

Lakes Blue Energy NL (formerly Lakes Oil NL)

ABN 62 004 247 214



**Annual Report
For the Year Ended 30 June 2021**

LAKES BLUE ENERGY NL

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LAKES BLUE ENERGY NL

Corporate directory

30 June 2021

Directors

Richard Ash (Non-Executive Chairman)

Roland Sleeman (Executive Director)

Nicholas Mather (Non-Executive Director)

Chief Executive Officer

Roland Sleeman

Company Secretary

Elissa Hansen

Registered Office

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Sydney NSW 2000

T: (03) 9629 1566

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Auditor

William Buck

Level 20

181 William Street

Melbourne VIC 3000

Share Register

Computershare Investor Services Pty Ltd

Yarra Falls, 452 Johnston Street

Abbotsford VIC 3067

T: (03) 9415 4000

Securities Exchange Listing

Australian Securities Exchange

(Home Exchange: Sydney, NSW)

ASX Code: LKO

Bank

Westpac Banking Corporation

360 Collins Street

Melbourne VIC 3000

1. Overview

Lakes Blue Energy is an energy company that is focussed upon:

- realising the potential of the Company's diverse portfolio of exploration projects, as depicted in Figure 1 and outlined in Table 1, to become a supplier of gas to meet Australian industry and household requirements, in both feedstock and energy applications; and
- subsequently, leveraging the Company's asset base to be at the vanguard in terms of identifying and promoting emerging technologies to meet the nation's changing energy requirements.

Figure 1: Project Portfolio

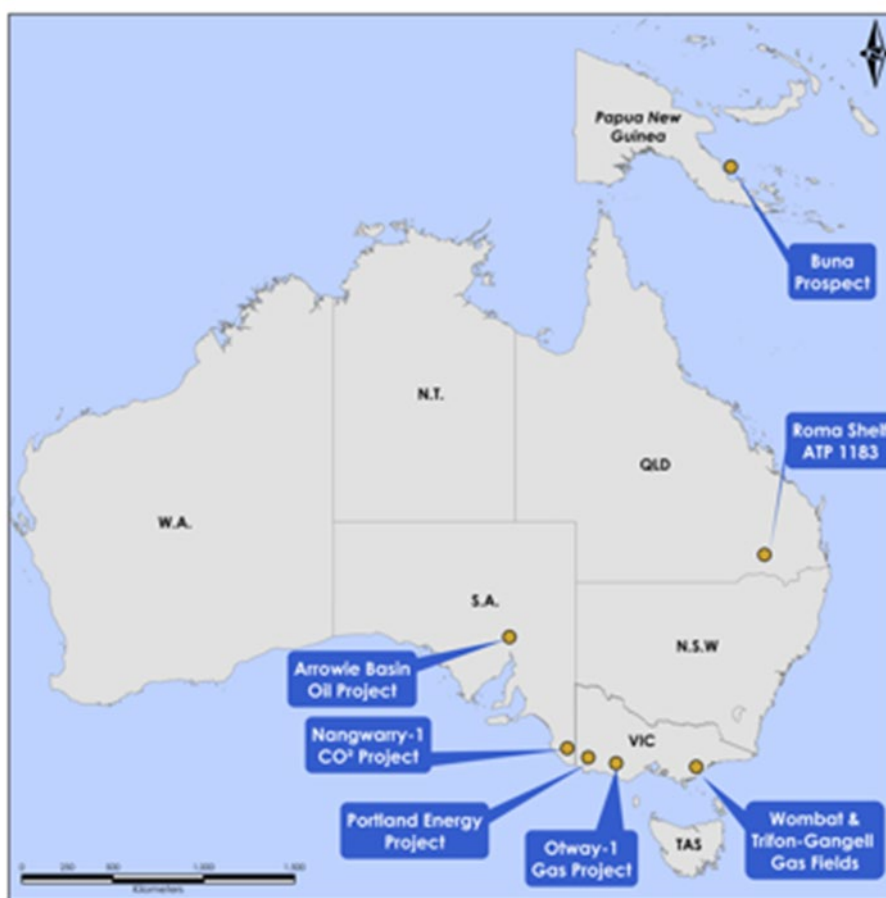


Table 1: Project Portfolio and Prospectivity

Project	Location	Resource / Target (Net to Company)
Nangwarry Carbon Dioxide	PRL 249, Otway Basin, SA	12.9 Bcf sales gas ¹
Wombat Gas Field	PRL 2, Gippsland, Vic	329 Bcf Contingent Resource ²
Trifon / Gangell Gas Field		223 Bcf Contingent Resource ²
Baragwanath Gas Field		966 Bcf Prospective Resource ²
Roma Shelf Project	ATP 1183, Surat Basin, Qld	Target discovery and recovery ³ : 30 - 40 Bcf gas; 3 MMBbl oil
Otway-1	PRL 169, Otway Basin, Vic	Target recoverable ⁴ : 11.25 Bcf gas; 370,000 Bbl oil
Portland Energy Project	PEP 175, Otway Basin, Vic	Permit Area: 286 Tcf gas initially in place ⁵ Focus Area: 11.5 Tcf prospective resource ⁵
	PEP 167, Otway Basin, Vic	Permit Area: 116 Tcf gas initially in place ⁵
Buna	PPL 560, PNG	3.1 Tcf prospective resource ⁶

Notes to Table:

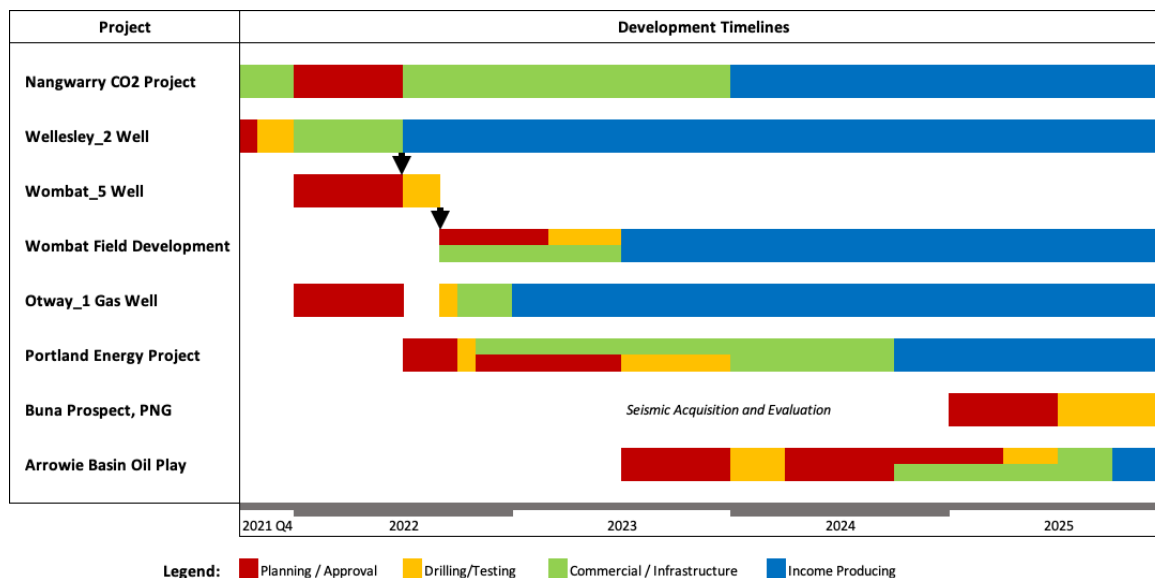
1. *ERC Equipoise Pte Ltd, using probabilistic methodology consistent with that prescribed by the SPE-PRMS.*
2. *Gaffney, Cline & Associates, in accordance with SPE-PRMS guidelines.*
3. *Best estimates prepared on a deterministic basis by Mr Peter Bubendorfer, Geotechnical Assessor, Armour Energy Limited.*
4. *Combination of in-house estimate for Eumerella, prepared by Mr Tim O'Brien, MSc in Geology and Geophysics, member of PESA, SPE and AAPG, and probabilistic estimates for Warre and Pebble Point, independently prepared by Dr Greg Blackburn, Terratek Petroleum Consultants Pty Ltd, February 2011.*
5. *"Estimated Unconventional Gas Potential for a Defined Prospect Area in PEP 175, Otway Basin, Victoria", May 2015, SRK Consulting (Australasia) Pty Ltd, in accordance with SPE-PRMS guidelines.*
6. *"Undiscovered Hydrocarbon Resources, Petroleum Prospecting Licence (PPL) Blocks 257 and 258, Papua New Guinea", 31 August 2010, Fekete Associates Inc*

The projects listed above are the near-term drivers of value for Lakes Blue Energy, with a hypothetical value in excess of \$1 billion based upon a gas price equivalent of \$8.00 per Gigajoule. The Company's strategy for realisation of this value involves:

- a) Commercialising the Wellesley Gas Field (Queensland) and, subsequently, the Wombat Gas Field (Victoria);
- b) Leveraging returns from the above to realise value for Shareholders, including through development of the world-scale Buna and Portland Energy Projects;
- c) To actively monitor technological developments and opportunities with specific focus on identifying and promoting new technologies for sustainable supply of energy to meet industrial and household requirements; and
- d) Where opportune and in the interests of Shareholders, entering into arrangements with other parties to explore, develop and commercialise existing projects or new technological initiatives.

This outworking of this strategy is illustrated in Figure 2. Further detail regarding specific projects is provided in section 2, below.

Figure 2: Exploration and Development Concept



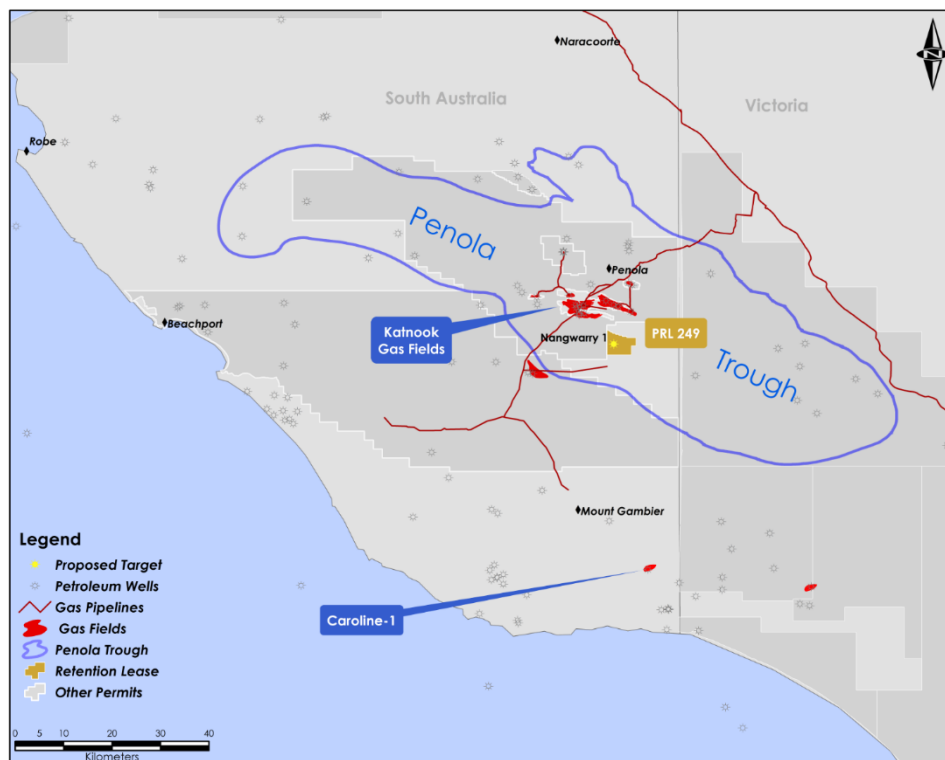
2. Exploration

Lakes Blue Energy 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 Retention Licence 249 (PRL 249)

Through its subsidiary, Otway Energy Pty Ltd, the Company holds 50% of, and operates, PRL 249. The Company's net interest in the Licence is 46.76%, after allowing for minor third-party interests in Otway Energy Pty Ltd.

Figure 3: Nangwarry Project Location



PRL 249 contains the Nangwarry Carbon Dioxide Project. Discovered in 2020, the Project has a very high (90% or greater) content of pure carbon dioxide, making it potentially attractive for development to produce carbon dioxide for industrial, medical and food uses.

Extended flow testing of the Nangwarry well, carried out in March 2021, showed that the well was capable of producing raw gas at rates up to 18.6 MMscfd, and provided a basis for the following independent certification of the recoverable sales gas volume of carbon dioxide (CO₂) contained within the Nangwarry reservoir.

Table 2: Independently Certified CO₂ Sales Gas Volume

Gross CO ₂ Sales Gas (Bscf) For PEL 155		
Low	Best	High
9.0	25.9	64.4

Net CO ₂ Sales Gas (Bscf) 50% LKO		
Low	Best	High
4.5	12.9	32.2

Notes to Table:

1. Gross volumes represent a 100% total of estimated recoverable volumes within PEL 155.
2. Working interest volumes for Otway Energy Ltd's and Vintage Energy Ltd's share of the Gross recoverable volumes can be calculated by applying their working interest in PEL 155, which is 50% each.
3. Sales gas stream for Nangwarry is CO₂ gas.

The independent estimate was prepared by ERC Equipoise Pte Ltd (ERCE) using a probabilistic methodology. Under the June 2018 Society of Engineers Petroleum Resources Management System, (PRMS), volumes of non-hydrocarbon by-products cannot be included in any Reserves or Resources classification. However, the method used by ERCE is consistent with that prescribed by the PRMS.

