 69,907,453 | 16,666,680 | 13,981,500 | - | 100,555,633 |
| Richard Ash | - | 16,666,680 | 26,820,000 | - | 43,486,680 |
| | <u>549,475,383</u> | <u>98,109,950</u> | <u>161,874,640</u> | <u>(178,912,947)</u> | <u>630,547,026</u> |

* Mr Berold resigned as Non-Executive Director on 24 April 2019. The balance shown in "Other" column represents his shareholding as at the date of resignation.

** Mr Stubbs retired from the Board on 13 November 2018. The balance shown in "Other" column represents his shareholding as at the date of his retirement.

Option holding

The number of options over ordinary shares in the Company held during the financial year by any director and other members of key management personnel of the consolidated entity, including their related parties, is set out below:

| | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|-------------------------------------|--|------------------|-----------|---------------------------------|--------------------------------------|
| <i>Options over ordinary shares</i> | | | | | |
| Tim O'Brien* | 20,000,000 | - | - | - | 20,000,000 |
| Richard Ash** | - | 2,940,000 | - | - | 2,940,000 |
| | <u>20,000,000</u> | <u>2,940,000</u> | <u>-</u> | <u>-</u> | <u>22,940,000</u> |

*The options granted to Mr Tim O'Brien as listed above vested upon on the date of grant. A term of the option specifies that options will lapse on their expiry date or 60 days after ceasing employment, whichever is earliest.

** Issue of options to Mr Richard Ash an eligible Rawson option holder, pursuant to the off-market takeover bid for all of the ordinary shares in Rawson, on the terms set out in the bidder's statement dated 8 August 2018.

Performance rights holding

The number of performance rights over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their related parties, is set out below:

| | Balance at the start of the year | Granted | Vested | Other | Balance at the end of the year |
|--|--|----------|----------|--------------------|--------------------------------------|
| <i>Performance rights over ordinary shares</i> | | | | | |
| William Stubbs* | 3,756,945 | - | - | (3,756,945) | - |
| Christopher Tonkin | 3,881,945 | - | - | - | 3,881,945 |
| Ian Plimer | 2,256,945 | - | - | - | 2,256,945 |
| Kyle Wightman | 5,000,000 | - | - | - | 5,000,000 |
| | <u>14,895,835</u> | <u>-</u> | <u>-</u> | <u>(3,756,945)</u> | <u>11,138,890</u> |

* Mr Stubbs retired from the Board on 13 November 2018. The balance shown in "Other" column represents his performance rights holding as at the date of his retirement.



Other transactions with key management personnel and their related parties

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

Mr Nicholas Mather is Director of Armour Energy Ltd. Armour Energy Ltd is party to an agreement with Lakes Oil NL as described in the tenement table detailed in the shareholder information section.

Mr Nicholas Mather's remuneration is settled via an entity that is controlled by Mr Mather called Samuel Capital Pty Ltd.

Mr Roland Sleeman's remuneration is also settled via an entity controlled by Mr Sleeman ATF The Sleeman Trust.

The consolidated entity accrued the \$200,000 for Rawson director fees owed to Mr Richard Ash as at 30 June 2019.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Lakes Oil NL under option at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under option |
|-----------------|----------------|----------------|--------------------------|
| 8 January 2016 | 8 January 2021 | \$0.005 | 20,000,000 |
| 29 October 2018 | 8 January 2021 | \$0.005 | <u>10,308,000</u> |
| | | | <u><u>30,308,000</u></u> |

Options expired

The 20,000,000 options listed above were issued to an employee (non-director) in line with their respective remuneration packages as detailed in the options holding table set out on the preceding page.

The 2,940,000 Unlisted Options were issued to Mr Richard Ash, an eligible Rawson option holder, pursuant to the off-market takeover bid for all of the ordinary shares in Rawson, on the terms set out in the bidder's statement dated 8 August 2018.

Shares issued on the exercise of options

There were no ordinary shares of Lakes Oil NL issued on the exercise of options during the year ended 30 June 2019 and up to the date of this report.

Shares under performance rights

Unissued ordinary shares of Lakes Oil NL under performance rights at the date of this report are as follows:

| Grant date | Expiry date | Hurdle price | Number under rights |
|---------------|----------------|--------------|---------------------|
| 24 March 2017 | 1 January 2022 | \$0.008 | 752,876,031 |

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

The performance rights listed above were granted as free attaching rights in relation to the non-renounceable entitlement offer announced 14 February 2017.

Shares issued on the exercise of performance rights

There were no ordinary shares of Lakes Oil NL issued on the exercise of performance rights during the year ended 30 June 2019 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.



During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 25 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 25 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

Pitcher Partners continues in office in accordance with section 327 of the Corporations Act 2001.

Rounding of amounts

Lakes Oil NL is a type of Company that is referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest dollar.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Chris Tonkin', written over a horizontal line.

Chris Tonkin
Chairman

4 October 2019

LAKES OIL NL
ABN 62 004 247 214
AND CONTROLLED ENTITIES

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF LAKES OIL N.L

In relation to the independent audit for the year ended 30 June 2019, 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 APES 110 Code of Ethics for Professional Accountants.

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



B POWERS
Partner

4 October 2019



PITCHER PARTNERS
Melbourne

For personal use only

Lakes Oil NL
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019



| | Note | Consolidated 2019 \$ | 2018 \$ |
|---|------|----------------------------|--------------------|
| Interest and other income | | | |
| Interest income | | 19,271 | 12,337 |
| Other income | 5 | 852,296 | 8,000 |
| | | <u>871,567</u> | <u>20,337</u> |
| Expenses | | | |
| Employee benefits expense | | (246,413) | (165,496) |
| Share based payments | | (258,868) | (149,358) |
| Depreciation expense | 6 | (18,649) | (20,803) |
| Loss on disposal of assets | | - | (19,385) |
| Impairment expense | 6 | (211,171) | (183,942) |
| Accounting and audit expenses | | (115,735) | (77,623) |
| Administrative expenses | 6 | (1,515,329) | (988,098) |
| Consulting expenses | | (253,993) | (221,855) |
| Finance costs | | (37,746) | (80,857) |
| Marketing and promotion expenses | | (71,600) | (21,900) |
| Rent and occupancy expenses | | (211,093) | (131,150) |
| R&D repayable | | <u>(1,280,318)</u> | <u>-</u> |
| Loss before income tax expense | | (3,349,348) | (2,040,130) |
| Income tax expense | 7 | - | - |
| Loss after income tax expense for the year | | (3,349,348) | (2,040,130) |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive income for the year | | <u>(3,349,348)</u> | <u>(2,040,130)</u> |
| Loss for the year is attributable to: | | | |
| Non-controlling interest | | 14,182 | - |
| Owners of Lakes Oil NL | | <u>(3,363,530)</u> | <u>(2,040,130)</u> |
| | | <u>(3,349,348)</u> | <u>(2,040,130)</u> |
| Total comprehensive income for the year is attributable to: | | | |
| Non-controlling interest | | 14,182 | - |
| Owners of Lakes Oil NL | | <u>(3,363,530)</u> | <u>(2,040,130)</u> |
| | | <u>(3,349,348)</u> | <u>(2,040,130)</u> |
| | | Cents | Cents |
| Basic loss per share | 33 | (0.01) | (0.01) |
| Diluted loss per share | 33 | (0.01) | (0.01) |