ERCE is an independent consultancy specialising in geoscience evaluation, engineering and economic assessment. ERCE has the relevant and appropriate qualifications, experience and technical knowledge to appraise professionally and independently the assets.

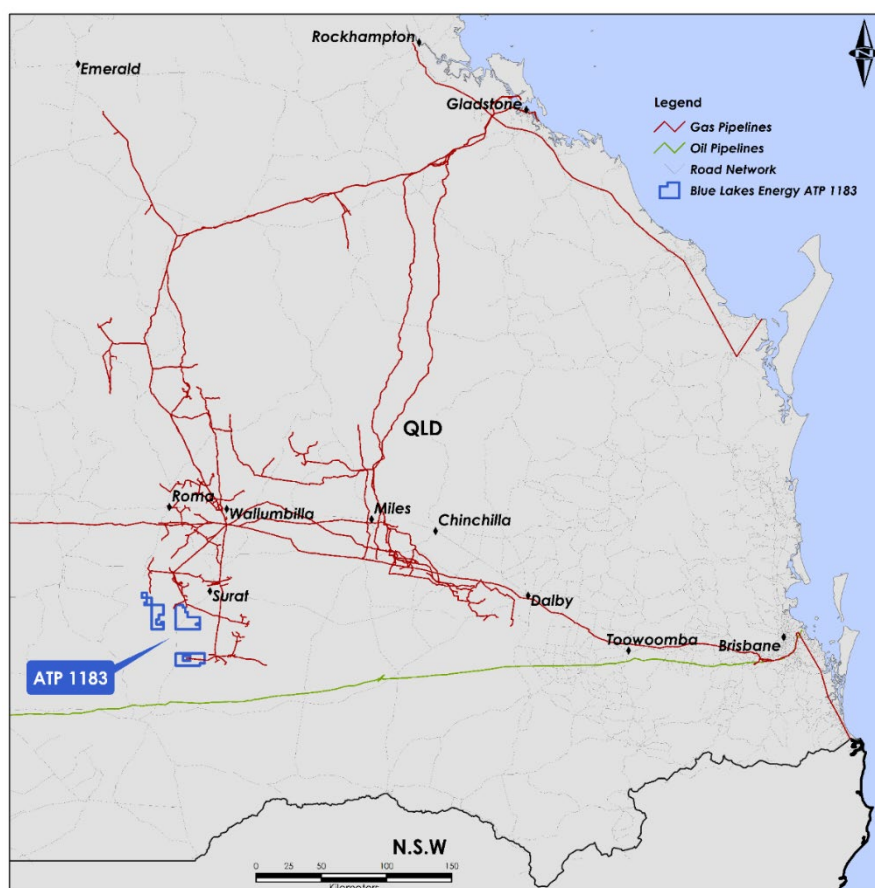
ERCE's work was supervised by Mr Adam Becis, Principal Reservoir Engineer at ERCE, who has over 14 years of experience in the oil and gas industry. He is a member of the Society of Petroleum Engineers and also a member of the Society of Petroleum Evaluation Engineers. Mr Becis has consented to the form and context in which the estimate of carbon dioxide sales gas is presented.

In August 2020 the Company, with joint venture partner Vintage Energy Pty Ltd, announced it had entered into a non-binding Memorandum of Understanding ("MoU") with Supagas Pty Ltd ("Supagas"), an Australian based distributor of gases for domestic, industrial, medical and other applications. Discussion with Supagas are ongoing. Conceptually, Nangwarry gas production may commence at around 1.5 MMcf/d (to produce 75 T/d of CO₂) and grow to 3.0 MMcf/d (150 T/d of CO₂).

ii) Queensland: Authority to Prospect 1183 (ATP 1183) - Roma Shelf Oil and Gas Project

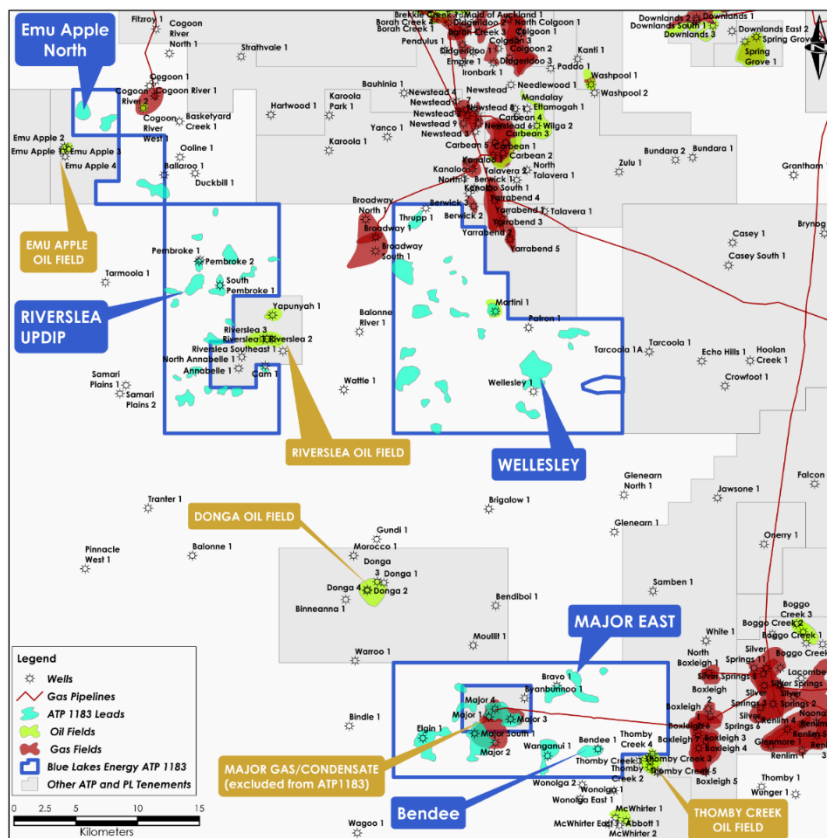
The Company holds 100% of ATP 1183, which is located in close proximity to established production facilities and infrastructure, as shown in Figure 4. There are existing gas processing facilities at Silver Springs (AGL) and Kincora (Armour Energy).

Figure 4: ATP 1183 Location



During the year, seismic interpretation and mapping of ATP 1183 has been refined, allowing improved definition of exploration targets and their potential. Identified exploration prospects are depicted in Figure 5 and described below.

Figure 5: Exploration Prospects Within ATP 1183



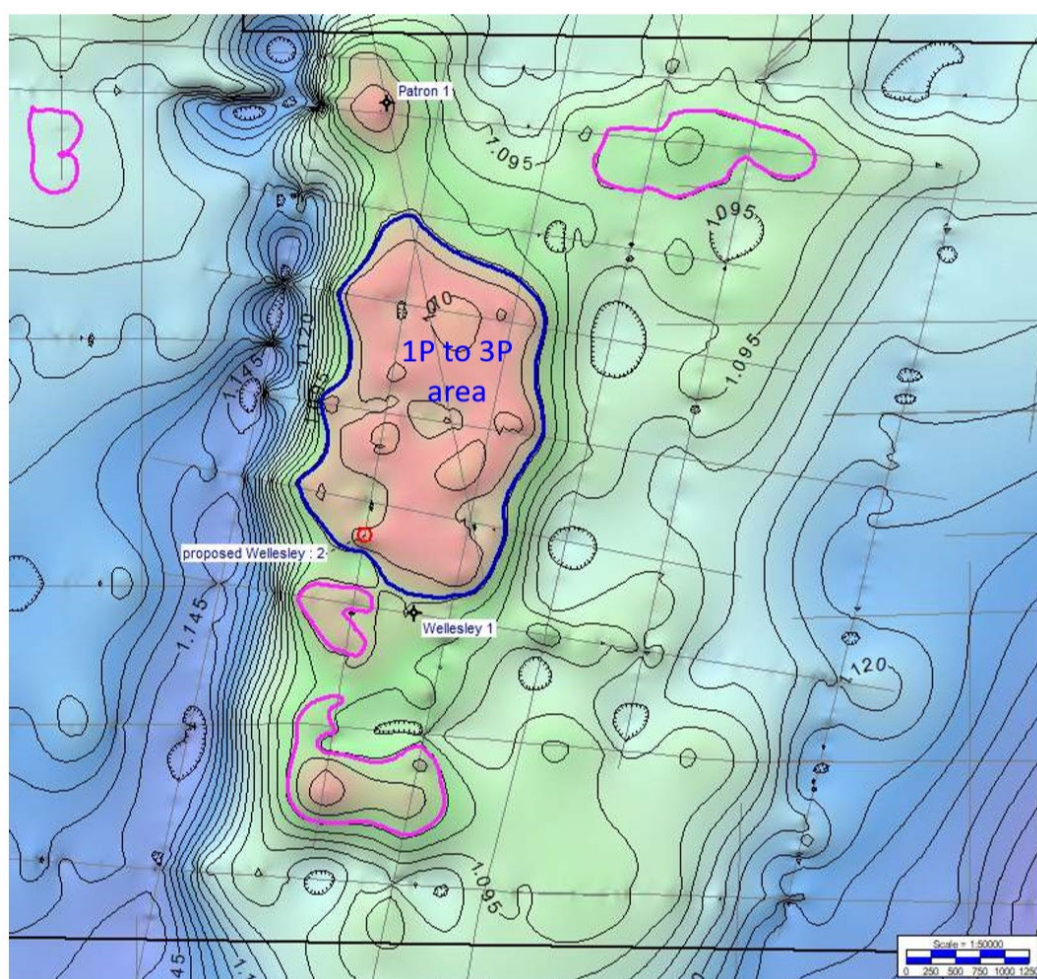
- **Wellesley**

As a precondition to resumption of trading of the Company's shares on the ASX platform, the Company has committed to drilling of the Wellesley-2 well, with site work envisaged to commence during January 2022. At the date of this report, site work was underway to prepare the drill site and access track.

The Wellesley Dome is a fault bound, three way dip closure approximately 4.4 km² in area, lying on the Kincora-Yarrabend-Wellesley High. The Wellesley-1 well, drilled by BHP in 1979 to target the gas-liquid contact as the edge of the dome, intersected in excess of 20 metres of thick, coarse, porous Boxvale Sand and confirmed the presence of gas. The Wellesley-2 well will be drilled about 1 km northwest of Wellesley-1, targeting a prospective gas resource of 41 Bcf at a depth of around 1,600 metres.

(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 6: Wellesley Dome



Conceptually, development of the Wellesley Project for production and sale of gas is to be expedited, so as to generate cash flow to support subsequent exploration activity in Victoria.

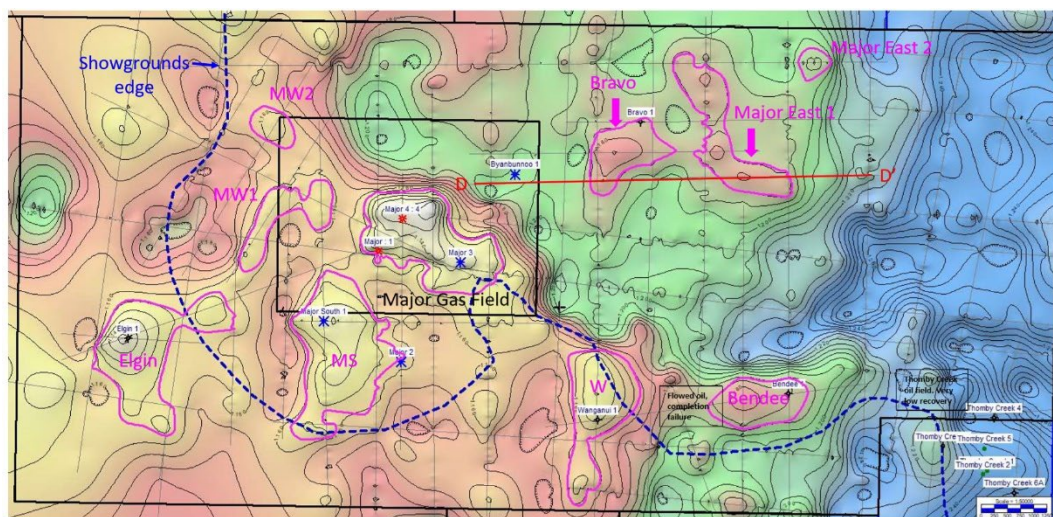
- *Major East and Bendee*

The Major East and Bendee prospects are four-way dip closures, located to the east of the producing Major Gas Field. The Major East prospect covers approximately 5 square kilometres and could contain approximately 13.8 billion cubic feet of gas. The Bendee prospect covers an area of approximately 2 square kilometres and could contain approximately 1 million barrels of oil (best estimate prospective resource).

(These are best estimates prepared on a deterministic basis. They are 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)

An historic well (Bendee-1) flowed oil and water to surface, demonstrating that the Bendee 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.

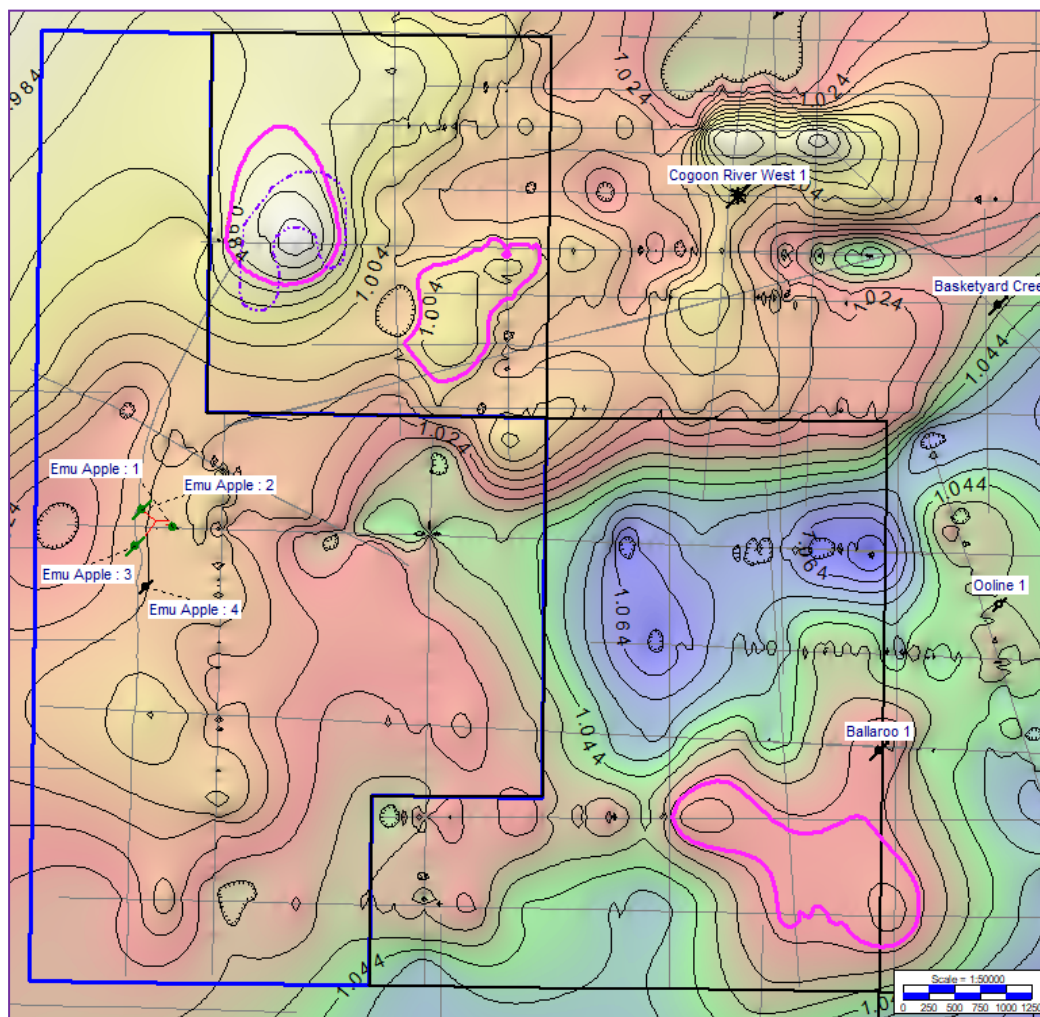
Figure 7: Major East and Bendee



- *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 8: 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.

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 1,350 and 1,430 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).

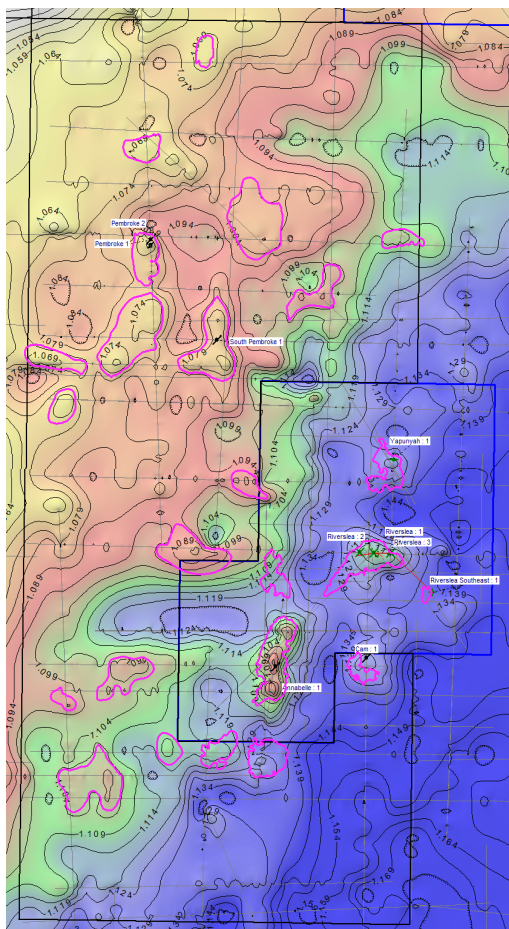
The Emu Apple North prospect is estimated to contain a best estimate prospective oil resource of 3.4 million barrels.

(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).

- *Riverslea Updip*

Seventeen leads have been identified across the Riverslea Updip area. The viability of the individual leads will be further assessed to identify which, if any, should be exploited.

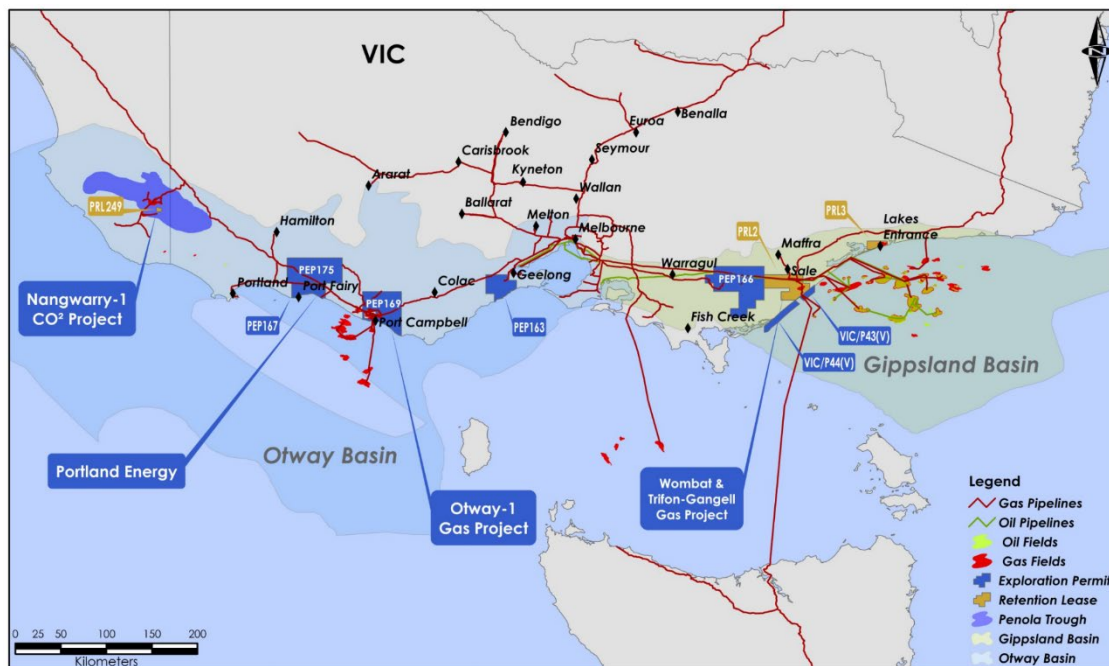
Figure 9: Riverslea Updip



iii) Victoria

Lakes Blue Energy has tenure over what the Company considers to be the most prospective areas of onshore Victoria (Figure 10). While a Victorian Government onshore exploration ban, which has since 2012 prevented exploration of these areas, expired on 30 June 2021, resumption of exploration activity is still not yet possible owing to delays in promulgation of a new regulatory framework, to govern exploration activity.

Figure 10: Lakes Blue Energy's Victorian Petroleum Exploration Interests



The Company anticipates that it should be in a position to resume exploration activity by around mid-2022, and is ready to pursue several conventional 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.

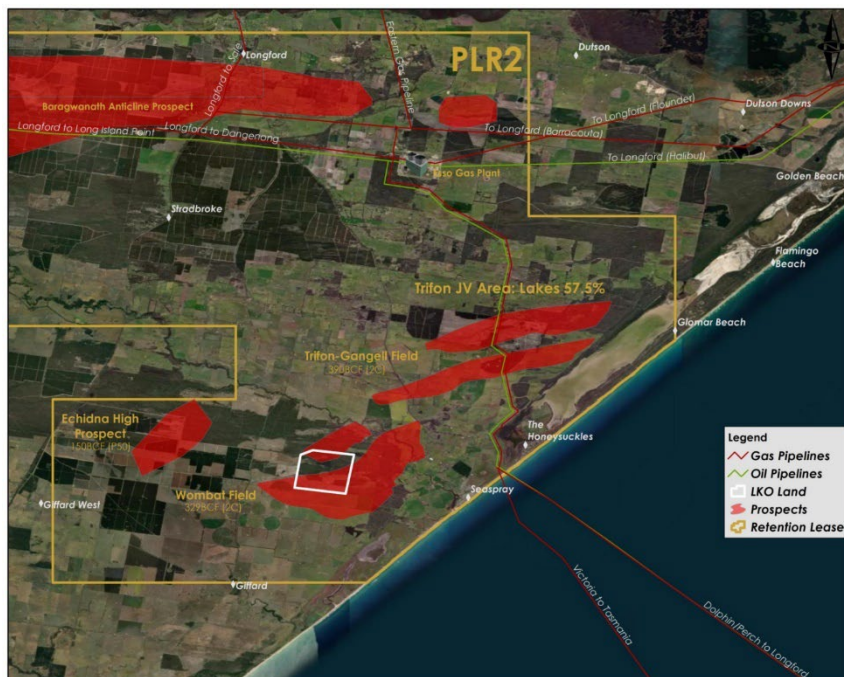
Petroleum Retention Lease 2 (PRL2):

Lakes Blue Energy has 100% interest in PRL2, with the exception of the Trifon and Gangell blocks where the Company has a 57.5% interest and Jarden Corporation Australia Pty Ltd has a 42.5% interest. The presence of gas within the Wombat and Trifon / Gangell gas fields is beyond doubt. The fields contain independently certified Contingent Resources of gas, with existing gas wells already capable of gas production.

Figure 11: Flaring of Gas at Wombat-1 Gas Well

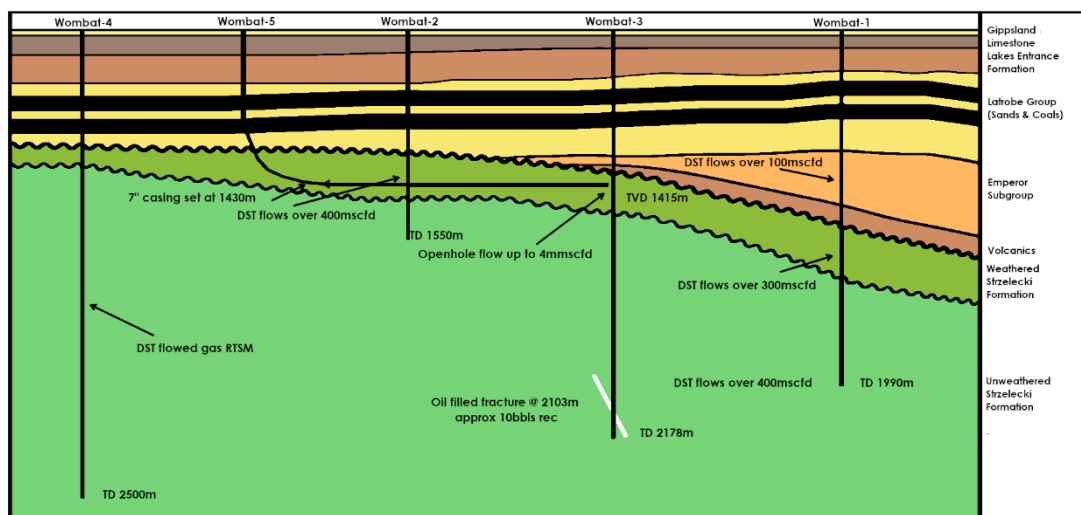


Figure 12: PRL 2



The Company intends to drill the Wombat-5 well, a conventional directionally-drilled well targeting the upper, more permeable section of the massive, gas saturated Strzelecki Formation, as soon as possible. Based upon independent modelling Lakes Blue Energy 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.

Figure 13: Cross-section, Wombat-5 Well



Given the onshore location of the Wombat Gas Field, close to existing gas pipeline infrastructure, it is expected that 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.

In the longer term, as gas production from the Wombat field declines, the Trifon / Gangell gas field will be brought online.

Petroleum Exploration Permit 169 (PEP169):

Lakes Blue Energy 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 Blue Energy.

The Company aims to resume exploration activity during 2022 through drilling of the Otway-1 well, a conventional well to be located adjacent to, but on the opposite side of a fault from, the existing Iona Gas Field. The well will be drilled to a depth of 1,500 metres and will target gas in both the Waarre Sands and the Eumeralla Formation, and oil in the Pebble Point Sandstone.

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. The Company's share of the prognosed Otway-1 resource is 11.25 Bcf of gas (based upon gross 17 Bcf in the Eumerella and 5.5 Bcf in the Warre) and 185,000 barrels of oil.