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Lakes Oil NL
Statement of financial position
As at 30 June 2019



| | Note | Consolidated 2019 \$ | 2018 \$ |
|---|------|----------------------------|-------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 2,468,897 | 1,286,550 |
| Trade and other receivables | 9 | 199,000 | 215,335 |
| Held for sale asset | 10 | 375,000 | 320,000 |
| Other financial assets | 11 | 386,512 | - |
| Prepayments | | 48,339 | 46,239 |
| Total current assets | | <u>3,477,748</u> | <u>1,868,124</u> |
| Non-current assets | | | |
| Other receivables | 12 | 12,000 | 12,000 |
| Property plant and equipment | 13 | 606,035 | 988,362 |
| Exploration and evaluation | 14 | 16,765,220 | 11,195,486 |
| Total non-current assets | | <u>17,383,255</u> | <u>12,195,848</u> |
| Total assets | | <u>20,861,003</u> | <u>14,063,972</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 15 | 2,211,166 | 465,516 |
| Provisions | 16 | 87,702 | 93,730 |
| Other current liabilities | 17 | 1,726,000 | - |
| Total current liabilities | | <u>4,024,868</u> | <u>559,246</u> |
| Non-current liabilities | | | |
| Provisions | 18 | 550,000 | 300,000 |
| Total non-current liabilities | | <u>550,000</u> | <u>300,000</u> |
| Total liabilities | | <u>4,574,868</u> | <u>859,246</u> |
| Net assets | | <u>16,286,135</u> | <u>13,204,726</u> |
| Equity | | | |
| Issued capital | 19 | 133,389,920 | 127,044,347 |
| Reserves | 20 | 23,666 | 19,800 |
| Accumulated losses | | (117,222,951) | (113,859,421) |
| Equity attributable to the owners of Lakes Oil NL | | 16,190,635 | 13,204,726 |
| Non-controlling interest | 21 | 95,500 | - |
| Total equity | | <u>16,286,135</u> | <u>13,204,726</u> |

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

Lakes Oil NL
Statement of changes in equity
For the year ended 30 June 2019



| Consolidated | Issued capital \$ | Share based payment reserve \$ | Accumulated losses \$ | Total equity \$ |
|--|-----------------------------|--|---------------------------------|---------------------------|
| Balance at 1 July 2017 | 122,876,152 | 25,740 | (111,825,231) | 11,076,661 |
| Loss after income tax expense for the year | - | - | (2,040,130) | (2,040,130) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | (2,040,130) | (2,040,130) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 19) | 4,168,195 | - | - | 4,168,195 |
| Lapse of options | - | (5,940) | 5,940 | - |
| Balance at 30 June 2018 | <u>127,044,347</u> | <u>19,800</u> | <u>(113,859,421)</u> | <u>13,204,726</u> |

| Consolidated | Issued capital \$ | Share based payment reserve \$ | Accumulated losses \$ | Minority interest \$ | Total equity \$ |
|--|-----------------------------|--|---------------------------------|--------------------------------|---------------------------|
| Balance at 1 July 2018 | 127,044,347 | 19,800 | (113,859,421) | - | 13,204,726 |
| Profit/(loss) after income tax expense for the year | - | - | (3,363,530) | 14,182 | (3,349,348) |
| Other comprehensive income for the year, net of tax | - | - | - | - | - |
| Total comprehensive income for the year | - | - | (3,363,530) | 14,182 | (3,349,348) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Contributions of equity, net of transaction costs (note 19) | 6,345,573 | - | - | - | 6,345,573 |
| Share-based payments (note 34) | - | 3,866 | - | - | 3,866 |
| Non-controlling interest | - | - | - | 81,318 | 81,318 |
| Balance at 30 June 2019 | <u>133,389,920</u> | <u>23,666</u> | <u>(117,222,951)</u> | <u>95,500</u> | <u>16,286,135</u> |

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

Lakes Oil NL
Statement of cash flows
For the year ended 30 June 2019



| | Note | Consolidated 2019 \$ | 2018 \$ |
|--|------|----------------------------|-------------------------|
| Cash flows from operating activities | | | |
| Receipts on other income | | 2,500 | 8,090 |
| Payments to suppliers and employees | | (2,270,986) | (2,209,739) |
| Payments for exploration and evaluation costs | | (1,483,935) | (215,557) |
| Interest received | | 19,271 | 12,246 |
| Finance costs | | - | (71,342) |
| Net cash used in operating activities | 32 | <u>(3,733,150)</u> | <u>(2,476,302)</u> |
| Cash flows from investing activities | | | |
| Proceeds from sale of land | | 318,182 | 386,695 |
| Cash acquired on acquisition of Rawson Oil and Gas Limited | | 2,511,214 | - |
| Investments in Term Deposit | | (154,828) | - |
| Net cash from investing activities | | <u>2,674,568</u> | <u>386,695</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 2,269,708 | 3,895,374 |
| Share issue transaction costs | | (28,779) | (112,393) |
| Repayment of borrowings | | - | (1,000,000) |
| Net cash from financing activities | | <u>2,240,929</u> | <u>2,782,981</u> |
| Net increase in cash and cash equivalents | | 1,182,347 | 693,374 |
| Cash and cash equivalents at the beginning of the financial year | | <u>1,286,550</u> | <u>593,176</u> |
| Cash and cash equivalents at the end of the financial year | 8 | <u><u>2,468,897</u></u> | <u><u>1,286,550</u></u> |

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



Note 1. General information

The financial statements cover Lakes Oil NL as a consolidated entity consisting of Lakes Oil NL and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Lakes Oil NL's functional and presentation currency.

Lakes Oil NL is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 4, 100 Albert Road
South Melbourne VIC 3205

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 4 October 2019. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

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

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

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available. In applying AASB 9, there were no adjustments required or impact on the financial statements.



Note 2. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

The consolidated entity has not generated any revenue from contracts with customers. Therefore, there are no changes in the consolidated entity's revenue recognition which means there have been no adjustments made to the opening retained earnings balance.

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 2019 of \$3,349,348 (2018: \$2,040,130) and at reporting date has net assets of \$16,286,135 (2018: \$13,204,726) including \$16,765,220 (2018: \$11,195,486) of capitalised exploration, evaluation and development costs. As at 30 June 2019, the consolidated entity had net current liabilities of \$547,120 (2018: \$1,308,878 net current assets).

The Directors have concluded that the going concern basis is appropriate, based on analysis of the consolidated entity's existing cash reserves and internal cash flow forecasts which include their current estimate of expected future capital raisings and future financial commitments and other cash flows over the next 12 months.

The consolidated entity has prepared a detailed cash flow forecast covering twelve months from the date of this report. This forecast includes the assumptions of a minimum of \$2m in funding from a capital raising to fund immediate working capital needs, of which the Company is in advanced negotiations in entering into other funding arrangements to cover \$5,930,346 in forecast capital working requirements and well costs. The forecast assumes a successful deferral of the Innovation Science Australia R&D tax liability of \$1,280,318 and the assumption the consolidated entity will be successful in its future appeal hearing in relation to this matter. It has also been assumed that the consolidated entity will be successful in its current appeal process with the Minister for Energy & Resources (Victoria) in relation to the moratorium on petroleum exploration and the contingent liabilities described in Note 26 will not eventuate.