Figure 14: Location of Proposed Otway-1 Gas Well

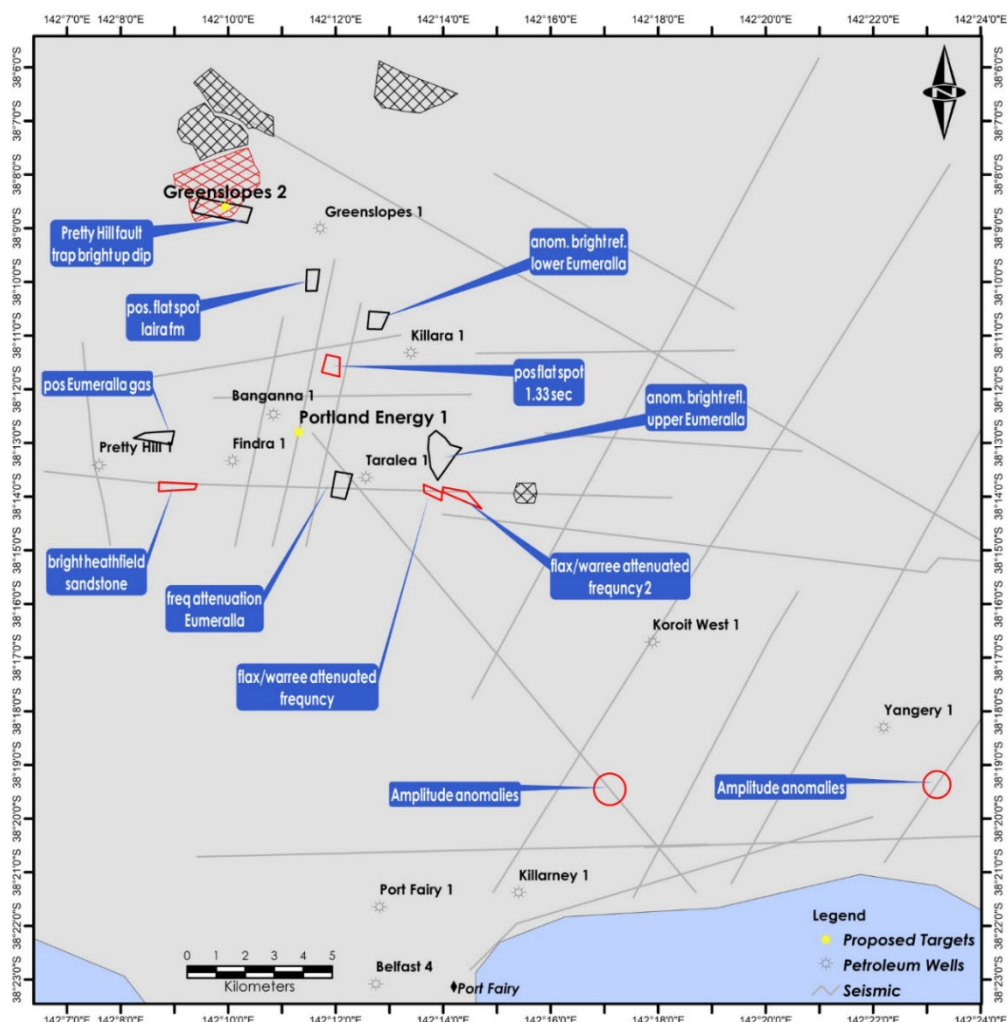


Petroleum Exploration Permits 167 and 175 (PEP167, PEP175):

Lakes Blue Energy 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 15, 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 15: Portland Energy Project - Focus Area



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 Blue Energy has commissioned independent assessments that confirm the gas-in-place potential of the Eumeralla Formation. As set out in Table 1, the estimated (50% probability) gas resource of the Focus Area is 11.5 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.

Petroleum Retention Lease 3 (PRL3):

Lakes Blue Energy has 100% interest in PRL3.

In April 2019 the Victorian Department of Economic Development, Jobs, Transport and Resources (Department) wrote to the Company expressing the view that PRL 3 had 'expired'. This was despite:

- previous Suspension and Extension (S&E) Applications had been approved, extending the term of the Licence in consideration of the Company being prevented from carrying out work;
- a further S&E Application, submitted and paid for on 22 February 2019, being outstanding; and
- annual Licence fees having already been paid by the Company.

The Company has provided 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.

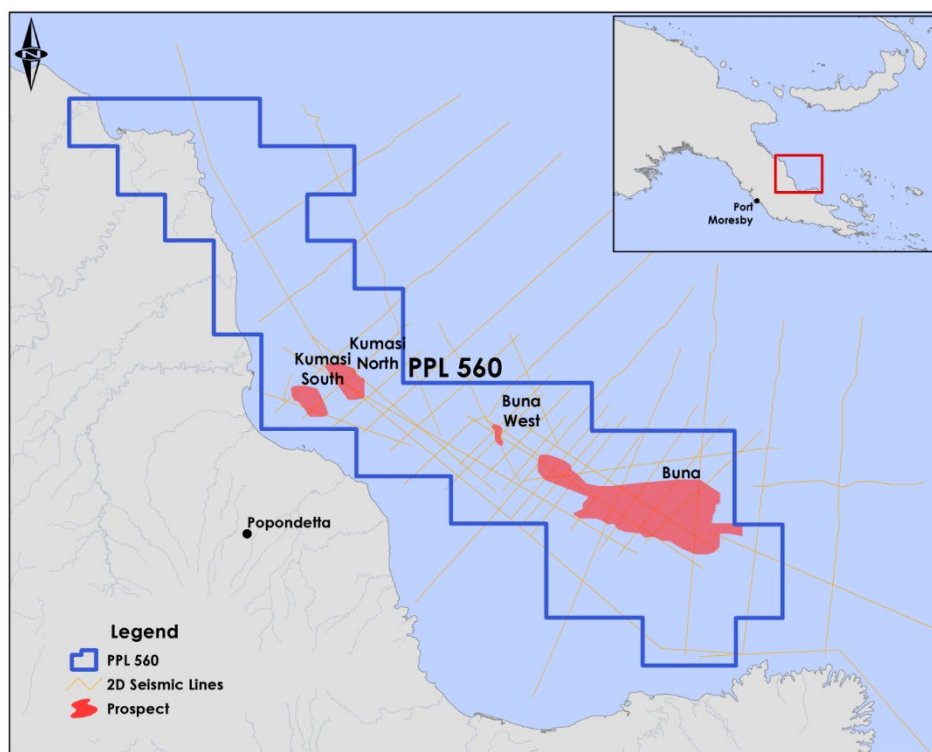
Despite the above, the Department continues to hold the view that the permit has expired and refuses to process S&E Applications that are lodged and paid for in accordance with regulatory requirements.

The Company has reserved its position.

iv) Papua New Guinea

The Company has 100% ownership of three exploration tenements in Papua New Guinea, with Petroleum Prospecting Licence 560 (PPL 560) being of key interest. PPL 560 contains the multi-trillion cubic feet Buna prospect.

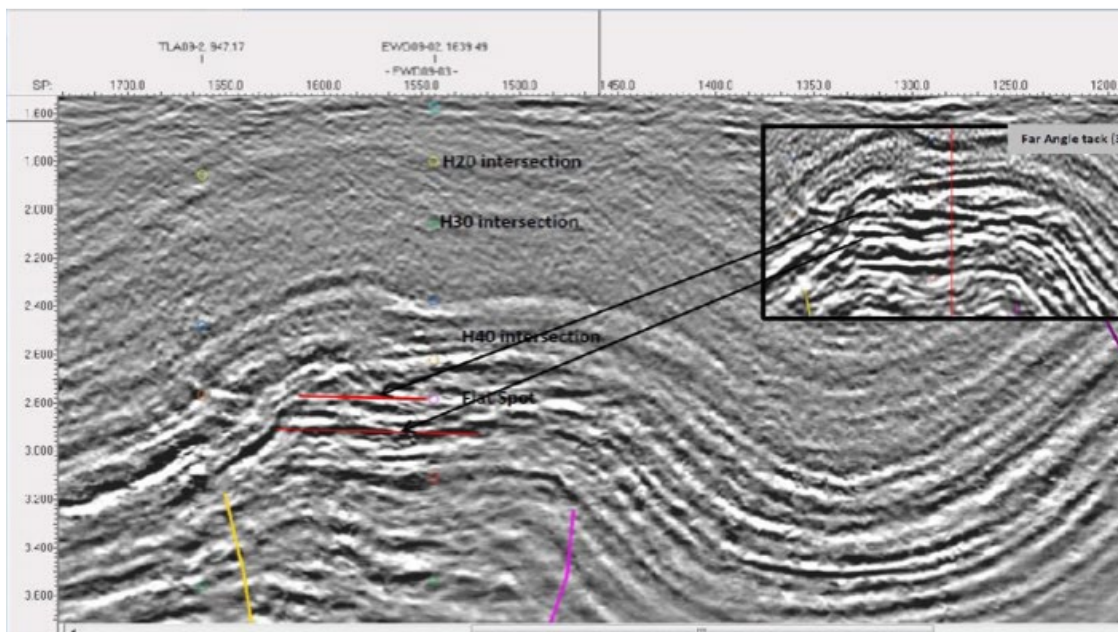
Figure 16: PPL 560, Showing Buna Prospect



As indicated in Figure 2, the Company's strategy is to leverage returns from other projects (notable Wellesley, followed by Wombat) to further investigate and then, if appropriate, drill an exploration well at Buna. The benefit of this approach is that 100% ownership of the project is retained by the Company.

The exceptional prospectivity of the Buna Prospect is evident in seismic mapping of the prospect. As shown in Figure 17, there is a clear 'flat-spot', representative of a gas liquid interface. The flat-spot is evident in AVO (Amplitude Variation with Offset) studies, which are an historically highly reliable methodology for confirmation of flat-spots.

Figure 17: Cross-section of Buna Prospect



As an alternative to retention of 100% ownership of PPL 560 is to consider a farmout pf activity. The Company has been in discussion with petroleum majors and has one such opportunity well advanced for consideration, pending the outcome of exploration drilling at Wellesley.

LAKES BLUE ENERGY NL

Directors' report

30 June 2021

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Lakes Blue Energy 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 2021.

Directors

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

Richard Ash (Non-Executive Chairman)
Roland Sleeman (Executive Director)
Nicholas Mather (Non-Executive Director)

Principal activities

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

Financial Results

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to \$4,205,480 (30 June 2020: \$619,519).

Interest and other income for the period amounted to \$189,776 (2020: \$1,741,053).

Operating expenses for the financial year were \$4,395,256 (2020: \$2,365,706). The major expenses for the year were the administration expenses amounting to \$590,156 (2020: \$958,105) and finance costs of \$1,439,022 (2020: \$584,043). The provision for impairment of the consolidated entity's exploration and evaluation assets amounted to \$1,431,304 (2020: \$99,117). Employee benefit expenses amounted to \$255,860 (2020: \$324,173).

During the year the Group relinquished Queensland exploration assets ATP 642P and ATP 662P, resulting in impairment charges of \$706,464 and \$724,840 respectively. These assets are now fully impaired.

Financial Position

The net assets of the consolidated entity decreased by \$3,308,509 to \$13,059,788 as at 30 June 2021 (2020: \$16,368,297). The consolidated entity's working capital position, being current assets less current liabilities was in deficit of \$472,869 at 30 June 2021 (2020: \$2,964,168). During the period the consolidated entity had a negative cash flow from operating activity of \$2,073,338 (2020: \$885,371).

Significant changes in the state of affairs

i) Suspension of Trading

Trading of the Company's shares was suspended in October 2019 following late lodgement of the Company's 2019 Annual Report.

Despite the Company raising funds on an as required basis to meet commitments and carrying out drilling and testing of the Nangwarry-1 well, the Company was not until recently able to secure Australian Stock Exchange (ASX) approval for recommencement of trading.

On 20 October 2021 the Company received formal advice from the ASX that trading of the Company's shares will be allowed to resume subject to, among other minor matters:

- a) the Company releasing a full form prospectus for, and completing, a minimum \$3.55m capital raise; and
- b) the Company announcing that earthwork equipment is on site and that wellsite and access track earthworks have commenced for the Wellesley-2 well.

The Company is to achieve the above by 1 February 2022.

At the date of this report the Company has arrangements in place for land access and tentative arrangements for procurement of long lead items and drilling rig services for the Wellesley-2 well. Earthworks were commenced on 29 December 2021.

The Company has also announced a full-form prospectus, as detailed below.

Capital Raising Underway

On 7 January 2022 the Company lodged a full form prospectus with ASIC and the ASX, offering shares at an issue price of \$0.0008 per share. Subsequently, a Revised Prospectus was lodged to address comments raised by ASIC.

The maximum to be raised under the Prospectus is \$4,342,810, with a minimum requirement of \$2,404,000. The minimum raising is assured through a firm, advance subscription commitment of \$800,000 and an underwriting of \$1,604,000. Funds raised under the Prospectus will be in escrow until resumption of trading of the Company's shares is confirmed.

The Company has also secured made conditional placements of shares to sophisticated investors to a value of \$1,146,000. The placements are conditional upon resumption of trading of the Company's shares.

Taken together, through the advance placements and the Prospectus offers the Company will raise at least \$3.55m, thereby satisfying the ASX requirement in respect of a resumption of trading of the Company's shares.

ii) Capital Raising During Year

During FY21 the Company raised just over \$4.9m through placement of Convertible Notes with an associated Royalty arrangement. The associated Royalty arrangement proved necessary to attract investor interest as a consequence of prevailing market conditions and the continued suspension from trading of the Company's shares. Consent was obtained from the existing Noteholders for the creation of the royalty arrangement.

Of the \$4.9m raised, \$3.8m (before costs) was subscribed by unrelated parties, and 4,265,367,146 Convertible Notes were issued in consideration for these subscriptions.