In the immediate future, the consolidated entity will undertake a capital raising to raise funds for working capital purposes.

However, if the actual outcomes differ significantly from the planned actions above and the consolidated entity requires additional funds, the consolidated entity may need to take one or more of the following measures:

- Raise additional capital over and above the actions described above. The consolidated entity has demonstrated its ability to raise capital during the year and the Directors are confident that a future capital raising would be successful;
- Directors and KMP to provide funding facility to meet working capital needs;
- Sale or mortgage of the remaining property, refer to Note 10 for land sold subsequent to year end;
- Continue to reduce corporate overhead costs;
- Continue to pursue opportunities to negotiate pre-paid gas supply contracts, however at the date of this report no agreements have been signed;
- Continue 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;

This financial report has been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. In the event these steps do not provide sufficient funds to meet the consolidated entity's exploration and operating commitments, the interest in some or all of the consolidated entity's tenements may be affected. No adjustments have been made relating to the recoverability and reclassification of recorded asset amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern, particularly the write-down of capitalised exploration expenditure should the exploration permits be ultimately surrendered or cancelled.



Note 2. Significant accounting policies (continued)

Having carefully assessed the potential uncertainties relating to the consolidated entity's ability to effectively fund exploration activities and operating expenditures, the Directors believe that the consolidated entity will continue to operate as a going concern for the foreseeable future. Therefore, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

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

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

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation to fair value of financial assets to fair value and liabilities at fair value through profit or loss and certain classes of property, plant and equipment.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 29.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Lakes Oil NL ('Company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Lakes Oil NL and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.



Note 2. Significant accounting policies (continued)

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Lakes Oil NL's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Revenue recognition

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Interest income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Investment and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.



Note 2. Significant accounting policies (continued)

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

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.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses, assets and liabilities (exclude receivables and payables) are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

Comparatives

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



Note 2. Significant accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but no material impact is expected as the consolidated entity currently has no leases.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.



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

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

Deferred tax assets and liabilities are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. Deferred tax assets arising from tax losses are not recognised at balance date as realisation of the benefit is not probable.

Employee benefits provision

As discussed in Note 16, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Provision for restoration costs

A provision has been made for the present value of anticipated costs for future rehabilitation of land explored or mined. The consolidated entity's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The consolidated entity recognises management's best estimate for assets retirement obligations and site rehabilitations in the period in which they are incurred. Actual costs incurred in the future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Exploration costs

Exploration costs have been capitalised on the basis that the consolidated entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

Note 4. Operating segments

Identification of reportable operating segments

The Consolidated Entity operates in one industry being exploration for oil and gas reserves, principally in Australian on-shore (Victoria, South Australia and Queensland), Papua New Guinea (PNG) and the United States of America (USA). Currently the consolidated entity does not generate any revenues from contracts with customers and only incurred expenses on operations and exploration activities. Therefore, the Consolidated Entity does not prepare operating segment reports, rather operational results are reviewed collectively for the group.



Note 5. Other income

| | Consolidated | |
|-------------------|---------------------|--------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Government grants | 761,272 | - |
| Other income | 91,024 | 8,000 |
| | <u>852,296</u> | <u>8,000</u> |

Accounting policy for government grants

Government grant is recognised in the statement of profit or loss and other comprehensive income on a systematic basis over the periods in which the consolidated entity recognises as expenses the related costs for which the grants are intended to compensate.

Accounting policy for other income

Other income is recognised when it is received or when the right to receive payment is established.

Note 6. Expenses

| | Consolidated | |
|--|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Loss before income tax includes the following specific expenses: | | |
| <i>Depreciation expense</i> | | |
| Property, plant and equipment | 18,649 | 20,803 |
| <i>Impairment expense</i> | | |
| Impairment of exploration and evaluation assets | 211,171 | 183,942 |
| <i>Administrative expenses</i> | | |
| Travel and accommodation | 61,105 | 36,965 |
| Share registry costs and listing fees | 267,608 | 137,548 |
| Legal fees | 601,578 | 551,466 |
| Directors fees | 76,553 | 168,874 |
| Insurance premiums | 169,109 | 110,714 |
| Office expenses | 46,559 | 17,924 |
| Copier, postage and courier costs | 158,006 | 27,609 |
| Consultancy, accountancy and secretarial fees | 304,509 | - |
| Less portion attributed to exploration permits capitalised | (169,698) | (63,002) |
| Total administrative | <u>1,515,329</u> | <u>988,098</u> |

Specific items

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



Note 7. Income tax

| | Consolidated | |
|--|--------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i> | | |
| Loss before income tax expense | (3,349,348) | (2,040,130) |
| Tax at the statutory tax rate of 27.5% | (921,071) | (561,036) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-deductible expenses and timing differences | 72 | (17,596) |
| Impairment of exploration and evaluation assets | 58,072 | 50,584 |
| Non-deductible research and development expense | 352,087 | - |
| Amounts not brought to account as DTA in the current year | 402,668 | - |
| | (108,172) | (528,048) |
| Benefit of tax losses not brought to account | 108,172 | 528,048 |
| Income tax expense | - | - |

| | Consolidated | |
|---|--------------|------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Tax losses not recognised</i> | | |
| Unused tax losses for which no deferred tax asset has been recognised | 83,243,386 | 82,154,931 |
| Potential tax benefit @ 27.5% | 22,891,931 | 22,592,606 |

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed or, failing that, the same business test is passed.

The taxation benefits of tax losses and temporary differences will only be recognised if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by law; and
- (iii) no change in tax legislation adversely affects the consolidated entity in realising the benefits from deducting the losses.

Lakes Oil NL (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity is responsible for recognising the current and deferred tax assets arising in respect of tax losses for the tax consolidated group. The tax consolidated group has also entered a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

Accounting policy for income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.



Note 7. Income tax (continued)

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

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 8. Current assets - cash and cash equivalents

| | Consolidated | |
|-----------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Cash at bank* | 2,398,397 | 1,216,050 |
| Cash on deposit | 70,500 | 70,500 |
| | <u>2,468,897</u> | <u>1,286,550</u> |

*Included in Cash at Bank is \$2,151,481 from Rawson's share of cash balances from its Joint Operation with Vintage Energy Pty Ltd. This amount is restricted to be used only in the Joint Operation.

Accounting policy for cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 9. Current assets - trade and other receivables

| | Consolidated | |
|----------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Debtors | 89,262 | 209,348 |
| Rental deposit | 3,262 | - |
| GST receivable | 106,476 | 5,987 |
| | <u>199,000</u> | <u>215,335</u> |

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

Allowance for expected credit losses

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

| | Consolidated | |
|-------------------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Not past due (within 30 days) | 196,250 | 112,266 |
| Past due (outside 30 days) | 2,750 | 103,069 |
| | <u>199,000</u> | <u>215,335</u> |



Note 9. Current assets - trade and other receivables (continued)

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

Accounting policy for trade and other receivables

Trade and other receivables are measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Impairment

Allowances for impairment are recognised using an 'expected credit loss' ('ECL') model. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted.