The balance of the \$4.9m raised was subscribed by parties associated with Directors Nicholas Mather and Roland Sleeman. Following receipt of shareholder approval at the Company's 2020 Annual General Meeting, 1,181,990,767 Convertible Notes were issued in consideration for these subscriptions.

In July 2021 a further 416,309,300 Convertible Notes were issued in consideration of \$378,463 of funds subscribed to the Company. 610,022,626 Convertible Notes were also issued in payment of interest due on Convertible Notes outstanding, and 26,581,278 Convertible Notes issued to retire debt payable. There are a further 106,970,221 Convertible Notes yet to be issued, by way of payment of interest and fees to related parties, with issue of these notes being subject to receipt of shareholder approval.

Key terms of the Convertible Notes are:

- The Notes have an issue price and face value of 0.09 cents per Convertible Note.
- Interest is paid half yearly in arrears at a rate of 15% per annum. Interest may be paid at Lakes Blue Energy's election by the issue of further Notes.
- The maturity date of the Notes, if not earlier converted, is 31 March 2023 with the exception of Notes held by related parties (which presently mature on 31 December 2021). The maturity date of Notes held by related parties will be extended to 31 March 2023.
- Notes are convertible at any time at the election of the Noteholder into one ordinary share in Lakes Oil subject to usual adjustment mechanisms in certain circumstances.
- Notes are secured by a first ranking charge over Lakes Blue Energy's assets.

Key terms of the Royalty arrangement are:

- Subscribers to the Royalty arrangement have been issued with unit(s) ('Royalty Units') in a fixed trust.
- Each Royalty Unit has a face value of one cent.
- The fixed trust has an entitlement to receive a royalty upon the Company's share of the wellhead value petroleum (if any) produced from Petroleum Retention Lease 2 or Petroleum Exploration Permits 167, 169 or 175 in Victoria ('Royalty Tenements').
- The wellhead value for the purpose of royalty calculation is the same as that used for the purpose of calculation of royalties payable by the Company to the Victorian Government.
- For each one million dollars subscribed the subscribers received a 2% royalty entitlement (pro rata for lesser or greater subscriptions).
- Royalty Units were also be issued to pre-existing holders of Convertible Notes on the basis of an approximate 2% entitlement for the approximately 5,437,552,204 of Convertible Notes then on issue. The issue of Royalty Units to existing holders of Convertible Notes was necessary in order to obtain approval from the existing Noteholders for establishment of the Royalty arrangement, noting that Convertible Notes are secured by a charge over the assets of the Company and the creation of the royalty arrangement disposes of an asset that they currently have security over.
- The trustee of the fixed trust will have no discretion regarding distribution of royalty income. All royalty income earned by the fixed trust will be distributed to unit holders in accordance with the trust deed that established the fixed trust.
- No application will be made for Royalty Units to be quoted.
- There are no participating rights or entitlements inherent in the Royalty Units and the holders will not be entitled to participate in future issues or pro-rata issues of capital to Shareholders.
- Royalty Unit holders' royalty entitlement will be preserved in the event of any replacement or sale of any Royalty Tenement.
- Royalty income is not guaranteed and is considered to be highly speculative.

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 refocussed 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.

LAKES BLUE ENERGY NL

Directors' report

30 June 2021

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. The independent review was completed in early February 2021 and the decision of the Tribunal is now awaited.

Pending the Tribunal's decision, the Australian Taxation Office (ATO) issued a revised taxation assessment, seeking repayment of the 2013/14 rebate. The Company is presently paying \$20,000 per month to the ATO pending the outcome of the Administrative Appeals process.

iv) Corporate Initiatives

On 26 March 2021 the Company changed its name to Lakes Blue Energy NL (formerly Lakes Oil NL).

On 10 May 2021:

- Ms Elissa Hansen, Principal of Sydney based CoSec Services, was appointed as Company Secretary. She replaced Mr Richard Ash, who continued as independent Chairman of Lakes Blue Energy;
- Sydney based Traverse Accountants was appointed to provide financial and accounting services to the Company, replacing Melbourne based Leydin Freyer; and
- The Company's registered address was moved from Melbourne to Level 3, 35 Lime Street, Sydney.

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 20 October 2021 the Company received formal advice from the ASX that trading of the Company's shares will be allowed to resume subject to, among other minor matters:

- a) the Company releasing a full form prospectus for, and completing, a minimum \$3.55m capital raise. Refer to page 21 for updates on capital raising activity; and
- b) the Company announcing that earthwork equipment is on site and that wellsite and access track earthworks have commenced for the Wellesley-2 well. These earthworks commenced 29 December 2021, with spudding planned for January 2022.

The Company is expected to meet all requirements by 1 February 2022.

No other matter or circumstance has arisen since 30 June 2021 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.

Likely developments and expected results of operations

The consolidated entity is about to embark on a very exciting 18-24 months of exploration and development activities across its Australian and PNG assets. With Victorian onshore activities about to recommence, following the end of the government imposed 8 year onshore moratorium in July 2021, along with the testing of its CO2 discovery in South Australia, its ongoing exploration activities in Qld and the recommencement of farmout discussions for its PNG acreage following the delays caused by the Minister's, now quashed, decision to remove its most important PNG tenement the Director's of Lakes Blue Energy NL see this as a turning point for the Company's fortunes going forward and are very excited for the future of the company.

Environmental regulation

Lakes Blue Energy 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.

LAKES BLUE ENERGY NL

Directors' report

30 June 2021

Information on directors

Name:	Richard Ash
Title:	Non-Executive Chairman
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:	R3D Resources (ASX:R3D)
Former directorships (last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	322,200,242 fully paid ordinary shares
Interests in rights:	Nil
Name:	Roland Sleeman
Title:	Executive Director and Chief Executive Office
Qualifications:	B.Eng (Mech)
Experience and expertise:	Mr Sleeman has 34 years experience in oil and gas as well as utilities and infrastructure.
	Mr Sleeman has served in senior management roles, including with Eastern Star Gas Limited as Chief Commercial Officer and AGL as General Manager of the Goldfields Gas Pipeline.
Other current directorships:	Amour Energy Ltd (ASX: AJQ))
Former directorships (last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	166,144,952 fully paid ordinary shares
Interests in rights:	822,295,477 unlisted convertible notes
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 NewPeak Metals Limited (ASX: NPM) (Formerly Dark Horse Resources (ASX: DHR))
Former directorships (last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	161,750,720 fully paid ordinary shares
Interests in rights:	566,500,000

LAKES BLUE ENERGY NL

Directors' report

30 June 2021

Company secretary

Elissa Hansen (appointed 10 May 2021)

Elissa is a Chartered Secretary with over fifteen years' experience advising management and boards of ASX listed companies on governance, investor relations and other corporate issues. She is a director of several unlisted companies and has extensive company secretarial experience, acting as Company Secretary for several public, ASX listed and private companies. Elissa is an associate member of the Institute of Chartered Secretaries Australia and Graduate Member of the Australian Institute of Company Directors. She holds a Bachelor of Commerce and a Graduate Diploma in Applied Corporate Governance.

Richard Ash (appointed on 13 July 2020, resigned 10 May 2021)

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.

Melanie Leydin (resigned on 13 July 2020)

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2021, 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
Richard Ash	3	3	-	-	-	-
Roland Sleeman	3	3	-	-	-	-
Nicholas Mather	3	3	-	-	-	-

Held: represents the number of meetings held during the time the director held office. During the year in review there were multiple informal meetings and any resolutions required to be passed were done so at a formal board meeting.

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. The Company does not have separately established committees and as such the Board will fulfill the roles of the Audit and Risk Committee and also the Nomination and Remuneration Committees.

Remuneration report (audited)

Remuneration policy

The board of directors of Lakes Blue Energy 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

LAKES BLUE ENERGY NL

Directors' report

30 June 2021

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. Following a restructure of the Board during the year and due to the size and nature of the Company it was agreed that the Company will no longer have separately established Nomination and Remuneration Committees and as such the Board now fulfills the role of the Committee.

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 a high-quality executive.

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 Blue Energy 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 23 March 2021 Annual General Meeting ('AGM')

The Company received 94.74% of 'for' votes in relation to its remuneration report for the year ended 30 June 2020. 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.

Richard Ash, Non-Executive Chairman

- Appointed as Chairman on 4 December 2019;
- Term of agreement – commencing 4 December 2019 and subject to re-election as required by the Company's constitution;
- Cessation date:
 - the third anniversary of the date of election; and
 - the end of the third annual general meeting of the Company after election; unless
 - re-elected as a Director by Shareholders or appointment terminated earlier in accordance with the constitution or *the Corporations Act 2001* (Cth);
- Annual fees
 - \$33,333 p.a. in Directors fees inclusive of superannuation with no termination benefits;
 - \$33,333 p.a. in Company Secretarial fees inclusive of superannuation with no termination benefits (ceased April 2021).

Roland Sleeman, Executive Director and Chief Executive Officer

- Appointed as Executive Director on 21 November 2019;
- Term of agreement – commencing 21 November 2019 and subject to re-election as required by the Company's constitution;
- Cessation date:
 - the third anniversary of the date of election; and
 - the end of the third annual general meeting of the Company after election; unless
 - re-elected as a Director by Shareholders or appointment terminated earlier in accordance with the constitution or *the Corporations Act 2001* (Cth);
- Annual fees
 - \$33,333 p.a. in Directors fees inclusive of superannuation with no termination benefits;
 - \$78,000 p.a. in CEO fees inclusive of superannuation with no termination benefits.

Nicholas Mather, Non-Executive Director

- Appointed as Non-Executive Director on 7 February 2012;
- Term of agreement – commencing 7 February 2012 and subject to re-election as required by the Company's constitution;
- Cessation date:
 - the third anniversary of the date of election; and
 - the end of the third annual general meeting of the Company after election; unless
 - re-elected as a Director by Shareholders or appointment terminated earlier in accordance with the constitution or *the Corporations Act 2001* (Cth);
- Annual fees
 - \$33,333 p.a. in Directors fees inclusive of superannuation with no termination benefits.

There are two executives in the consolidated entity 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 (Chief Operating Officer)

LAKES BLUE ENERGY NL
Directors' report
30 June 2021

Amounts of remuneration

	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 *	
2021							
<i>Non-Executive Directors:</i>							
Richard Ash**	-	-	-	-	-	61,111	61,111
Nicholas Mather	-	-	-	-	-	33,333	33,333
<i>Executive Director and CEO:</i>							
Roland Sleeman***	45,499	-	-	-	-	123,569	169,068
<i>Other Key Management Personnel:</i>							
Tim O'Brien	169,696	-	-	20,871	282	100,000	290,849
	215,195	-	-	20,871	282	318,013	554,361

	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	
2020							
<i>Non-Executive Directors:</i>							
Richard Ash	-	-	-	-	-	33,333	33,333
Nicholas Mather	-	-	-	-	-	33,333	33,333
Chris Tonkin****	5,074	-	-	482	-	8,333	13,889
Ian Plimer****	5,074	-	-	482	-	8,333	13,889
Kyle Wightman****	5,074	-	-	482	-	8,333	13,889
<i>Executive Director and CEO:</i>							
Roland Sleeman	-	-	-	-	-	162,828	162,828
<i>Other Key Management Personnel:</i>							
Tim O'Brien	219,696	-	-	20,871	9,678	74,600	324,845
	234,918	-	-	22,317	9,678	329,093	596,006

* Any unpaid or accrued amounts owing at 30 June 2021 are anticipated to be settled in shares.

** \$27,778 has been accrued for Mr Ash for Company Secretarial services provided between July 2020 and April 2021.

*** Mr Sleeman invoices the Company on month basis for CEO services. The standard fee is \$78,000 per annum, however he is entitled to charge additional hours to the Company for service provided. Mr Sleeman is also entitled to a Director fee of \$33,333 per annum. The balance of the invoice amount for the year is expected to be settled in equity instruments. As such, the balance has been disclosed in "Equity settled" column.

**** Mr Chris Tonkin, Mr Ian Plimer and Mr Kyle Wightman resigned from the Board on 21 November 2019. The balance disclosed in the "Equity settled" column represents the director fees owing as at the date of their resignation. They are expected to be settled in script.

LAKES BLUE ENERGY NL
Directors' report
30 June 2021

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2021	2020	2021	2020	2021	2020
<i>Non-Executive Directors:</i>						
Richard Ash	100%	100%	-	-	-	-
Nicholas Mather	100%	100%	-	-	-	-
<i>Executive Director and CEO:</i>						
Roland Sleeman	100%	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
Tim O'Brien	100%	100%	-	-	-	-

Share-based compensation

Issue of shares

A total of 122,655,819 fully paid ordinary shares were issued to directors in lieu of directors fees as approved at the Company's Annual General Meetings held on 23 March 2021.

LAKES BLUE ENERGY NL

Directors' report

30 June 2021

Options

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 2021.

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 2021.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2021 are summarised below:

	2021 \$	2020 \$	2019 \$	2018 \$	2017 \$
Revenue (excluding fair value gains and losses) (\$'000)	189,776	1,741,053	871,567	20,337	63,844
Loss before tax (\$'000)	(4,205,480)	(624,653)	(3,349,348)	(2,040,130)	(7,606,299)
Change in share price (%)	-	-	(50)	150	-

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	Balance on the date of appointment	Received as part of remuneration	Balance at the end of the year
<i>Ordinary shares</i>				
Richard Ash	260,153,360	-	62,046,882	322,200,242
Roland Sleeman	150,064,422	-	16,080,530	166,144,952
Nicholas Mather	117,222,313	-	44,528,407	161,750,720
Tim O'Brien	119,600,000	-	-	119,600,000
	<u>647,040,095</u>	<u>-</u>	<u>122,655,819</u>	<u>769,695,914</u>

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 and Mr Roland Sleeman are Directors of Armour Energy Ltd. Armour Energy Ltd is party to an agreement with Lakes Blue Energy 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.

This concludes the remuneration report, which has been audited.

LAKES BLUE ENERGY NL

Directors' report

30 June 2021

Shares issued on the exercise of options

There were no ordinary shares of Lakes Blue Energy NL issued on the exercise of options during the year ended 30 June 2021 (30 June 2020: Nil) and up to the date of this report.

Shares under performance rights

Unissued ordinary shares of Lakes Blue Energy 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	\$0.0080	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.

Shares issued on the exercise of performance rights

There were no ordinary shares of Lakes Blue Energy NL issued on the exercise of performance rights during the year ended 30 June 2021 and up to the date of this report.

Shares under unlisted convertible redeemable notes

During the year ended 30 June 2021, the Company issued 5,447,357,913 convertible redeemable notes to sophisticated and professional investors. The notes have an issue price and face value of \$0.0009 (0.09 cents) per note, an interest rate of 15% per annum payable in arrears half yearly and have a maturity date of 31 December 2021. The maturity dates of all but 1,388,795,447 were extended to 31 March 2023.

As at the date of this annual report, the Company had 10,921,382,230 convertible redeemable notes on issue.

As at 30 June 2021 and up to the date of this annual report, none of the convertible redeemable notes were converted into fully paid ordinary shares.

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.

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.

Officers of the Company who are former partners of William Buck

There are no officers of the Company who are former partners of William Buck.

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

William Buck continues in office in accordance with section 327 of the Corporations Act 2001.

Rounding of amounts

Lakes Blue Energy 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.

LAKES BLUE ENERGY NL
Directors' report
30 June 2021

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



Richard Ash
Chairman

20 January 2022

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001 TO THE DIRECTORS OF LAKES BLUE ENERGY NL
(FORMERLY LAKES OIL NL)**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2021 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

William Buck Audit (Vic) Pty Ltd
ABN: 59 116 151 136

A. A. Finnis

A. A. Finnis
Director

Melbourne, 20 January 2022

ACCOUNTANTS & ADVISORS

Level 20, 181 William Street
Melbourne VIC 3000

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williambuck.com

Lakes Blue Energy NL
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2021

	Note	2021 \$	2020 \$
Interest income		3,686	12,554
Other income	4	186,090	1,728,499
Total revenue and other income		189,776	1,741,053
Employee benefits expense		(255,860)	(324,173)
Depreciation expense	5	(5,145)	(15,844)
Profit on disposal of assets		-	101,536
Impairment expense on exploration and evaluation assets	5	(1,431,304)	(99,117)
Accounting and audit expense		(94,000)	(82,556)
Exploration expense	5	(172,241)	-
Administrative expense	5	(590,156)	(958,105)
Consulting expense		(271,006)	(202,316)
Finance costs		(1,439,022)	(584,043)
Marketing and promotion expense		-	(29,794)
Rent and occupancy expense		(44,149)	(41,158)
R&D repayable		(92,373)	(130,136)
(Loss) before income tax expense		(4,205,480)	(624,653)
Income tax expense	6	-	-
(Loss) after income tax expense for the year		(4,205,480)	(624,653)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive (loss)		(4,205,480)	(624,653)
Loss for the year is attributable to:			
Non-controlling interest		(6,199)	(5,134)
Owners of Lakes Blue Energy NL		(4,199,281)	(619,519)
Total comprehensive (loss) for the year		(4,205,480)	(624,653)
		Cents	Cents
Basic loss per share attributed to owners of Lakes Blue Energy NL	19	(0.0124)	(0.0018)
Diluted loss per share attributed to owners of Lakes Blue Energy NL	19	(0.0124)	(0.0018)

The accompanying notes form part of these financial statements.

Lakes Blue Energy NL
Consolidated statement of financial position
For the year ended 30 June 2021

	Note	2021 \$	2020 \$
Assets			
Current assets			
Cash and cash equivalents	7	469,635	630,791
Other receivables	8	168,303	121,220
Other financial assets	9	504,840	365,939
Prepayments		10,173	150
Total current assets		1,152,951	1,118,100
Non-current assets			
Other receivables		12,000	12,000
Property plant and equipment	10	688,036	693,471
Exploration and evaluation	11	22,779,551	23,009,426
Total non-current assets		23,479,587	23,714,897
Total assets		24,632,538	24,832,997
Liabilities			
Current liabilities			
Trade and other payables	12	1,109,525	2,929,734
Borrowings	13	-	543,995
Provisions	14	137,832	122,539
Other current liabilities	15	378,463	486,000
Total current liabilities		1,625,820	4,082,268
Non-current liabilities			
Other payables	12	841,431	-
Provisions	14	550,000	550,000
Convertible notes	16	8,555,499	3,832,432
Total non-current liabilities		9,946,930	4,382,432
Total liabilities		11,572,750	8,464,700
Net assets		13,059,788	16,368,297
Equity			
Share capital	17	133,763,856	133,641,199
Reserves	18	1,155,250	479,202
Accumulated losses		(121,943,485)	(117,842,470)
Equity attributable to the owners of Lakes Blue Energy NL		12,975,621	16,277,931
Non-controlling interest		84,167	90,366
Total equity		13,059,788	16,368,297

The accompanying notes form part of these financial statements.

Lakes Blue Energy NL
Consolidated statement of changes in equity
For the year ended 30 June 2021

30 June 2020	Contributed equity	Convertible notes reserve	Shares based payment reserve	Accumulated losses	Non-controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance as at 1 July 2019	133,389,920	-	23,666	(117,222,951)	95,500	16,286,135
Loss after income tax for the year	-	-	-	(619,519)	(5,134)	(624,653)
Other comprehensive income for the period, net of tax	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(619,519)	(5,134)	(624,653)
Issue of shares (net of costs)	251,279	-	-	-	-	251,279
Vesting of share based payments	-	-	74,600	-	-	74,600
Convertible notes issued	-	380,936	-	-	-	380,936
Balance as at 30 June 2020	133,641,199	380,936	98,266	(117,842,470)	90,366	16,368,297
30 June 2021						
	Contributed equity	Convertible notes reserve	Shares based payment reserve	Accumulated losses	Non-controlling interest	Total
	\$	\$	\$	\$	\$	\$
Balance as at 1 July 2020	133,641,199	380,936	98,266	(117,842,470)	90,366	16,368,297
Loss after income tax for the year	-	-	-	(4,199,281)	(6,199)	(4,205,480)
Other comprehensive income for the period, net of tax	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(4,199,281)	(6,199)	(4,205,480)
Issue of shares (net of costs)	122,657	-	-	-	-	122,657
Options lapsed	-	-	(98,266)	98,266	-	-
Convertible notes issued	-	774,314	-	-	-	774,314
Balance as at 30 June 2021	133,763,856	1,155,250	-	(121,943,485)	84,167	13,059,788

The accompanying notes form part of these financial statements.

Lakes Blue Energy NL
Consolidated statement of cash flows
For the year ended 30 June 2021

	NOTE	2021 \$	2020 \$
Cash flows from operating activities			
Cash receipts from other income		-	2,499
Payments for suppliers and employees		(1,997,870)	(900,424)
Interest received		475	12,554
Interest paid		(75,943)	-
Net cash used in operating activities		(2,073,338)	(885,371)
Cash flows from investing activities			
Payments for exploration and evaluation assets		(1,267,377)	(6,328,308)
Proceeds from disposal of financial assets		-	20,573
Proceeds from sale of land		-	375,000
Net cash used in investing activities		(1,267,377)	(5,932,735)
Cash flows from financing activities			
Proceeds from issue of convertible debt		2,801,096	3,979,000
Advances received for convertible notes		378,463	486,000
Proceeds from borrowings		-	515,000
Net cash from financing activities		3,179,559	4,980,000
Net increase/(decrease) in cash and cash equivalents		(161,156)	(1,838,106)
Cash and cash equivalents at the beginning of the financial year		630,791	2,468,897
Cash and cash equivalents at the end of the financial year	7	469,635	630,791

The accompanying notes form part of these financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the consolidated general-purpose financial statements and notes of Lakes Blue Energy NL [formerly Lakes Oil NL] ('Lakes Blue Energy') and controlled entities ('Consolidated Entity' or 'Group').

The principal activities of the Group is to continue activities of exploration for oil and gas within Australia and Papua New Guinea.

Lakes Blue Energy NL [formerly Lakes Oil NL] is a public and for-profit company, listed on the Australian Securities Exchange, limited by shares, incorporated and domiciled in Australia.

The financial report of the Group complies with Australian Accounting Standards and International Financial Reporting Standards ("IFRS").

The annual report has been authorised by the Board for issue on 20 January 2022.

Basis of preparation

The accounting policies set out below have been consistently applied to all years presented.

Statement of compliance

The financial report is a general-purpose financial report that has been prepared in accordance with Australian Accounting Standards "AASBs" (including Australian Interpretations) issued by the Australian Accounting Standard Board ("AASB") and the *Corporations Act 2001*, as appropriate for-profit oriented entities.

Basis of measurement

The financial report has been prepared on an accruals basis and is based on historical costs.

The accounting policies set out below have been consistently applied to all years presented.

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.

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 2021 of \$4,205,480 (2020: \$624,653) and at reporting date has net assets of \$13,059,788 (2020: \$16,368,297) including \$22,779,551 (2020: \$23,009,426) of capitalised exploration, evaluation and development costs.

The Company is progressing with a full-form Prospectus in accordance with section 710 of the Corporations Act. The prospectus will be lodged with the ASIC and the ASX as soon as it is completed. The Prospectus provides for a general public offer of shares to raise a minimum of \$2.404m up to a maximum of approximately \$4.343m. The Company will be offering shares at an issue price of \$0.0008 per share. As of the date of this report, the Company has received \$1.946m in firm commitments, and there is an underwriting commitment of \$1.604m.

This capital raising is designed to meet the ASX requirement in respect of a resumption of trading of the Company's shares, and taking the firm commitment and underwriting commitment together, the Company will raise a minimum of \$3.550m meeting ASX requirements to resume trading.

The consolidated entity has prepared a detailed cash flow forecast which includes the assumption of capital raisings to the minimum amount of \$3.55 million to cover the drilling of the Wellesley-2 well and working capital requirements.

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.

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.

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.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations has not had a significant impact on the financial performance or position of the consolidated entity during the year ended 30 June 2021. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been adopted early.

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 2.

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 26.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Lakes Blue Energy NL ('Company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended. Lakes Blue Energy 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.

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 Blue Energy 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.

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.

Current and non-current classification

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

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

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

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

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. 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.

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

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.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Financial liabilities

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

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.

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 2021. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

NOTE 2: SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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.

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 14, 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.

NOTE 2: SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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.

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 3: 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 4: OTHER INCOME

	2021	Consolidated 2020
	\$	\$
Government grants	76,392	1,726,000
Cash calls issued to joint venture partners	109,698	2,499
Total revenue and other income	186,090	1,728,499

Government grant income 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.

NOTE 5: EXPENSES

	2021	Consolidated 2020
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation expense</i>		
Property, plant and equipment	5,145	15,844
<i>Impairment expense</i>		
Impairment of exploration and evaluation assets	1,431,304	99,117
<i>Exploration expense</i>		
Expenses incurred in relation to exploration assets that are fully impaired	172,241	-
<i>Administrative expenses</i>		
Travel and accommodation	18,496	62,517
Share registry costs and listing fees	134,852	98,163
Legal fees	261,823	624,629
Directors fees	122,407	96,008
Insurance premiums	84,151	67,220
Office expenses	53,872	13,437
Copier, postage and courier costs	2,275	36,580
Consultancy, accountancy and secretarial fees	117,020	278,268
Less portion attributed to exploration permits capitalised	(204,740)	(318,717)
Total administrative	590,156	958,105

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 6: INCOME TAX EXPENSE

	2021	Consolidated 2020
	\$	\$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss from continuing operations before income tax expense	(4,205,480)	(624,653)
Tax at the statutory rate of 26% (2020: 27.5%)	(1,093,425)	(171,780)
Add tax effect of:		
- Other assessable items	-	-
- Other non-allowable items	372,139	83,559
Less tax effect of:		
- Other non-assessable items	-	-
- Other deductible items	(312,372)	-
Amounts not brought to account as a deferred tax asset in the current year	(178,836)	(566,800)
Benefits of tax losses not brought to account	1,212,494	655,021
Total income tax expense	-	-

The Group has not recognised carried forward tax losses from prior years in the statement of financial position. Tax losses carried forward from prior years 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 Blue Energy 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

NOTE 6: INCOME TAX EXPENSE (CONTINUED)

- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

NOTE 7: CASH AND CASH EQUIVALENTS

	2021	Consolidated 2020
	\$	\$
Cash at bank	399,135	560,291
Cash on deposit	70,500	70,500
Cash and cash equivalents balance	469,635	630,791

NOTE 8: OTHER RECEIVABLES

	2021	Consolidated 2020
	\$	\$
Current		
Other receivables	75,927	88,819
Rental deposit	3,262	3,262
GST receivable	89,114	29,139
	168,303	121,220
Non-current		
Security deposit	12,000	12,000
	12,000	12,000
Trade and other receivables balance	180,303	133,220

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

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 8: OTHER RECEIVABLES (CONTINUED)

Allowance for expected credit losses

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

	2021	Consolidated 2020
	\$	\$
Not past due (within 30 days)	180,303	121,220
Past due (outside 30 days)	-	-
Trade and other receivables balance	180,303	121,220

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.