Accounting policies applicable to comparative period (30 June 2018)

Trade and other receivables are recognised at amortised cost, less any provision for impairment.

Note 10. Current assets - held for sale asset

| | Consolidated | |
|----------------------------|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Held for sale asset - Land | 375,000 | 320,000 |

The held for sale asset noted above at 30 June 2019 related to a property that was sold subsequent to year end and had therefore been classified as held for sale assets.

Accounting policy for held for sale assets

Assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised. Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

Note 11. Current assets - Other financial assets

| | Consolidated | |
|---------------------|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Short term deposits | 386,512 | - |

Short term deposits are investments in bank term deposits with an initial maturity of more than three months but not more than twelve months. Interest on term deposits are accrued using the effective interest method. The funds are restricted for use as bank guarantees over Rawson tenements.



Note 12. Non-current assets - other receivables

| | Consolidated | |
|------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Security deposit | <u>12,000</u> | <u>12,000</u> |

The security deposit listed above relates to deposits held by government departments in relation to security over mining tenements.

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

| | Consolidated | |
|--------------------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Land and buildings - at cost | 1,216,477 | 1,591,477 |
| Less: Accumulated depreciation | (103,856) | (97,589) |
| Less: Accumulated Impairments | (548,410) | (548,410) |
| | <u>564,211</u> | <u>945,478</u> |
| Plant and equipment - at cost | 491,378 | 462,039 |
| Less: Accumulated depreciation | (449,554) | (419,155) |
| | <u>41,824</u> | <u>42,884</u> |
| | <u>606,035</u> | <u>988,362</u> |

Reconciliations

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

| Consolidated | Land and buildings \$ | Plant and equipment \$ | Total \$ |
|--------------------------------------|-----------------------------|------------------------------|----------------|
| Balance at 1 July 2017 | 1,272,211 | 56,954 | 1,329,165 |
| Transfers to held for sale asset | (320,000) | - | (320,000) |
| Depreciation expense | (6,733) | (14,070) | (20,803) |
| Balance at 30 June 2018 | 945,478 | 42,884 | 988,362 |
| Additions | - | 2,863 | 2,863 |
| Additions through Rawson acquisition | - | 8,459 | 8,459 |
| Transfers to held for sale asset | (375,000) | - | (375,000) |
| Depreciation expense | (6,267) | (12,382) | (18,649) |
| Balance at 30 June 2019 | <u>564,211</u> | <u>41,824</u> | <u>606,035</u> |

Accounting policy for property, plant and equipment

Land and buildings are carried at cost, less depreciation and impairment for buildings. Impairments and depreciation identified during the period are recognised in the statement of profit and loss and other comprehensive income.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.



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

Land is not depreciated. Depreciation on plant and equipment is calculated on a diminishing value basis to write off the net cost of each item over their expected useful lives. Depreciation on leasehold improvements is calculated on a straight line basis to write off the net cost of the items over the relevant lease term. The expected useful lives are as follows:

| | |
|---------------------|------------|
| Motor vehicles | 5 years |
| Technical equipment | 3-10 years |
| Computer equipment | 3 years |
| Plant and equipment | 7 years |
| Office Equipment | 8 years |
| Building | 40 years |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Note 14. Non-current assets - exploration and evaluation

| | Consolidated | |
|--------------------------------|---------------------|-------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Exploration and evaluation | 68,634,329 | 62,938,989 |
| Less: Provision for impairment | (51,869,109) | (51,743,503) |
| | <u>16,765,220</u> | <u>11,195,486</u> |

Reconciliations

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

| Consolidated | \$ |
|--------------------------------------|-------------------|
| Balance at 1 July 2017 | 11,163,871 |
| Expenditure during the year | 215,557 |
| Provision for impairment | <u>(183,942)</u> |
| Balance at 30 June 2018 | 11,195,486 |
| Additions through Rawson acquisition | 4,291,725 |
| Expenditure during the year | 1,489,180 |
| Impairment of assets | <u>(211,171)</u> |
| Balance at 30 June 2019 | <u>16,765,220</u> |

Significant judgment is required in determining whether it is likely that future economic benefits will be derived from the capitalised exploration and evaluation expenditure. During December 2016 the consolidated entity had an independent experts report completed by SRK Consulting. According to the published report each valuation of the consolidated entity's areas of interest in Victoria and Queensland exceeded the carrying book value at 30 June 2019. Given the Victorian Government's decision to ban onshore petroleum activities there is an uncertainty around the probability that the consolidated entity will be able to continue exploration activities in each area of interest. During the prior and current period the consolidated entity impaired all its expenditure that it had capitalised in relation to its Victorian exploration acreage in view of the Victorian Government's 30 August 2016 announcement that all onshore gas exploration is to be banned. The consolidated entity also booked an impairment expense of \$20,344 (2018: \$23,294) on its Eagle California asset following the independent valuation that was completed by SRK Consulting. 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 14. Non-current assets - exploration and evaluation (continued)

Accounting policy for exploration and evaluation assets

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

Exploration expenses are recognised net of exploration costs written off and rebate and grant income and joint operation contributions received. Rebate and grant income and joint operation contributions received in excess of net exploration costs are recognised as income. Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

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

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. Refer to note 18.

Note 15. Current liabilities - trade and other payables

| | Consolidated | |
|---|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Trade and accrued payables | 922,853 | 456,123 |
| Payable to Innovation Science Australia * | 1,280,318 | - |
| Other payables | 7,995 | 9,393 |
| | <u>2,211,166</u> | <u>465,516</u> |

Refer to note 23 for further information on financial instruments.

Terms and conditions relating to the above financial instruments:

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

*The amount noted above relates to a payable to Innovation Science Australia in relation to a prior research and development claim which has subsequently been rejected. The consolidated entity is rigorously defending its position and is currently appealing the rejection.

Accounting policy for trade payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at their nominal amount. The amounts are unsecured and are usually paid within 30 to 90 days of recognition.



Note 16. Current liabilities - provisions

| | Consolidated | |
|--------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Annual leave | 21,651 | 31,829 |
| Long service leave | 66,051 | 61,901 |
| | <u>87,702</u> | <u>93,730</u> |

Accounting policy for employee benefits

Short-term employee benefits

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled wholly within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employment benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables. Employee benefit obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Termination benefits

When applicable, the consolidated entity recognises a liability and expense for termination benefits at the earlier of:

- (a) the date when the entity can no longer withdraw the offer for termination benefits; and
- (b) when the entity recognises costs for restructuring pursuant to AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the costs include termination benefits.

Defined contribution superannuation fund

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

Note 17. Current liabilities - Other current liabilities

| | Consolidated | |
|---------------------------|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Deferred Government Grant | 1,726,000 | - |

Through its takeover of Rawson Oil and Gas Limited, the Joint Operation in relation to PEL155 with Vintage Energy Limited was awarded \$4.95 million under the South Australian Government PACE gas scheme in December 2017. During the year the consolidated entity has recognized the income of \$761,272 according to the PACE Agreement. The balance \$1,726,000 will be used in the exploration and evaluation activities of PEL155 and is not repayable to the South Australian Government as long as the conditions set by the Government are met.