NOTE 9: OTHER FINANCIAL ASSETS

	2021	Consolidated 2020
	\$	\$
Short term deposits	504,840	365,939
Other financial assets balance	504,840	365,939

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 10: PROPERTY, PLANT AND EQUIPMENT

	2021	Consolidated 2020
	\$	\$
Land - at cost	1,177,877	1,177,877
Less: Accumulated depreciation	-	-
Less: Accumulated Impairments	(512,130)	(512,130)
Land balance	665,747	665,747
Plant and equipment - at cost	456,625	456,940
Less: Accumulated depreciation	(434,336)	(429,216)
Plant and equipment balance	22,289	27,724
Property, plant and equipment balance	688,036	693,471

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 10: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliations

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

	Land	Plant and equipment	Total
	\$	\$	\$
Balance at 30 June 2019	564,211	41,824	606,035
Adjustment to transfer of asset held for sale	101,536	-	101,536
Depreciation expense	-	(14,100)	(14,100)
Balance at 30 June 2020	665,747	27,724	693,471
Disposals	-	(290)	(290)
Depreciation expense	-	(5,145)	(5,145)
Balance at 30 June 2021	665,747	22,289	688,036

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.

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

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.

NOTE 11: EXPLORATION AND EVALUATION

	2021	Consolidated 2020
	\$	\$
Exploration and evaluation	76,167,366	74,965,937
Less: Provision for impairment	(53,387,815)	(51,956,511)
Exploration and evaluation balance	22,779,551	23,009,426

NOTE 11: EXPLORATION AND EVALUATION (CONTINUED)

Reconciliations

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

	Consolidated
	\$
Balance at 30 June 2019	16,765,220
Expenditure during the year	6,331,608
Impairment of assets	(87,402)
Balance at 30 June 2020	23,009,426
Expenditure during the year	1,201,429
Impairment of assets*	(1,431,304)
Balance at 30 June 2021	22,779,551

- * During the year the Group relinquished Queensland exploration assets ATP 642P and ATP 662P, resulting in impairment charges of \$706,464 and \$724,840 respectively. These assets are now fully impaired.

Significant judgment is required in determining whether it is likely that future economic benefits will be derived from the capitalised exploration and evaluation expenditure.

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.

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.

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 12: TRADE AND OTHER PAYABLES

	2021	Consolidated
	\$	2020
	\$	\$
Current		
Trade and accrued payables	774,441	1,318,806
Payable to Innovation Science Australia*	300,000	1,297,000
Settlement of legal costs**	-	260,079
Other payables	35,084	53,849
	1,109,525	2,929,734
Non-current		
Payable to Innovation Science Australia*	841,431	-
	841,431	-
Trade and other payables balance	1,950,956	2,929,734

* 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. The Company has entered into a payment arrangement with the ATO of \$20,000 per month. The current balance of \$300,000 reflects instalments payable up until 30 June 2022, noting there was \$60,000 outstanding as at 30 June 2021. The non-current balance of \$841,431 reflects all payments due after 30 June 2022.

** On 17 December 2019, the consolidated entity announced that the appeal against the decision had not been successful. Costs in relation to the matter have been awarded in favour of the Minister for Energy & Resources (Victoria). The consolidated entity is liable to pay a portion of the Victorian Attorney General's Department costs. As at 30 June 2020, \$260,079 was accrued in relation to this matter and subsequently settled in May 2021.

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 13: BORROWINGS

	2021	Consolidated
	\$	2020
	\$	\$
Current		
Loan from related party	-	543,995
Borrowings balance	-	543,995

On 14 February 2020, Samuel Capital Pty Ltd, an entity controlled by Mr Nicholas Mather (Non-Executive Director), provided an unsecured loan of \$515,000 to fund the drilling of Nagwarry-1 exploration well. The loan attracted an interest of 15% per annum. This debt was settled from a Convertible Note issue during the year ended 30 June 2021.

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 14: PROVISIONS

	2021	Consolidated 2020
	\$	\$
Current		
Annual leave	57,119	42,108
Long service leave	80,713	80,431
	137,832	122,539
Non-current		
Restoration costs	300,000	300,000
Provision for royalties *	250,000	250,000
	550,000	550,000
Provisions balance	687,832	672,539

* 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 15: OTHER CURRENT LIABILITIES

	2021	Consolidated 2020
	\$	\$
Funds received for convertible notes*	378,463	486,000
Other current liabilities balance	378,463	486,000

* Refer to Note 28: events after the reporting period for more information.

NOTE 16: CONVERTIBLE NOTES

	2021	Consolidated 2020
	\$	\$
Convertible notes	5,584,681	3,598,064
Interest payable on convertible notes	2,970,818	234,368
Convertible note balance	8,555,499	3,832,432

During the year ended 30 June 2021, the consolidated entity issued 5,447,357,913 convertible notes in ten tranches to sophisticated investors, raising \$4,902,622 before cost.

The primary terms of the convertible notes are:

Issuer: Lakes Blue Energy NL

Face value: \$0.0009 per note

Interest: 15% pa - payable half yearly in arrears

Maturity date: 31 March 2023

Conversion at holder election: each note is convertible at any time at the holder's election into one ordinary share of the Issuer.

NOTE 16: CONVERTIBLE NOTES (CONTINUED)

Valuation methodology

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

The Convertible Notes were fair valued by an independent valuer using following key assumptions:

		Conversion price	Discount rate	Coupon rate	Interest payment	
Tranches	Valuation date	\$	%	%	frequency	Maturity date
Tranche 1	12/12/2019	\$0.0009	22.00%	15.00%	Half-yearly	31/03/2023
Tranche 2	27/12/2019	\$0.0009	22.00%	15.00%	Half-yearly	31/03/2023
Tranche 3	02/03/2020	\$0.0009	22.00%	15.00%	Half-yearly	31/03/2023
Tranche 4	18/03/2020	\$0.0009	22.00%	15.00%	Half-yearly	31/03/2023
Tranche 5	18/03/2020	\$0.0009	22.00%	15.00%	Half-yearly	31/03/2023
Tranche 6A	13/07/2020	\$0.0009	22.00%	15.00%	Half-yearly	31/03/2023
Tranche 6B	14/10/2020	\$0.0009	22.00%	15.00%	Half-yearly	31/03/2023
Tranche 7	22/12/2020	\$0.0009	22.00%	15.00%	Half-yearly	31/03/2023
Tranche 8	18/02/2021	\$0.0009	22.00%	15.00%	Half-yearly	31/03/2023
Tranche 9	14/04/2021	\$0.0009	22.00%	15.00%	Half-yearly	31/03/2023
Tranche 10	21/05/2021	\$0.0009	22.00%	15.00%	Half-yearly	31/03/2023

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 17: SHARE CAPITAL

Movements in ordinary share capital

Details	Date	Shares	Issue Price	\$
Balance	1 July 2019	33,342,875,761		133,389,920
Shares issued to Directors in lieu of fees	12 July 2019	11,536,900	\$0.001	11,537
Shares issued to Directors in lieu of fees	14 August 2019	11,536,900	\$0.001	11,537
Shares issued to Directors in lieu of fees	13 September 2019	11,536,900	\$0.001	11,537
Share issued under Loan Funded Share Offer	24 December 2019	74,600,000	-	-
Shares issued to Directors in lieu of fees	15 January 2020	5,555,560	\$0.001	5,556
Shares issued to Director in lieu of consulting fees	17 January 2020	200,000,000	\$0.001	200,000
Shares issued to Directors in lieu of fees	14 February 2020	5,555,560	\$0.001	5,556
Shares issued to Directors in lieu of fees	13 March 2020	5,555,560	\$0.001	5,556
Balance	30 June 2020	33,668,753,141		133,641,199
Shares issued to Directors in lieu of fees	14 October 2020	8,333,340	\$0.001	8,334
Shares issued to Directors in lieu of fees	14 April 2021	114,322,479	\$0.001	114,323
Collateral shares issued*	21 May 2021	1,730,000,000	-	-
		35,521,408,960		133,763,856

* On 21 May 2021 the Company issued 1,700,000,000 collateral shares at nil issue price, and 30,000,000 shares in lieu of a transaction fee to Acuity Capital Investment Management Pty Ltd as trustee for the Acuity Capital Holdings Trust in relation to a Controlled Placement Agreement as announced on 31 October 2019.

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.

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.

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 18: RESERVES

	2021 \$	Consolidated 2020 \$
Share-based payments reserve		
Opening balance	98,266	23,666
Share-based payments on loan funded shares	-	74,600
Transfer to accumulated losses	(98,266)	-
Closing balance	-	98,266
Convertible notes reserve		
Opening balance	380,936	380,936
Convertible notes issued	774,314	-
Closing balance	1,155,250	380,936
Reserves balance	1,155,250	479,202

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.

Convertible notes reserve

This reserve is used to recognise the equity of the convertible notes on issue, which is calculated as the fair value of the derivative at the date issue.

NOTE 19: EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit or loss attributable to the owners of the Group excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

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 financial 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 the dilutive potential ordinary shares.

	2021 \$	Consolidated 2020 \$
Loss for the year is attributable to:		
Non-controlling interest	(6,199)	(5,134)
Owners of Lakes Blue Energy NL	(4,199,281)	(619,519)
Basic loss per share (cents per share) attributed to owners of Lakes Blue Energy NL	(0.0124)	(0.0018)
Diluted loss per share (cents per share) attributed to owners of Lakes Blue Energy NL	(0.0124)	(0.0018)

Weighted average number of shares used for the purposes of calculating basic and diluted earnings per share:

- Basic earnings per share	33,893,448,543	33,509,171,851
- Diluted earnings per share	33,893,448,543	33,509,171,851

NOTE 20: 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

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

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

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

Market or Price risk

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

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 20: 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 1 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.

	Weighted average interest rate	Less than 6 months	Between 6 and 12 months	Between 1 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated – 2021						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables		1,109,525	-	841,431	-	1,950,956
<i>Interest-bearing – fixed rate</i>						
Convertible notes payable	15.00%	-	-	8,555,499	-	8,555,499
Total non-derivatives		1,109,525	-	9,396,930	-	10,506,455
Consolidated - 2020						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	2,929,734	-	-	-	2,929,734
<i>Interest-bearing – fixed rate</i>						
Convertible notes payable	15.00%	-	-	3,832,432	-	3,832,432
Loan from related party	15.00%	543,995	-	-	-	543,995
Total non-derivatives		3,473,729	-	3,832,432	-	7,306,161

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 20: FINANCIAL INSTRUMENTS (CONTINUED)

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:

	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	469,635	469,635	630,791	630,791
Trade and other receivables	168,303	168,303	121,220	121,220
Other financial assets	504,840	504,840	365,939	365,939
	1,142,778	1,142,778	1,117,950	1,117,950
Liabilities				
Trade and other payables	1,950,956	1,950,956	2,929,734	2,929,734
Loan from related party	-	-	543,995	543,995
Convertible notes	8,555,499	8,555,499	3,832,432	3,832,432
	10,506,455	10,506,455	7,306,161	7,306,161

NOTE 21: 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:

	2021	Consolidated 2020
	\$	\$
Short-term employee benefits	215,195	234,918
Post-employment benefits	20,871	22,317
Long-term benefits	282	9,678
Share-based payments	318,013	329,093
Total remuneration	554,361	596,006

Director transactions

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

Mr Nicholas Mather and Mr Roland Sleeman are Directors of Armour Energy Ltd. Armour Energy Ltd is party to an agreement with Lakes Blue Energy 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 Mathers called Samuel Capital Pty Ltd.

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

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 22: AUDITOR REMUNERATION

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

	2021	Consolidated 2020
	\$	\$
William Buck	36,000	36,000
Total remuneration	36,000	36,000

NOTE 23: CONTINGENT LIABILITIES

The consolidated entity did not have any contingent liabilities as at 30 June 2021. At 30 June 2020, the Company estimated \$210,000 in Victorian Government costs relating to the Company's legal action in relation to the moratorium on petroleum exploration in the State during the year. These costs were settled in May 2021 in the amount of \$260,079.

NOTE 24: COMMITMENTS

	2021	Consolidated 2020
	\$	\$
<i>Bank guarantees in relation to rental premises and exploration permits</i>		
Maximum amount bank may call	575,340	436,439
Total commitments	575,340	436,439

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 2021 on the work programs across all tenements for the next 24 months is \$245K (2020: \$245k).

\$160K of the current financial commitment relates to the annual fees in relation to the entity's Queensland, South Australian and Papua New Guinea tenements with the remaining \$85K 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. The moratorium is legislated to end on 30th June 2021 and Lakes will now be able to submit applications for approval to recommence work across its Victorian acreage but it is not expected to conduct any activities on the ground in FY22 due to the time taken for the granting of the approvals.

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).

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 25: RELATED PARTY TRANSACTIONS

Director-related entity

Disclosures relating to key management personnel are set out in note 21 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.

Directors of Lakes Blue Energy NL Nicholas Mather and Roland Sleeman are Directors of Armour Energy Ltd. Armour Energy Ltd is party to an agreement with Lakes Blue Energy NL as described in the tenement table detailed in the shareholder information section.