Note 18. Non-current liabilities - provisions

| | Consolidated | |
|-------------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Restoration costs | 300,000 | 300,000 |
| Provision for royalties | 250,000 | - |
| | <u>550,000</u> | <u>300,000</u> |



Note 18. Non-current liabilities - provisions (continued)

Accounting policy for provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

The provision for royalties represents the fair value of a royalty payable that was determined when Rawson Oil and Gas Limited acquired its interest in Otway Energy Limited. The royalty is payable when production of oil and gas occurs from PEL154 and PEL155.

Note 19. Equity - issued capital

| | 2019 | Consolidated | | |
|------------------------------|-----------------------|-----------------------|--------------------|--------------------|
| | Shares | 2018 | 2019 | 2018 |
| | | Shares | \$ | \$ |
| Ordinary shares - fully paid | <u>33,342,875,761</u> | <u>28,776,319,346</u> | <u>133,389,920</u> | <u>127,044,347</u> |

For personal use



Note 19. Equity - issued capital (continued)

Movements in ordinary share capital

| Details | Date | Shares | | \$ |
|--|-------------------|-----------------------|----------|--------------------|
| Balance | 1 July 2017 | 24,646,898,682 | | 121,976,841 |
| Shares issued to Directors in lieu of fees | 10 July 2017 | 1,388,890 | \$0.001 | 1,389 |
| Shares issued to Directors in lieu of fees | 9 August 2017 | 1,388,890 | \$0.001 | 1,389 |
| Shares issued to Directors in lieu of fees | 13 September 2017 | 3,421,640 | \$0.001 | 3,422 |
| Shares issued to Directors in lieu of fees | 13 October 2017 | 5,998,340 | \$0.001 | 5,998 |
| Share placement | 13 October 2017 | 145,454,545 | \$0.0011 | 160,000 |
| Share placement | 16 October 2017 | 696,666,668 | \$0.0015 | 1,045,000 |
| Share placement | 18 October 2017 | 479,333,334 | \$0.0015 | 719,000 |
| Shares issued to Directors in lieu of fees | 13 November 2017 | 2,999,170 | \$0.002 | 5,998 |
| Shares issued on conversion of notes (LKOGB's) | 7 December 2017 | 57,982,398 | - | 52,579 |
| Shares issued to Directors in lieu of fees | 13 December 2017 | 144,891,900 | \$0.001 | 144,892 |
| Shares issued to Directors in lieu of fees | 13 December 2017 | 36,222,900 | \$0.002 | 72,443 |
| Share Purchase Plan | 15 December 2017 | 1,363,250,000 | \$0.0015 | 2,044,875 |
| Shares issued to Directors in lieu of fees | 12 January 2018 | 6,223,340 | \$0.002 | 12,447 |
| Shares issued to Directors in lieu of fees | 12 February 2018 | 12,446,680 | \$0.001 | 12,447 |
| Share placement | 12 February 2018 | 1,000,000 | \$0.0015 | 1,500 |
| Shares issued to Directors in lieu of fees | 14 March 2018 | 12,446,680 | \$0.001 | 12,447 |
| Shares issued to Directors in lieu of fees | 9 April 2018 | 6,223,340 | \$0.002 | 12,447 |
| Shares issued to Directors in lieu of fees | 14 May 2018 | 4,148,892 | \$0.003 | 12,447 |
| Shares issued on conversion of notes (LKOGB's) | 7 June 2018 | 1,143,784,165 | - | 1,037,200 |
| Shares issued to Directors in lieu of fees | 12 June 2018 | 4,148,892 | \$0.003 | 12,447 |
| Capital raising costs and note issue costs adjustments on conversions | | | | (302,861) |
| Balance | 30 June 2018 | 28,776,319,346 | | 127,044,347 |
| Share issued to as part Rawson Oil and Gas Limited Off Market Takeover Bid | 14 September 2018 | 1,365,579,780 | \$0.0021 | 2,990,620 |
| Share issued to as part Rawson Oil and Gas Limited Off Market Takeover Bid | 9 October 2018 | 153,576,015 | \$0.0021 | 336,331 |
| Share placement | 17 December 2018 | 350,000,000 | \$0.001 | 350,000 |
| Shares issued to Directors in lieu of fees | 15 January 2019 | 13,380,680 | \$0.001 | 13,381 |
| Shares issued to Directors in lieu of fees | 14 February 2019 | 13,380,680 | \$0.001 | 13,381 |
| Shares issued to Directors in lieu of fees | 14 February 2019 | 10,000,000 | \$0.001 | 10,000 |
| Non-renounceable rights issue | 22 February 2019 | 2,080,467,190 | \$0.001 | 2,080,467 |
| Shares issued to Directors in lieu of fees | 14 March 2019 | 13,380,680 | \$0.001 | 13,381 |
| Shares issued to Directors in lieu of fees | 8 April 2019 | 13,380,680 | \$0.001 | 13,381 |
| Shares issued to Directors in lieu of fees | 8 April 2019 | 10,000,000 | \$0.001 | 10,000 |
| Shares issued to settle third party liabilities | 8 April 2019 | 50,000,000 | \$0.001 | 50,000 |
| Shares issued to settle third party liabilities | 8 April 2019 | 364,035,400 | \$0.001 | 364,035 |
| Shares issued to Directors in lieu of fees | 10 May 2019 | 13,050,330 | \$0.001 | 13,050 |
| Shares issued under prospectus offer to Rawson Oil and Gas Ltd | 5 June 2019 | 57,992,820 | \$0.001 | 57,993 |
| Shares issued to Directors in lieu of fees | 14 June 2019 | 11,536,900 | \$0.001 | 11,537 |
| Shares issued to acquire minority interest in Dondonald Limited | 14 June 2019 | 46,795,260 | \$0.001 | 46,795 |
| Capital raising costs | | | | (28,779) |
| Balance | 30 June 2019 | <u>33,342,875,761</u> | | <u>133,389,920</u> |

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limit on authorised capital.



Note 19. Equity - issued capital (continued)

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment.

The consolidated entity is subject to certain financing arrangements and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

Accounting policy for issued capital

Ordinary shares are classified as equity and paid up capital is recognised at the fair value of the consideration received by the consolidated entity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 20. Equity - reserves

| | Consolidated | |
|------------------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Share-based payments reserve | <u>23,666</u> | <u>19,800</u> |

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | Share-based payments reserve \$ |
|--|--|
| Balance at 1 July 2017 | 25,740 |
| Lapse of options | <u>(5,940)</u> |
| Balance at 30 June 2018 | 19,800 |
| Share options issued as part of takeover of Rawson Oil and Gas Limited | <u>3,866</u> |
| Balance at 30 June 2019 | <u><u>23,666</u></u> |



Note 21. Equity - non-controlling interest

| | Consolidated | |
|--------------------------|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Non-controlling interest | 81,318 | - |
| Retained profits | 14,182 | - |
| | 95,500 | - |
| | 95,500 | - |

Note 22. Equity - dividends

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

Note 23. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The board of directors has overall responsibility for identifying and managing operational and financial risks. The consolidated entity does not have any derivative instruments at the reporting date.

Market risk

Market or Price risk

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

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.

Cash deposits attract interest at the prevailing floating interest rate. The interest rate risk on cash and cash equivalents does not have a material effect on the consolidated entity.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum exposure to credit risk at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the consolidated statement of financial position and notes to the financial statements.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

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



Note 23. Financial instruments (continued)

Liquidity risk

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

Liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. The consolidated entity continues monitor its cash reserves in relation to its contractual liabilities to determine that they have sufficient working capital to continue as a going concern. Refer to note 2 for going concern plans and uncertainties.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Consolidated - 2019 | Weighted average interest rate % | Less than 6 months \$ | Between 6 and 12 months \$ | Between 1 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|-----------------------------|----------------------------------|-----------------------|----------------------------|--------------------------|-----------------|-------------------------------------|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade and other payables | - | 2,211,166 | - | - | - | 2,211,166 |
| Total non-derivatives | | 2,211,166 | - | - | - | 2,211,166 |

| Consolidated - 2018 | Weighted average interest rate % | Less than 6 months \$ | Between 6 and 12 months \$ | Between 1 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|-----------------------------|----------------------------------|-----------------------|----------------------------|--------------------------|-----------------|-------------------------------------|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade and other payables | - | 465,516 | - | - | - | 465,516 |
| Total non-derivatives | | 465,516 | - | - | - | 465,516 |

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

Fair value of financial instruments

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the consolidated entity are as follows:

| Consolidated | 2019 | | 2018 | |
|-----------------------------|--------------------|------------------|--------------------|------------------|
| | Carrying amount \$ | Fair value \$ | Carrying amount \$ | Fair value \$ |
| Assets | | | | |
| Cash and cash equivalents | 2,468,897 | 2,468,897 | 1,286,550 | 1,286,550 |
| Trade and other receivables | 199,000 | 199,000 | 215,335 | 215,335 |
| Other financial assets | 386,512 | 386,512 | - | - |
| | <u>3,054,409</u> | <u>3,054,409</u> | <u>1,501,885</u> | <u>1,501,885</u> |
| Liabilities | | | | |
| Trade and other payables | 2,211,166 | 2,211,166 | 465,516 | 465,516 |
| | <u>2,211,166</u> | <u>2,211,166</u> | <u>465,516</u> | <u>465,516</u> |



Note 24. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

| | Consolidated | |
|------------------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Short-term employee benefits | 329,051 | 410,939 |
| Post-employment benefits | 34,551 | 35,331 |
| Long-term benefits | 4,150 | 2,472 |
| Share-based payments | 258,868 | 149,358 |
| | <u>626,620</u> | <u>598,100</u> |

Director transactions

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

One of the Directors of Lakes Oil NL Nicholas Mather is a Director of Armour Energy Ltd. Armour Energy Ltd is party to an agreement with Lakes Oil NL as described in the tenement table detailed in the shareholder information section.

Mr Nicholas Mathers' remuneration is settled via an entity that is controlled by Mr Mathers called Samuel Capital Pty Ltd.

Mr Roland Sleemans' remuneration is also settled via an entity controlled by Mr Sleeman ATF The Sleeman Trust.

The consolidated entity accrued the \$200,000 for Rawson director fees owed to Mr Richard Ash as at 30 June 2019.

Note 25. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Pitcher Partners, the auditor of the Company:

| | Consolidated | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Audit services - Pitcher Partners</i> | | |
| Audit or review of the financial statements | 80,000 | 62,623 |
| <i>Other services - Pitcher Partners</i> | | |
| Taxation services | 5,500 | 7,500 |
| | <u>85,500</u> | <u>70,123</u> |



Note 26. Contingent liabilities

The consolidated entity has litigation against the Minister for Energy & Resources (Victoria) in relation to the moratorium on petroleum exploration in place in that State (the Moratorium litigation) during the year.

There is a risk that the consolidated entity will be liable to pay a portion of the Minister's costs of both the original proceedings and the appeal.

In relation to the original hearing, where the consolidated entity won on some issues and lost on others, Justice Macaulay made an order on 9 November 2018 that the consolidated entity pay 50 percent of the Minister's costs of the proceedings. As part of its appeal, the consolidated entity has appealed this costs order. If the consolidated entity succeeds on the appeal, it is expected that this costs order will be set aside, and replaced by an order that the Minister pay the consolidated entity's costs of the original proceedings. If the consolidated entity does not succeed in its appeal, then this costs order will not be disturbed, and there is likely to be an order that the consolidated entity pay the Minister's costs of the appeal.

Whilst it is extremely difficult to estimate the quantum of the Minister's costs that the consolidated entity might be ordered to pay, it is estimate that those costs may be in the vicinity of \$210,000 for the original proceedings and \$110,000 for the appeal.

Note 27. Commitments

| | Consolidated 2019 \$ | 2018 \$ |
|---|----------------------------|------------|
| <i>Lease commitments - operating</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | - | 60,534 |
| <i>Bank guarantees in relation to rental premises and exploration permits</i> | | |
| Maximum amount bank may call | 457,012 | 70,500 |

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 six years. Each work program has minimum expenditure and exploration activity requirements which must be satisfied to retain the permit.

The current financial commitment as at 30 June 2019 on the work programs across all tenements for the next 24 months is \$19.5m (30 June 2018: \$15.7m). Approximately \$15.2m of this commitment relates to our three Queensland licences; \$4.1m of this commitment relates to South Australian licenses including Rawson PEL155; \$20k relates to Papua New Guinea licenses and \$154k relates to Eagle California permit in USA.

\$85k of the current financial commitment relates to annual rentals and applications for suspensions and extensions in relation to the entity's Victorian tenements, on the basis that the Victorian Government has not approved any exploration activities under our work programs since the imposition of its administrative moratorium in 2013. If Lakes' legal challenge to the legislative moratorium is successful, and Lakes is allowed to carry out its work program commitments, then our financial commitment across the Victorian permits will increase to \$115m.

The final cost to the consolidated entity is uncertain as it will be dependent on the extent of the works actually undertaken, the negotiated costs and whether or not the consolidated entity is able to secure contributions from other parties such as a farminee (A farminee is a joint operation partner who earns an interest in a tenement by funding the costs of appraisal, development or exploration).

Note 28. Related party transactions

Ultimate parent

Lakes Oil NL is the ultimate Australian parent entity.



Note 28. Related party transactions (continued)

Interests in subsidiaries are set out in note 30.

Director-related entity

Disclosures relating to key management personnel are set out in note 24 and the remuneration report included in the directors' report.

Director transactions

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

One of the Directors of Lakes Oil NL Nicholas Mather is Director of Armour Energy Ltd. Armour Energy Ltd is party to an agreement with Lakes Oil NL as described in the tenement table detailed in the shareholder information section.

Receivable from and payable to related parties

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

Loans to/from related parties

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

Note 29. Parent entity information

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

Statement of profit or loss and other comprehensive income

| | Parent | |
|----------------------------|---------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Loss after income tax | (3,358,253) | (1,769,174) |
| Total comprehensive income | (3,358,253) | (1,769,174) |

Statement of financial position

| | Parent | |
|------------------------------|-------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Total current assets | 3,797,089 | 1,477,576 |
| Total assets | 11,721,936 | 8,133,504 |
| Total current liabilities | 1,156,491 | 559,246 |
| Total liabilities | 1,156,491 | 559,246 |
| Equity | | |
| Issued capital | 133,389,633 | 127,044,059 |
| Share-based payments reserve | 23,666 | 19,800 |
| Accumulated losses | (122,847,854) | (119,489,601) |
| Total equity | <u>10,565,445</u> | <u>7,574,258</u> |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2018 and 30 June 2019.