Receivable from and payable to related parties

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

	2021	Consolidated
	\$	2020
	\$	\$
Current		
Trade payables to key management personnel	110,586	170,200
	110,586	170,200
Non-current		
Loan from key management personnel	-	543,995
	-	543,995
Total payables balance	110,586	714,195

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 26: PARENT ENTITY INFORMATION

	2021 \$	Consolidated 2020 \$
Financial position		
Assets		
Current assets	3,871,996	3,924,990
Non-current assets	14,079,352	12,505,579
Total assets	17,951,348	16,430,569
Liabilities		
Current liabilities	1,550,459	3,952,885
Non-current liabilities	9,396,930	3,832,432
Total liabilities	10,947,389	7,785,317
Net assets/(net deficiency)	7,003,959	8,645,252
Equity		
Issued capital	133,246,516	133,638,133
Reserves	1,155,250	479,202
Accumulated losses	(127,397,807)	(125,472,083)
Total equity	7,003,959	8,645,252
Financial performance		
Profit/(loss) for the year	(2,321,095)	(1,862,955)
Other comprehensive loss	-	-
Total comprehensive profit/(loss)	(2,321,095)	(1,862,955)

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 2020 and 30 June 2021.

Contingent liabilities

Other than as disclosed in Note 23, the parent entity had no contingent liabilities as at 30 June 2021.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2021.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1, except for the following:

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

NOTE 27: 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 1:

Name	Principal place of business/ Country of incorporation	Ownership interest	
		2021 %	2020 %
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%
Rawson Oil and Gas Limited	Australia	93.51%	93.51%
Dondonald Limited (through its interest in Rawson Oil and Gas Limited)	Papua New Guinea	93.51%	93.51%
Rawson Uranium Pty Ltd	Australia	93.51%	93.51%
Rawson Taranaki Limited	New Zealand	93.51%	93.51%
Otway Energy Limited	Australia	93.51%	93.51%
LKO Royalty Trust	Australia	100%	-
Poolawanna Petroleum		-	-

NOTE 28: EVENTS AFTER THE REPORTING PERIOD

On 20 October 2021 the Company received formal advice from the ASX that trading of the Company's shares will be allowed to resume subject to, among other minor matters:

- the Company releasing a full form prospectus for, and completing, a minimum \$3.55m capital raise. Refer to page 21 for updates on capital raising activity; and
- the Company announcing that earthwork equipment is on site and that wellsite and access track earthworks have commenced for the Wellesley-2 well. These earthworks commenced 29 December 2021, with spudding planned for January 2022.

The Company is expected to meet all requirements by 1 February 2022.

Lakes Blue Energy NL
Notes to the financial statements
For the year ended 30 June 2021

NOTE 29: CASH FLOW INFORMATION

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

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

	2021	Consolidated 2020
	\$	\$
Loss after income tax expense for the year	(4,205,480)	(624,653)
Add/(deduct): non-cash items:		
Depreciation and amortisation	5,145	15,844
Net loss/(gain) on disposal of non-current assets	-	(91,356)
Impairment expenses	1,431,304	99,117
Non-cash other income	-	(1,726,000)
Capital raising fee	-	276,740
Non-cash financing expenses	1,363,079	-
Other non-cash expenditure	460,742	-
Change in operating assets and liabilities:		
Decrease in exploration and evaluation costs carried forward	-	37,215
(Increase)/Decrease in receivables	(47,083)	62,765
(Increase)/Decrease in other current assets	(10,023)	48,189
(Decrease)/Increase in trade and other payables	(1,086,315)	981,931
Increase in employee benefits	15,293	34,837
Net cash used in operating activities	(2,073,338)	(885,371)

NOTE 30: DIVIDENDS

The Board of Directors has recommended that no dividend be paid.

Lakes Blue Energy NL
Directors' Declaration
For the year ended 30 June 2021

1. In the opinion of the Board of Directors of Lakes Blue Energy Limited:
 - a. the consolidated financial statements and notes of Lakes Blue Energy Limited are in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
 - ii. Complying with the Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - b. There are reasonable grounds to believe that Lakes Blue Energy NL Limited will be able to pay its debts as and when they become payable.
2. The Directors have been given the declaration required by Section 295A of the *Corporations Act 2001* from Richard Ash who served as Chairman during the reporting period from 1 July 2020 to 30 June 2021.
3. Note 1 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Board of Directors:



Richard Ash
Chairman

Date: 20 January 2022

Lakes Blue Energy NL (Formerly Lakes Oil NL)

Independent auditor's report to members

Report on the Audit of the Financial Report

Opinion

We have audited the financial report Lakes Blue Energy NL (formerly Lakes Oil NL) (the Company and its controlled entities (the Group)), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group 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 (including Independence Standards)* (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.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of \$4,205,480 during the year ended 30 June 2021 and, as of that date, the Group's current liabilities exceeded its current assets by \$472,869. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

ACCOUNTANTS & ADVISORS

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

CARRYING VALUE OF EXPLORATION AND EVALUATION ASSETS	
Area of focus Refer also to notes 1 and 11	How our audit addressed it
<p>The Group has incurred exploration costs for their oil and gas projects in Australia, over several years. There is a risk that the accounting criteria associated with the capitalisation of exploration and evaluation expenditure may no longer be appropriate.</p> <p>An impairment review is only required if an impairment trigger is identified. Due to the nature of the oil and gas industry, indicators of impairment could include:</p> <ul style="list-style-type: none"> — Changes to exploration plans; — Loss of rights to tenements; — Changes to reserve estimates; — Costs of extraction and production; or — Exchange rate factors. <p>The accounting for this matter is complex and as such we have determined it a Key Audit Matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — A review of the directors' assessment of the criteria for the capitalisation of exploration expenditure and evaluation of impairment charges recorded during the year; — Understanding and vouching the underlying contractual entitlement to explore and evaluate each area of interest, including an evaluation of the requirement to renew that tenement at its expiry and assessment of areas of interest, which were impaired during the year; — Examining project spend per each area of interest and comparing this spend to the minimum expenditure requirements set out in the underlying tenement expenditure plan; and — Examining project spend to each area of interest to ensure that it is directly attributable to that area of interest. <p>We also assessed the adequacy of the Group's disclosures in respect of exploration costs in the financial report.</p>

ACCOUNTING FOR CONVERTIBLE NOTES

Area of focus Refer to Notes 1 and 16	How our audit addressed it
<p>The Group issued convertible notes to various parties during the current financial year.</p> <p>Accounting for these transactions is complex, as the Group's accounting policy requires the separation at initial recognition, of an equity component due to the fact that the note demonstrates characteristics similar to equity in that the notes are converted at a fixed conversion price.</p> <p>The accurate recording of the transactions associated with the convertible notes is dependent on the following:</p> <ul style="list-style-type: none"> — The share price as at the date of the issue of the convertible notes; and — Inputs associated with the features of the notes (interest rate, maturity, security). <p>The accounting for this matter is complex and as such we have determined it a Key Audit Matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — Understanding the terms of the convertible note agreement, including an assessment of classification between current and non-current for the underlying host contract and a determination of the value of the equity component of the notes; — Performed a cross check against our own findings and fair value with the independent valuation commissioned by management; and — Verifying that the values attributed to the transactions were in line with the terms of the convertible note agreements. <p>We also assessed the adequacy of the Group's disclosures in the financial report.</p>

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021 but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 Group 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 Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our independent auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Lakes Blue Energy NL (Formerly Lakes Oil NL), for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

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.

A handwritten signature in black ink that reads "William Buck".

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136

A handwritten signature in black ink that appears to read "A. A. Finnis".

A. A. Finnis
Director

Melbourne, 20 January 2022

Lakes Blue Energy NL
Additional information for listed public companies
For the year ended 30 June 2021

Additional information as at 14 January 2022 required by the Australian Securities Exchange and not disclosed elsewhere in this report.

Home Exchange

The Company is listed on the Australian Securities Exchange. The Home Exchange is Sydney.

Ordinary shares

As at 14 January 2022, the issued capital comprised of 35,521,408,960 fully paid ordinary shares (ASX code: LKO) held by 12,174 holders. There were 2,528,449 shares held in unmarketable parcels of \$500 or less, by 598 individual shareholders.

Options

There are options on issue over ordinary shares.

Unquoted equity securities

As at 14 January 2022, unquoted equity securities comprised the following:

	Number on issue	Consolidated Number of holders
Convertible notes, each note convertible into one share, maturing 31 March 2023	10,921,382,230	30
Royalty Units	10,921,382,230	30

Tenstar Trading Limited holds 37.17% of the outstanding Convertible Notes on issue.

Class of shares and voting rights

The voting rights attached to ordinary shares, as set out in the Company's Constitution, are that every member in person or by proxy, attorney or representative, shall have one vote on a show of hands and one vote for each share held on a poll.

A member holding partly paid shares is entitled to a fraction of a vote equivalent to the proportion which the amount paid up bears to the issue price for the share.

On market buy back

There is no on market buy-back.

Restricted securities

As at 14 January 2022, the Company has 114,322,479 fully paid ordinary shares subject to voluntary escrow to 14 April 2022.

Distribution of shareholders

The distribution of each class of equity was as follows:

Range	Number of holders	Number of shares	Percentage
1 - 1,000	353	104,683	0.00
1,001 - 5,000	228	731,067	0.00
5,001 - 10,000	406	3,536,025	0.01
10,001 - 100,000	3,556	180,969,983	0.51
100,001 and over	7,631	35,336,067,202	99.48
Total	12,174	35,521,408,960	100.00%

Lakes Blue Energy NL
Additional information for listed public companies
For the year ended 30 June 2021

Substantial shareholdings

At 14 January 2022, the Register of Substantial Shareholders showed the following:

Rank	Name	Number of ordinary shares held	Consolidated
			Percentage
1	NewPeak Metals Limited (Formerly Dark Horse Resources Limited)	10,008,714,010	28.18
2	Bianca Hope Rinehart as trustee of the Hope Margaret Trust (Timeview Enterprises Pty Ltd)	2,720,821,462	7.66
3	Armour Energy Limited	2,125,000,000	5.98

Twenty Largest Shareholders

At 14 January 2022, the twenty largest shareholders held 58.70% of the fully paid ordinary shares as follows:

Rank	Name	Number of ordinary shares held	Consolidated
			Percentage
1	NewPeak Metals Limited (Formerly Dark Horse Resources Limited)	10,008,714,010	28.18
2	Timeview Enterprises Pty Ltd	2,720,821,462	7.66
3	Armour Energy Ltd	2,125,000,000	5.98
4	Acuity Capital Investment Management Pty Ltd <Acuity Capital Holdings A/C>	1,730,000,000	4.87
5	Dgr Global Limited	408,065,120	1.15
6	Dgr Global Limited	334,094,250	0.94
7	Mr Duncan John Hardie	315,595,620	0.89
8	Sari Holdings Pty Ltd	295,380,242	0.83
9	Mr James Sinton Spence	227,656,080	0.64
10	Mr Allister Richardson	216,697,895	0.61
11	Mrs Lynley Hardie	208,521,000	0.59
12	Mr Peter Ashley Bubendorfer <Pajbubendorfer Family A/C>	199,081,164	0.56
13	Pacific Atlantic Commerce Pty Ltd <Corcillum Super Fund A/C>	180,000,000	0.51
14	Citicorp Nominees Pty Limited	168,085,549	0.47
15	Samuel Capital Pty Ltd	161,750,720	0.46
16	Hsbc Custody Nominees (Australia) Limited	159,504,986	0.45
17	Wales Corporation Pty Ltd <John Anthony Nolan S/F A/C>	150,000,000	0.42
18	Mr Kwok Kim Cho	143,500,000	0.40
19	Barney Berold	133,153,095	0.37
20	Mr John McGregor Skinner	124,571,094	0.35
Total securities of Top 20 Holdings		20,010,192,287	56.33
Total number of securities		35,521,408,960	

Lakes Blue Energy NL
Additional information for listed public companies
For the year ended 30 June 2021

Tenements

Location (basin name)	Joint operation or permit name	Interest owned %
PEP 163	Otway	100.00
PEP 167	Otway	100.00
PEP 169	Otway	49.00
PEP 175	Otway	100.00
PRL 2 - Overall Permit	Gippsland	100.00
PRL 2- Trifon Field	Gippsland	57.50
PRL 3	Gippsland	100.00
PEP 166	Gippsland	75.00
VIC/P43(V)	Gippsland	100.00
VIC/P44(V)	Gippsland	100.00
ATP 642P	Eromanga/Cooper E	100.00
ATP 662P	Eromanga/Cooper E	100.00
ATP 1183	Surat/Bowen	100.00
Eagle Prospect	California USA	17.97
PELA 577*	Pirie Torrens, SA	100.00
PELA 578*	Pirie Torrens, SA	100.00
PELA 579*	Pirie Torrens, SA	100.00
PELA 601*	Pirie Torrens, SA	100.00
PELA 602*	Pirie Torrens, SA	100.00
PELA 631*	Pirie Torrens, SA	100.00
EL 5694	Pirie Torrens, SA	100.00
PEL 154	Otway	-
PRL 249**	Otway	50.00
PRL 549	PNG	100.00
PPL 549	PNG	100.00
PPL 560	PNG	100.00
APPL 550*	PNG	100.00
APPL 594*	PNG	100.00
APPL 633*	PNG	100.00

* Tenements in application phase only, remain subject to government approvals.

** Renamed PRL 249 (formerly PEL 155) following a successful conversion of the permit to a retention license.