Note 29. Parent entity information (continued)

Contingent liabilities

Other than as disclosed in Note 26, the parent entity had no contingent liabilities as at 30 June 2019.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2019.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 30. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|---------------------------------------|---|--------------------|-----------|
| | | 2019 % | 2018 % |
| Commonwealth Mining Pty Ltd | Australia | 100.00% | 100.00% |
| EOIL Pty Ltd | Australia | 100.00% | 100.00% |
| Gippsland Petroleum Pty Ltd | Australia | 100.00% | 100.00% |
| Mirboo Ridge Pty Ltd | Australia | 100.00% | 100.00% |
| Otway Resources Pty Ltd | Australia | 100.00% | 100.00% |
| Owens Lane Pty Ltd | Australia | 100.00% | 100.00% |
| Petro Tech Pty Ltd | Australia | 100.00% | 100.00% |
| Geothermal Energy Victoria Pty Ltd | Australia | 100.00% | 100.00% |
| Portland Energy Project Pty Ltd | Australia | 100.00% | 100.00% |
| The Gippsland Gas Corporation Pty Ltd | Australia | 100.00% | 100.00% |
| Three Corners Oil & Gas Pty Ltd | Australia | 100.00% | 100.00% |
| Lakes Oil Inc. | USA | 100.00% | 100.00% |
| NavGas Pty Ltd | Australia | 100.00% | 100.00% |
| Mingoola Gold Pty Ltd | Australia | 100.00% | 100.00% |

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|--|---|--------------------|-----------|
| | | 2019 % | 2018 % |
| Rawson Oil and Gas Limited | Australia | 93.51% | - |
| Dondonald Limited (through its interest in Rawson) | Papua New Guinea | 93.51% | - |
| Rawson Uranium Pty Ltd | Australia | 93.51% | - |
| Rawson Taranaki Limited | New Zealand | 93.51% | - |
| Otway Energy Limited | Australia | 93.51% | - |



Note 31. Events after the reporting period

On 12 July 2019, the consolidated entity issued 11,536,900 fully paid ordinary shares to Directors in lieu of outstanding Directors fees as approved by shareholders at the 2018 Annual General Meeting.

On 16 July 2019, the consolidated entity completed the sale of a parcel of land near Seaspray. This was disclosed as held for sale assets as at 30 June 2019.

On 14 August 2019, the consolidated entity issued 11,536,900 fully paid ordinary shares to Directors in lieu of outstanding Directors fees as approved by shareholders at the 2018 Annual General Meeting.

On 3 September 2019, legal proceedings between Dondonald Limited, a subsidiary of the Company, and Papua New Guinea's Minister for Petroleum have been finalised in the Company's favour.

On 13 September 2019, the consolidated entity issued 11,536,900 fully paid ordinary shares to Directors in lieu of outstanding Directors fees as approved by shareholders at the 2018 Annual General Meeting.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 32. Reconciliation of loss after income tax to net cash used in operating activities

| | Consolidated 2019 \$ | 2018 \$ |
|---|----------------------------|--------------------|
| Loss after income tax expense for the year | (3,349,348) | (2,040,130) |
| Adjustments for: | | |
| Depreciation and amortisation | 18,649 | 20,803 |
| Net loss on disposal of non-current assets | 1,818 | 19,385 |
| Share-based payments | 258,868 | 149,358 |
| Impairment expenses | 211,171 | 183,942 |
| Non-cash other income | (761,272) | (5,107) |
| Change in operating assets and liabilities: | | |
| Decrease/(increase) in exploration and evaluation costs carried forward | (1,483,935) | - |
| Decrease/(increase) in receivables | 58,904 | (73,863) |
| Decrease in other current assets | (2,097) | (18,749) |
| Increase/(decrease) in trade and other payables | 1,320,120 | (726,727) |
| Increase/(decrease) in employee benefits | (6,028) | 14,786 |
| Net cash used in operating activities | <u>(3,733,150)</u> | <u>(2,476,302)</u> |

Note 33. Loss per share

| | Consolidated 2019 \$ | 2018 \$ |
|--|----------------------------|--------------------|
| Loss after income tax | (3,349,348) | (2,040,130) |
| Non-controlling interest | (14,182) | - |
| Loss after income tax attributable to the owners of Lakes Oil NL | <u>(3,363,530)</u> | <u>(2,040,130)</u> |



Note 33. Loss per share (continued)

| | Number | Number |
|---|-----------------------|-----------------------|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 31,012,889,649 | 26,540,191,167 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>31,012,889,649</u> | <u>26,540,191,167</u> |
| | Cents | Cents |
| Basic loss per share | (0.01) | (0.01) |
| Diluted loss per share | (0.01) | (0.01) |

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

Accounting policy for earnings per share

Basic earnings loss share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Lakes Oil NL, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings loss share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 34. Share-based payments

During the 2019 financial year, the consolidated entity issued 10,308,000 unlisted options to eligible Rawson Oil and Gas Limited option holders as the consideration for the cancellation of options in Rawson pursuant to the terms set out in the bidder's statement dated 8 August 2018 as supplemented. These options were valued using Black-Scholes valuation method and \$3,866 share-based payments expense was recognised in the statement of profit or loss and other comprehensive income.

Set out below are summaries of options granted:

| 2019 | | | | | | | |
|---------------------------------|-------------|----------------|----------------------------------|-------------------|-----------|-------------------------|--------------------------------|
| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired Forfeited Other | Balance at the end of the year |
| 08/01/2016 | 08/01/2021 | \$0.0050 | 20,000,000 | - | - | - | 20,000,000 |
| 29/10/2018 | 08/01/2021 | \$0.0050 | - | 10,308,000 | - | - | 10,308,000 |
| | | | <u>20,000,000</u> | <u>10,308,000</u> | - | - | <u>30,308,000</u> |
| Weighted average exercise price | | | \$0.005 | \$0.005 | - | - | \$0.005 |
| 2018 | | | | | | | |
| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired Forfeited Other | Balance at the end of the year |
| 08/01/2016 | 08/01/2021 | \$0.0050 | 26,000,000 | - | - | (6,000,000) | 20,000,000 |
| | | | <u>26,000,000</u> | - | - | <u>(6,000,000)</u> | <u>20,000,000</u> |
| Weighted average exercise price | | | \$0.005 | - | - | \$0.005 | \$0.005 |



Note 34. Share-based payments (continued)

* Employee options lapsed due to cessation of employment with the Company as set out within the employee offer letter.

The options issued have been valued using the Black Scholes valuation method.

Set out below are the options exercisable at the end of the financial year:

| Grant date | Expiry date | 2019 Number | 2018 Number |
|------------|-------------|-------------------|-------------------|
| 08/01/2016 | 08/01/2021 | 20,000,000 | 20,000,000 |
| 29/10/2018 | 08/01/2021 | 10,308,000 | - |
| | | <u>30,308,000</u> | <u>20,000,000</u> |

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.5 years (2018:2.5 years).

Included in the options above, 20,000,000 unlisted options were granted to employee and a director of the Company pursuant to their respective remuneration packages. The options were issued as incentive based remuneration to align employee and company strategy's. The 20,000,000 options vested upon issue with an expiry date of 8 January 2021 or 60 days after cessation of employment, whichever is earliest. The expected volatility has been calculated using the trading history of the consolidated entity over the previous 5 years prior to issue which is consistent with the life of the option.

Accounting policy for share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.



Note 34. Share-based payments (continued)

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

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In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Chris Tonkin', written over a horizontal line.

Chris Tonkin
Chairman

4 October 2019

LAKES OIL NL
ABN 62 004 247 214
AND CONTROLLED ENTITIES
INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF
LAKES OIL N.L AND CONTROLLED ENTITIES

Report on the Audit of the Financial Report

Disclaimer of Opinion

We were engaged to audit the financial report of Lakes Oil NL “the Company” and its controlled entities “the consolidated entity”, which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

We do not express an opinion on the accompanying financial report of the consolidated entity. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report.

Basis for Disclaimer of Opinion

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

As at the date of this report the consolidated entity has been unable to secure unconditional commitments to provide sufficient funding to ensure the consolidated entity is a going concern. As described in Note 2 Going Concern, the Directors believe that the consolidated entity will secure sufficient funding and continue to have the support of its creditors, however, at the date of this auditor’s report the consolidated entity and its Directors have been unable to provide sufficient evidence of unconditional committed funding for the cash requirements of the consolidated entity for the twelve months from the date of this auditor’s report or of an unconditional right to defer payment to the ATO.

We have been unable to obtain alternative evidence which would provide sufficient appropriate audit evidence as to whether the consolidated entity may be able to obtain such financing or be successful with alternative measures including securing an unconditional right to defer payment to the ATO, and hence remove significant doubt of its ability to continue as a going concern within twelve months of the date of this auditor’s report.

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LAKES OIL NL
ABN 62 004 247 214
AND CONTROLLED ENTITIES
INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF
LAKES OIL N.L AND CONTROLLED ENTITIES

Responsibilities of Management and Those Charged with Governance 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 preparing the financial report, the directors are responsible for assessing the ability of the consolidated entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the consolidated entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to conduct an audit of the consolidated entity's financial report in accordance with Australian Auditing Standards and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report

We are independent of the consolidated entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Report on Other Legal and Regulatory Requirements

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 23 to 28 of the directors' report for the year ended 30 June 2019. In our opinion, the Remuneration Report of Lakes Oil NL and controlled entities, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

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LAKES OIL NL
ABN 62 004 247 214
AND CONTROLLED ENTITIES

INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF
LAKES OIL N.L AND CONTROLLED ENTITIES

Responsibilities

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.



B POWERS
Partner



PITCHER PARTNERS
Melbourne

4 October 2019

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The shareholder information set out below was applicable as at 12 September 2019.

Distribution of equitable securities

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

| | Number of holders over ordinary shares | Number of holders of options over ordinary shares | Number of holders of rights over ordinary shares |
|---------------------------------------|--|--|---|
| 1 to 1,000 | 354 | - | - |
| 1,001 to 5,000 | 225 | - | 2 |
| 5,001 to 10,000 | 404 | - | 2 |
| 10,001 to 100,000 | 3,559 | - | 159 |
| 100,001 and over | 7,616 | 7 | 523 |
| | <u>12,158</u> | <u>7</u> | <u>686</u> |
| Holding less than a marketable parcel | 7,118 | - | - |

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

| | Ordinary shares Number held | % of total shares issued |
|--|--------------------------------|--------------------------------|
| Dark Horse Resources Limited | 10,142,047,344 | 29.22 |
| Timeview Enterprises Pty Ltd | 2,720,821,462 | 7.84 |
| Armour Energy Ltd | 2,125,000,000 | 6.12 |
| DGR Global Limited | 408,065,120 | 1.18 |
| DGR Global Limited | 334,094,250 | 0.96 |
| Mr Duncan John Hardie | 315,595,620 | 0.91 |
| Mr James Sinton Spence | 227,656,080 | 0.66 |
| Mr Allister Richardson | 216,697,895 | 0.62 |
| Mrs Lynley Hardi | 208,521,000 | 0.60 |
| Mr Peter Ashley Bubendorfer (Pajbubendorfer Family A/C) | 199,081,164 | 0.57 |
| Pacific Atlantic Commerce Pty Ltd (Highfield Super Fund A/C) | 180,000,000 | 0.52 |
| Citicorp Nominees Pty Limited | 169,062,845 | 0.49 |
| HSBC Custody Nominees (Australia) Limited | 166,438,053 | 0.48 |
| Wales Corporation Pty Ltd (John Anthony Nolan S/F) | 150,000,000 | 0.43 |
| Mr Kwok Kim Cho | 143,500,000 | 0.41 |
| Barney Berold | 133,153,095 | 0.38 |
| Mr John McGregor Skinner | 124,571,094 | 0.36 |
| Marew Enterprises Pty Ltd | 120,000,000 | 0.35 |
| Samuel Capital Pty Ltd | 106,111,193 | 0.31 |
| Super Only Pty Ltd (Sypaq Sys Employees S/F) | 85,750,000 | 0.25 |
| | <u>18,276,166,215</u> | <u>52.66</u> |



Unquoted equity securities

| | Number on issue | Number of holders |
|--|--------------------|----------------------|
| Options over ordinary shares issued | 30,308,000 | 7 |
| Performance rights over ordinary shares issued | 752,876,031 | 686 |

Substantial holders

Substantial holders in the Company are set out below:

| | Number held | Ordinary shares % of total shares issued |
|------------------------------|----------------|---|
| Dark Horse Resources Limited | 10,142,047,344 | 29.22 |
| Timeview Enterprises Pty Ltd | 2,720,821,462 | 7.84 |
| Armour Energy Ltd | 2,125,000,000 | 6.12 |

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Tenements

| Location (basin name) | Joint operation or Permit name | Interest owned % |
|-----------------------|--------------------------------|---------------------|
| Otway | PEP 163 | 100.00 |
| Otway | PEP167 | 100.00 |
| Otway | PEP 169 | 49.00 |
| Otway | PEP175 | 100.00 |
| Gippsland | PRL 2–Overall Permit | 100.00 |
| Gippsland | PRL 2–Trifon Field | 57.50 |
| Gippsland | PRL 3 | 100.00 |
| Gippsland | PEP 166 | 75.00 |
| Gippsland | VIC/P43(V) | 100.00 |
| Gippsland | VIC/P44(V) | 100.00 |
| Eromanga/Cooper E | ATP642P | 100.00 |
| Eromanga/Cooper E | ATP662P | 100.00 |
| California USA | Eagle Prospect | 17.97 |
| Surat/Bowen | ATP 1183 | 100.00 |
| Pirie Torrens, SA | EL 5694 | 100.00 |
| Otway | PEL 154 | 100.00 |
| Otway | PEL 155 | 50.00 |
| PNG | PPL 549 | 100.00 |
| PNG | PPL 560 | 100.00 |